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September 29 , 2010

**RESS & COURIER**

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

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

**Re: Application by Great Lakes Power Transmission LP for 2011 and 2012 Transmission Rates (EB-2010-0291)**

We are counsel to Great Lakes Power Transmission LP ("GLPT"). Enclosed, please find GLPT's application and pre-filed evidence for 2011 and 2012 transmission rates. The Board has assigned file no. EB-2010-0291 to this proceeding.

In parallel with this application, under separate cover GLPT is filing certain information in confidence in accordance with the Board's *Practice Direction on Confidential Filings*. That confidential information is intended to form part of the written evidence.

Yours truly,

Charles Keizer

Tel 416.865.7512
Fax 416.865.7380
ckeizer@torys.com

cc: Andy McPhee, GLPT
Duane Fecteau, GLPT
Tyson Dyck, Torys

11346615.2
35306-2006

# ONTARIO ENERGY BOARD

**IN THE MATTER OF the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15 (Sched. B)**

**AND IN THE MATTER OF an application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2011 and 2012 transmission rates and related matters.**

## EB-2010-0291

**Great Lakes Power Transmission Inc.**

**on behalf of Great Lakes Power Transmission LP**

**September 29, 2010**

# EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS

Exhibit 1, Tab 1, Schedule 1

Exhibit List

# EXHIBIT LIST

Exhibit 1, Tab 1, Schedule 2

Application

# ONTARIO ENERGY BOARD

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15 (Sched. B)

**AND IN THE MATTER OF** an application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2011 and 2012 transmission rates and related matters.

**EB-2010-0291**

1. Great Lakes Power Transmission Inc. in its capacity as the General Partner of Great Lakes Power Transmission LP ("GLPT"), a limited partnership formed under the laws of Ontario, carries on the business of owning and operating electricity transmission facilities in the vicinity of Sault Ste. Marie, Ontario.

2. GLPT hereby applies to the Ontario Energy Board (the "Board") for an Order or Orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998,* as amended (the "OEB Act"), approving just and reasonable rates for the transmission of electricity based on a 2011 and 2012 forward test years.

3. The Applicant has materially followed the filing requirements set out in Chapter 2 of the Board's *Filing Requirements for Transmission and Distribution Applications.*

4. As indicated in GLPT's pre-filed evidence, GLPT's forecasted 2011 base revenue requirement is $36,416,900 and 2012 base revenue requirement is $38,337,500.

Based on current transmission rates and forecast load, GLPT forecasts a 2011 revenue deficiency of $1,275,300 and 2012 revenue deficiency of $3,195,900.

5. GLPT is seeking Board approval for updated Uniform Transmission Rates for Ontario for 2011 and 2012 so as to permit GLPT to recover its forecasted base revenue requirement of $ 36,416,900 for 2011 and $38,337,500 for 2012.

6. GLPT requests that its current rates for the 2011 test year be made interim as of January 1, 2011.

7. GLPT requests that the proposed rates be made effective as of January 1, 2011. GLPT also requests an accounting order to establish a deferral account to record revenue requirement deficiencies incurred from January 1, 2011 until GLPT's proposed 2011 rates are implemented. For the 2012 test year, GLPT requests that the rates proposed for 2012 become effective January 1, 2012.

8. As approved in EB-2009-0408, GLPT is seeking approval to recover, through account 1574, revenue deficiencies incurred from January 1, 2010 until GLPT's approved 2010 rates are implemented.

9. As noted in paragraph 10(f)(i) below, GLPT is seeking Board approval to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011.

10. GLPT is seeking Board approval for:

(a) the continuation in the test period of the sub-account for OEB Cost Assessment variances, within account 1508;

(b) the continuation in the test period of the sub-account for Property Tax and Use and Occupation Permit Fee variances, within account 1508; and

(c) the establishing in the test periods of deferral and variance accounts:

(i) 1505 for recording a loss on disposal of assets,

(ii) 1595 for disposition of approved regulatory liability balances,

(iii) For recording changes in costs due to IFRS implementation, and

(iv) For recording IFRS Gains and Losses on disposal

all of which are described more particularly in Exhibit 9 of the pre-filed evidence.

11. GLPT is seeking direction from the Board as to the appropriate treatment of costs associated with an outstanding claim arising from a major capital project for which GLPT obtained leave to construct in EB-2003-0162, as more particularly described in section 3.0 of Exhibit 9, Tab 2, Schedule 1.

12. This Application is supported by written evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on this Application. The Applicant, as part of the written evidence, has

filed certain information in confidence in accordance with the Board's Practice Direction on Confidential Filings.

13. The Applicant requests that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The persons affected by this Application are the ratepayers of the Uniform Transmission Rate. It is impractical to set out their names and addresses because they are too numerous.

15. The Applicant requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant and the Applicant's counsel, as follows:

The Applicant:

Great Lakes Power Transmission Inc.
on behalf of Great Lakes Power Transmission LP
2 Sackville Road, Suite B
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Andy McPhee
Vice President and General Manager
Telephone: (705) 941-5661
Fax: (705) 941-5600
Email: amcphee@glp.ca

- and -

Mr. Duane Fecteau
Director of Administration
Telephone: (705) 256-3846
Fax: (705) 941-5600
Email: dfecteau@glp.ca

The Applicant's Counsel:

Torys LLP
79 Wellington Street West, Suite 3000
Box 270, TD Centre
Toronto, Ontario
M5K 1N2

Attention: Mr. Charles Keizer
Telephone: (416) 865-7512
Fax: (416) 865-7380
Email: ckeizer@torys.com

- and -

Mr. Tyson Dyck
Telephone: (416) 865-8136
Fax: (416) 865-7380
Email: tdyck@torys.com

**DATED** at Toronto, Ontario, this 29th day of September, 2010.

**GREAT LAKES POWER TRANSMISSION INC. ON BEHALF OF GREAT LAKES POWER TRANSMISSION LP**

By its counsel,

______________________________
Charles Keizer

Exhibit 1, Tab 1, Schedule 3

GLPT Transmission Licence

Ontario

# Electricity Transmission Licence

# ET-2007-0649

# Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP

**Valid Until**

**March 11, 2028**

*Original signed by*

**Kirsten Walli**
**Board Secretary**
**Ontario Energy Board**
**Date of Issuance: December 24, 2007**
**Effective Date: March 12, 2008**
**Date of Sch.1 Correction: March 13, 2008**
**Date of Amendment: November 19, 2008**
**Date of Amendment: May 5, 2009**

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

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP
Electricity Transmission Licence ET-2007-0649

**Table of Contents** **Page No.**

## 1 Definitions

In this Licence:

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

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

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

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

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

"**Licensee**" means Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP

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

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

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

"**transmission services**" means services related to the transmission of electricity and the services the Board has required transmitters to carry out for which a charge or rate has been established in the Rate Order;

"**Transmission System Code**" means the code approved by the Board and in effect at the relevant time, which, among other things, establishes the obligations of a transmitter with respect to the services and terms of service to be offered to customers and provides minimum technical operating standards of transmission systems;

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

## 2 Interpretation

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

## 3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence to own and operate a transmission system consisting of the facilities described in Schedule 1 of this Licence, including all associated transmission equipment.

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

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

4.2 The Licensee shall comply with all applicable Market Rules.

## 5 Obligation to Comply with Codes

5.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the Licensee are set out in Schedule 2 of this Licence. The following Codes apply to this Licence:

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

b) the Transmission System Code.

5.2 The Licensee shall:

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

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

## 6 Requirement to Enter into an Operating Agreement

6.1 The Licensee shall enter into an agreement (“Operating Agreement”) with the IESO providing for the direction by the IESO of the operation of the Licensee’s transmission system. Following a request made by the IESO, the Licensee and the IESO shall enter into an Operating Agreement within a period of 90 business days, unless extended with leave of the Board. The Operating Agreement shall be filed with the Board within ten (10) business days of its completion.

6.2 Where there is a dispute that cannot be resolved between the parties with respect to any of the terms and conditions of the Operating Agreement, the IESO or the Licensee may apply to the Board to determine the matter.

**7 Obligation to Provide Non-discriminatory Access**

7.1 The Licensee shall, upon the request of a consumer, generator, distributor or retailer, provide such consumer, generator, distributor or retailer, as the case may be, with access to the Licensee's transmission system and shall convey electricity on behalf of such consumer, generator, distributor or retailer in accordance with the terms of this Licence, the Transmission System Code and the Market Rules.

**8 Obligation to Connect**

8.1 If a request is made for connection to the Licensee's transmission system or for a change in the capacity of an existing connection, the Licensee shall respond to the request within 30 business days.

8.2 The Licensee shall process connection requests in accordance with published connection procedures and participate with the customer in the IESO's Connection Assessment and approval process in accordance with the Market Rules, its Rate Order(s) and the Transmission System Code.

8.3 An offer of connection shall be consistent with the terms of this Licence, the Market Rules, the Rate Order, and the Transmission System Code.

8.4 The terms of such offer to connect shall be fair and reasonable.

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

**9 Obligation to Maintain System Integrity**

9.1 The Licensee shall maintain its transmission system to the standards established in the Transmission System Code and Market Rules, and have regard to any other recognized industry operating or planning standards required by the Board.

**10 Transmission Rates and Charges**

10.1 The Licensee shall not charge for the connection of customers or the transmission of electricity except in accordance with the Licensee's Rate Order(s) as approved by the Board and the Transmission System Code

**11 Separation of Business Activities**

11.1 The Licensee shall keep financial records associated with transmitting electricity separate from its financial records associated with distributing electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

**12 Expansion of Transmission System**

12.1 The Licensee shall not construct, expand or reinforce an electricity transmission system or make an interconnection except in accordance with the Act and Regulations, the Transmission System Code and the Market Rules.

**13 Provision of Information to the Board**

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

13.2 Without limiting the generality of paragraph 13.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) business days past the date upon which such change occurs.

**14 Restrictions on Provision of Information**

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

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

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

14.3 Information regarding consumers, retailers, wholesalers or generators may be disclosed where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

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

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

**15 Term of Licence**

15.1 The effective date of this Licence is March 12, 2008, and the Licence will expire on March 11, 2028. The term of this Licence may be extended by the Board.

**16 Transfer of Licence**

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

**17 Amendment of Licence**

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

**18 Fees and Assessments**

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

**19 Communication**

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

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

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

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

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

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

**20 Copies of the Licence**

20.1 The Licensee shall:

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

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

## SCHEDULE 1 SPECIFICATION OF TRANSMISSION FACILITIES

This Schedule specifies the facilities over which the Licensee is authorized to transmit electricity in accordance with paragraph 3 of this Licence.

1. Great Lakes Power Inc. on behalf of Great Lakes Power Transmission LP's transmission facilities consist of:

   - 318.25 circuit km of 230 kV line and associated equipment;
   - 232.37 circuit km of 115 kV line and associated equipment; and
   - 11 circuit km of 44 kV line and associated equipment which was deemed by the Board as serving a transmission function under section 84 of the Act.

   .

## SCHEDULE 2 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the licensee has been exempted.

Exhibit 1, Tab 1, Schedule 4

Contact Information

## CONTACT INFORMATION

**Applicant:**

Great Lakes Power Transmission Inc.
on behalf of Great Lakes Power Transmission LP
2 Sackville Road, Suite B
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Andy McPhee
Vice President and General Manager
Telephone: (705) 941-5661
Fax: (705) 941-5600
Email: amcphee@glp.ca

- and -

Mr. Duane Fecteau
Director of Administration
Telephone: (705) 256-3846
Fax: (705) 941-5600
Email: dfecteau@glp.ca

**Applicant's Counsel:**

Torys LLP
79 Wellington Street West, Suite 3000
Box 270, TD Centre
Toronto, Ontario
M5K 1N2

Attention: Mr. Charles Keizer
Telephone: (416) 865-7512
Fax: (416) 865-7380
Email: ckeizer@torys.com

- and -

Mr. Tyson Dyck
Telephone: (416) 865-8136
Fax: (416) 865-7380
Email: tdyck@torys.com

Exhibit 1, Tab 1, Schedule 5

List of Specific Approvals Requested

## SPECIFIC APPROVALS REQUESTED

GLPT applies for an Order or Orders of the Board granting:

(a) Approval of updated Uniform Transmission Rates for Ontario so as to permit GLPT to recover its forecasted 2011 base revenue requirement of $36,416,900 and forecasted 2012 base revenue requirement of $38,337,500;

(b) Approval for GLPT's current rates to be made interim as of January 1, 2011;

(c) Approval for GLPT's proposed 2011 rates to be made effective as of January 1, 2011;

(d) Approval for GLPT's proposed 2012 rates to be made effective as of January 1, 2012;

(e) An accounting order to establish a deferral account to record revenue deficiencies incurred from January 1, 2011 until GLPT's proposed 2011 rates are implemented;

(f) Approval to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011;

(g) Approval to recover, through account 1574, revenue deficiencies incurred from January 1, 2010 until GLPT's approved 2010 rates are implemented;

(h) Approval for the continuation in the test period of:

(i) the sub-account, within deferral account 1508 for OEB Cost Assessment variances; and

(ii) the sub-account, within deferral account 1508 for Property Tax and Use and Occupation Permit Fees Variances; and

(i) Approval for the establishing in the test period of:

(i) variance accounts for:

(A) Recording costs related to a premature retirement of readily identifiable assets, as described in part (h) above;

(B) Changes in Costs due to IFRS Implementation; and

(C) IFRS Gains and Losses on Disposal

(j) Direction from the Board as to the appropriate treatment of costs associated with an outstanding claim arising from a major capital project for which GLPT obtained leave to construct in EB-2003-0162.

Exhibit 1, Tab 1, Schedule 6

Issues List

## PROPOSED ISSUES LIST

1. Calculation of Transmission Rate Base for the Test Years
   (a) Capital Expenditures 2012
   (b) Capital Expenditures 2011
   (c) Capital Variance
   (d) Working Cash Allowance
2. Transmission Operating Costs For the Test Years
   (a) Operations, Maintenance & Administration
   (b) Depreciation and Amortization
   (c) Capital, Property and Income Taxes
3. Operating Revenue
   (a) Transmission Services Revenue
   (b) Other Income
4. Transmission Cost of Capital for the Test Years
   (a) Capital Structure
   (b) Cost of Debt
   (c) Cost of Equity
5. Rate Recovery of Revenue Requirement
   (a) Cost Allocation
   (b) Rate Design
      (i) Charge Determinant Forecast
      (ii) Calculation of Uniform Transmission Rates
6. Deferral and Variance Accounts

(a) Existing Deferral and Variance Accounts

(b) New Deferral and Variance Accounts

(c) Disbursal of Deferral and Variance Accounts

Exhibit 1, Tab 1, Schedule 7

Procedural Orders, Correspondence & Notices

# PROCEDURAL ORDERS, CORRESPONDENCE & NOTICES

Please see the attached for all procedural orders, correspondence and notices related to this transmission rate application.

Exhibit 1, Tab 1, Schedule 8

Board Decisions and Accounting Orders

# BOARD DECISIONS AND ACCOUNTING ORDERS

The Board's Decision and Order dated May 21, 2010 relating to the settlement agreement reached in EB-2009-0408 and filed with the Board on May 17, 2010 is attached as **Appendix "A"**.

GLPT has attached as **Appendix "B"** the Board's August 31, 2010 Decision and Order in EB-2009-0408, which relates to the accounting for GLPT's deficiency experienced between the time its revenue requirement was effective (January 1, 2010) and the time the new Uniform Transmission Rates are put into effect.

The recovery of this deficiency is dealt with in Exhibit 9, Tab 1, Schedule 3 of this application, where USofA account 1574 is discussed.

# APPENDIX "A"

**May 21, 2010 Decision and Order re
Proposed Settlement Agreement
Filed with the Board for Review on May 17, 2010
in EB-2009-0408**

**Ontario Energy Board** **Commission de l'énergie de l'Ontario**

Ontario

**EB-2009-0408**

**IN THE MATTER OF** the *Ontario Energy Board Act 1998*, S.O.1998, c.15, (Schedule B);

**AND IN THE MATTER OF** an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP seeking changes to the uniform provincial transmission rates for 2010.

BEFORE: Cynthia Chaplin
Presiding Member and Vice Chair

Ken Quesnelle
Member

**DECISION AND ORDER**
**PROPOSED SETTLEMENT AGREEMENT**

## The Proceeding

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP ("GLPT" or the "applicant") filed an application with the Ontario Energy Board (the "Board") on November 30, 2009 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998 c.15, (Schedule B) seeking approval for changes to the uniform provincial transmission rates that GLPT (and other transmitters) charge for electricity transmission, to be effective January 1, 2010. The Board assigned Board file number EB-2009-0408 to the rate application. GLPT also filed an application with the Board on November 27, 2009 requesting that a deferral account be granted for the purposes of recording expenditures relating to renewable energy projects and required transmission system planning arising from the *Green Energy and Green Economy Act, 2009*. The Board assigned Board file number EB-2009-0409 to this deferral account application.

The Board issued a Notice of Applications and Combined Hearing dated December 31, 2009 for both applications.

On January 29, 2010 the Board issued Procedural Order No. 1 and Interim Rate Decision, which included a schedule for procedural steps for the rate application (the "Procedural Schedule").

According to the Procedural Schedule, the applicant filed its interrogatory responses on March 3, 2010 accompanied by a request for confidential treatment of certain information. Following issuance of Procedural Order No. 2 on March 10, 2010 providing for submissions by the parties with respect to the Requested Confidential Information, the Board subsequently issued a Decision and Order on March 31, 2010, in which it ordered that the Requested Confidential Information would remain confidential.

The Board issued Procedural Order No. 3 on March 18, 2010 to allow parties an opportunity to file supplemental interrogatories and to schedule a technical conference, which was held on April 14, 2010.

On April 9, 2010 GLPT filed responses to the supplemental interrogatories and requested confidential treatment for some of the information.

On April 16, 2010 the Board issued Procedural Order No. 5 setting out a schedule for GLPT to file responses to all undertakings given during the technical conference, and a date of May 3, 2010 for commencement of a settlement conference.

On April 30, 2010 the Board issued a Decision and Order on Confidentiality of Additional Information and Procedural Order No. 6 in which it ordered that the Requested Additional Information would remain confidential.

On May 11, 2010 the Board issued its Decision and Order accepting GLPT's proposed redactions to the Confidential Unredacted Transcript of the technical conference after making provisions for submissions by the parties and response by GLPT. A Redacted Transcript will be made available on the Public Record.

On May 12, 2010, SEC filed with the Board on a confidential basis a Notice of Motion and Motion Record seeking orders that:

(a) the Applicants be compelled to provide a full answer to questions on pages 58 and 66 of the Technical Conference held April 14, 2010;

(b) the Applicants be compelled to file the documents requested in SEC Interrogatory #1 and SEC Supplementary Interrogatory #3; and

(c) such further and other relief as the counsel for SEC may advise and this Board may permit.

On May 17, 2010, the Board issued Procedural Order No.7, setting out a schedule to deal with the SNC Motion and the Oral hearing and to advise the parties that the Board would issue its decision with respect to the Proposed Settlement Agreement prior to Thursday, May 27, 2010.

**The Proposed Settlement Agreement**

According to Procedural Order No.5, the Applicant and three intervenors filed a Proposed Settlement Agreement on May 17, 2010, attached as Appendix "A" to this Decision and Order.

**Board Findings**

The Board appreciates the efforts of the Applicant, GLPT, and the three intervenors, Energy Probe, SEC, and VECC, in conducting a successful Alternative Dispute Resolution, and filing a proposed settlement agreement (the "Proposed Settlement Agreement") for the Board's review.

The Board accepts the Proposed Settlement Agreement, as submitted (the "Accepted Settlement Agreement"), with a caveat in respect of section 3.1 of the Accepted Settlement Agreement dealing with Operations, Maintenance & Administration ("OM&A") for future GLPT applications which states that "GLPT agrees that in doing so GLPT will not seek OM&A increases in excess of 2.5% per year for each of 2011 and 2012". This panel's decision accepting the Proposed Settlement Agreement should not be construed as binding on any other Board panel considering any future Test Year costs. While the Accepted Settlement Agreement is binding on the parties to the agreement, it cannot fetter the discretion of another Board panel considering a future application by GLPT.

The Board confirms that the Accepted Settlement Agreement covers all aspects related to the Board approved revenue requirement for year 2010, except the issue relating to the question of whether GLPT is entitled to recover an amount of $1,729,806 for the 2010 Test Year, which is the income tax allowance sought by GLPT after this Settlement Agreement is taken into account. The Board recognizes the parties' agreement that the Accepted Settlement Agreement shall not be affected by the Board's determination in regard to the one unsettled issue.

**THE BOARD ORDERS THAT**:

1. The Proposed Settlement Agreement is accepted, with the caveat set out above, and the Accepted Settlement Agreement, including the Appendices, will form part of the public record in this proceeding (EB-2009-0408).

**DATED** at Toronto on May 21, 2010

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli
Board Secretary

**Appendix A**
**To**
**DECISION AND ORDER**
**PROPOSED SETTLEMENT AGREEMENT**
**May 21, 2010**
**(EB-2009-0408)**

# Proposed Settlement Agreement
# Filed with the Board for Review on May 17, 2010
# By
# Applicant and Parties to the Alternative Dispute Resolution

TORYS LLP

Suite 3000
79 Wellington St. W.
Box 270, TD Centre
Toronto, Ontario
M5K 1N2 Canada
Tel 416.865.0040
Fax 416.865.7380

www.torys.com

May 17, 2010

**EMAIL, COURIER & RESS**

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

Attention: Board Secretary

Dear Ms. Walli:

**Re: Great Lakes Power Transmission LP - Application for 2010 Transmission Rates (EB-2009-0408) - Proposed Settlement Agreement**

We are counsel for the Applicant in respect of the above noted matter. Pursuant to Procedural Order No. 5, please find attached a proposed Settlement Agreement concluded between the parties noted therein. Each of the parties to the proposed Settlement Agreement has reviewed and approved the proposed agreement as described therein.

Should you have any questions or concerns, please contact the undersigned.

Yours truly,

Charles Keizer

Tel 416.865.7512
Fax 416.865.7380
ckeizer@torys.com

cc: All Intervenors
N. Mikhail, Board Staff
J. Rosenthal, GLPT LP
A. McPhee, GLPT LP
D. Fecteau, GLPT LP
J. Myers, Torys LLP

10892679.1
35306-2001

# SETTLEMENT AGREEMENT

MAY 17, 2010

GREAT LAKES POWER TRANSMISSION LP
2010 RATES APPLICATION
(EB-2009-0408)

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[1] In this Settlement Agreement, "Test Year" refers to the period from January 1 to December 31 of 2010.

## PREAMBLE

This Settlement Agreement is filed with the Ontario Energy Board (the "Board") in connection with an application by Great Lakes Power Transmission ("GLPT") pursuant to section 78 of the *Ontario Energy Board Act, 1998* for an order or orders approving or fixing just and reasonable rates for the transmission of electricity (EB-2009-0408).

Pursuant to Procedural Order No. 5 in this proceeding, a Settlement Conference was held from May 3-4, 2010 in accordance with the *Ontario Energy Board Rules of Practice and Procedure* (the "Rules") and the Board's *Settlement Conference Guidelines* (the "Settlement Guidelines"). This Settlement Agreement arises from the Settlement Conference and is for the consideration of the Board in its determination of GLPT's 2010 electricity transmission rates.

### The Parties

GLPT and the following intervenors (collectively the "Participating Intervenors"), as well as Ontario Energy Board technical staff ("Board Staff"), participated in the Settlement Conference in respect of all issues contained in this proposal:

- Energy Probe Research Foundation ("Energy Probe")
- School Energy Coalition ("SEC")
- Vulnerable Energy Consumers Coalition ("VECC")

The following intervenors did not participate in the Settlement Conference:

- Canadian Niagara Power Inc. ("CNPI")
- Independent Electricity System Operator ("IESO")
- Hydro One Networks Inc. ("HONI")

The Applicant and the Participating Intervenors are collectively referred to herein as the "Parties". In accordance with page 5 of the Settlement Guidelines, Board Staff is neither a Party nor a signatory to this Settlement Agreement. Although Board Staff is not a party to this Settlement Agreement, the Board Staff who did participate in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the Guidelines. The parties understand this to mean that the documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception: the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Agreement.

**Summary of the Proposed Settlement**

There is no approved issues list for this proceeding. However, for the purposes of organizing this Settlement Agreement, and without prejudice to the positions of the Parties with respect to the issues that might otherwise be considered in this proceeding should a hearing be required, the Parties have followed the issues list set out at **Appendix 'A'** to this Settlement Agreement.

We are pleased to inform the Board as follows:

- Subject to one exception the Parties have reached a comprehensive agreement on all issues.

- The Parties further agree that one particular issue remains unsettled and that, rather than forming part of this Settlement Agreement, this issue should be the subject of a hearing before the Board. This issue relates to the question of whether GLPT is entitled to recover an amount of $1,729,806 for the 2010 Test Year, which is the income tax allowance sought by GLPT after this Settlement Agreement is taken into account.

For greater certainty, this comprehensive agreement shall not be affected by the Board's determination of the one unsettled issue.

Through this Settlement Agreement, GLPT agrees to certain changes from its initial application for 2010 electricity transmission rates, as filed with the Board on November 30, 2009 and updated on December 7, 2009. The most significant matters arising from this Settlement Agreement are as follows:

- OM&A Expense: GLPT initially forecasted it's 2010 OM&A expense at $11,105,600. The Parties have agreed that GLPT's 2010 OM&A expense should be $9,000,000. In addition, the Parties have agreed that for purposes of GLPT's anticipated applications for 2011 and 2012 rates, GLPT will not propose OM&A expense increases in excess of 2.5% in each year.

- Calculation of Capital Cost Allowance ("CCA"): CCA is deducted from income in calculating income tax for recovery. GLPT's initially proposed methodology for calculating CCA resulted in a CCA deduction of approximately $9.7 million. This did not include the increase in rate base that resulted from a revaluation of assets in 1996. The Parties have agreed that the calculation of CCA for regulatory purposes commencing in 2010 should be derived from the UCC balances that resulted from the March 12, 2008 asset transfer (which carry forward to the 2010 test year), which GLPT advises effectively includes in the opening UCC post-2008 the upward revaluation of assets from 1996. This is to the benefit of the ratepayer and equates UCC values for tax and regulatory purposes. As a result, the CCA deduction to be used in calculating GLPT's income tax provision for recovery in the 2010 Test Year will be approximately $11.7 million. The impact of this change on the income tax provision that GLPT seeks to recover for the Test Year is a reduction of $872,275.

- Capital Structure: GLPT initially proposed a transition over a two year period from its current capital structure of 55% debt and 45% equity to a structure of 60% debt and 40% equity, with a 2010 Test Year structure of 57.5% debt and 42.5% equity and no short term debt component in either year. During the course of the proceeding GLPT revised its proposal so as to seek no change from its current capital structure. The Parties have agreed on a transition over a two year period whereby GLPT's capital structure for the 2010 Test Year will be 53.5% long-term debt, 4% short-term debt and 42.5% equity. For 2011 GLPT will adopt a structure comprised of 56% long-term debt, 4% short-term debt and 40% equity.

- Implementation Date: GLPT's existing rates have been declared by the Board to be interim as of January 1, 2010. The Parties have agreed on a January 1, 2010 effective date for GLPT's revised 2010 electricity transmission rates.

- Deferral Account for Unrecovered Plant: In addition to a small balance in Account 1505 that GLPT initially proposed to disburse to the credit of ratepayers, arising from the recovery of costs related to asset retirement, for purposes of obtaining a complete settlement of all issues but one, the Parties have agreed that GLPT will return $3,063,900 from Account 1505 to ratepayers in consideration of settlement. This represents the costs recovered in respect of asset retirement that relate to the revaluation of assets in 1996. This amount will be disbursed to ratepayers over a 5-year period beginning in the 2010 Test year, with interest as normally calculated.

- Revenue Requirement: As a result of the changes described above, GLPT's overall proposed revenue requirement for the 2010 Test Year has changed from its proposal of $38,915,026[2] to the currently agreed upon proposal of $35,148,818.

The Settlement Agreement describes the agreements reached on the settled issues and identifies the parties who agree, or alternatively who take no position on each issue. The Settlement Agreement provides a direct link between each issue and the supporting evidence in the record to date. In this regard, the parties who agree with the individual settlements are of the view that the evidence provided is sufficient to support the Settlement Agreement in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings on the settled issues.

Best efforts have been made to identify all of the evidence that relates to each settled issue. The supporting evidence for each settled issue is identified individually by reference to its exhibit number in an abbreviated format. For example, Exhibit 2, Tab 1, Schedule 1, Page 3 (commencing page) is referred to as 2-1-1-3. A concise description of the content of each exhibit is also provided. In this regard, GLPT's response to an interrogatory (IR) or supplemental interrogatory (SIR) is described by citing the name of the Party and the number of the interrogatory or supplemental interrogatory (e.g., Board Staff IR #1 or SEC SIR #2). The identification and listing of the evidence that relates to each issue is provided to assist the Board. The identification and listing of the evidence that relates to each settled issue is not intended to limit any party who wishes to assert that other evidence is relevant to a particular settled issue.

According to the Settlement Guidelines (p.3), the Parties must consider whether a Settlement Agreement should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. GLPT and the other Parties who participated in the Settlement Conference agree that no settled issue requires an adjustment mechanism other than those expressly set forth herein.

Except with respect to the one unsettled issue described above, all of the issues contained in this proposal have been settled by GLPT and the Parties as a package (the "package") and none of the provisions of these issues are severable. Numerous compromises were made by the Parties with respect to various matters to arrive at this comprehensive Settlement Agreement. The distinct issues addressed in this proposal are intricately interrelated, and reductions or

[2] GLPT's original application filed November 30, 2009 proposed a revenue requirement of $39,365,100. As explained in response to Board Staff IR #92, GLPT subsequently adopted the cost of capital parameters set out in the Board's December 9, 2009 Cost of Capital Report. This change is reflected in the updated Revenue Requirement Work Form filed in response to Board Staff IR #95, which shows an updated proposed revenue requirement of $38,915,026.

increases to the agreed-upon amounts may have financial consequences in other areas of this proposal which may be unacceptable to one or more of the Parties. If the Board does not, prior to the commencement of the hearing of the evidence, accept the package in its entirety, then there is no settlement (unless GLPT and the Parties agree that any portion of the package that the Board does accept may continue as part of a valid Settlement Agreement). None of the Parties can withdraw from this proposal except in accordance with Rule 32.05 of the Rules. Moreover, the settlement of any particular issue in this proceeding and the positions of the Parties in this Settlement Agreement are without prejudice to the rights of the Parties to raise the same issue and/or to take any position thereon in any other proceeding, whether or not GLPT is a party to such proceeding.

Attached at **Appendix 'B'** is a copy of the Revenue Requirement Work Form updated to reflect the impacts of the proposed settlement as herein described for the 2010 Test Year. While this document is typically used only for distributors, it is provided here for ease of reference.

The Parties agree that this Settlement Agreement and the Appendices form part of the record in EB-2009-0408. The Revenue Requirement Work Form was prepared by the Applicant. The intervenors are relying on the accuracy and completeness of the Revenue Requirement Work Form in entering into this Agreement.

## ISSUES

### 1 Rate Base

#### 1.1 Rate Base for the Test Year

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application and evidence, GLPT forecasted its 2010 rate base to be $208,999,200 as presented in Table 2-1-1A of the pre-filed evidence.

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that the Board should accept GLPT's forecasted rate base for the 2010 Test Year of $208,999,200.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

2-1-1-1 Rate Base Overview - Summary of Rate Base
2-2-1 Summary and Continuity Statements

### 1.2 Capital Expenditures 2010

**Complete Settlement**: There is an agreement to settle this issue as follows:

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's proposed capital additions for 2010, being $5,045,900 , should be included in GLPT's rate base for the Test Year.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 1-4-1 | Materiality Threshold |
| 2-1-1-3 | Descriptions of 2010 Capital Expenditures in Service |
| 2-1-2-1 | Capital Expenditures Table |
| 2-1-3 | Appendices B and D of Confidential Filing #1 |
| 2-2-1-6 | 2010 Forecasted Asset Continuity |
| 10-1-1-3 | Board Staff IR #2 - Services Provided by Others |
| 10-1-1-122 | Board Staff IR #62 - Classification of 2010 Capital Investments |
| 10-1-1-124 | Board Staff IR #63 - Redevelopment Project |
| 10-1-1-125 | Board Staff IR #64 - Redevelopment Project |
| 10-1-1-127 | Board Staff IR #65 - Redevelopment Project |
| 10-1-1-129 | Board Staff IR #66 - Steelton Ground Grid Refurbishment |
| 10-1-1-167 | Board Staff IR #87 - Summary of Capital Investments |
| 10-1-1-169 | Board Staff IR #88 - Redevelopment Project |
| 10-2-1-3 | VECC IR #3 - Capital Projects in Service 2007-2010 |
| 10-2-1-4 | VECC IR #4 - Actual v. Forecast CapEx |
| 10-3-1-15 | SEC IR #11(a)-(e) - Redevelopment Project |
| 11-1-1-40 | Board Staff Supplemental IR #20 to #22, inclusive |
| 11-3-1-23 | SEC Supplemental IR #19 - Infrared Scanning |
| JT1.2 | Undertaking Response re Redevelopment Project |

## 1.3 Capital Expenditures 2009

**Complete Settlement**: There is an agreement to settle this issue as follows:

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's capital additions for 2009, being $8,939,700 as described herein, should be included in GLPT's rate base for the Test Year.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 1-4-1 | Materiality Threshold |
| 2-1-1-35 | Descriptions of 2009 Capital Expenditures in Service |
| 2-1-2-1 | Capital Expenditures Table |
| 2-1-3 | Appendices A, C and D of Confidential Filing #1 |
| 2-2-1-5 | 2009 Asset Continuity |
| 10-1-1-3 | Board Staff IR #2 - Services Provided by Others |
| 10-1-1-130 | Board Staff IR #67 - Classification of 2009 Capital Investments |
| 10-1-1-133 | Board Staff IR #68 - Echo River Protections Upgrades |
| 10-1-1-134 | Board Staff IR #69 - Cyber Security Requirements |
| 10-1-1-136 | Board Staff IR #70 - Batchewana TS Ground Refurbishments |
| 10-1-1-137 | Board Staff IR #71 - Vegetation Management Mapping Development |
| 10-1-1-140 | Board Staff IR #72 - Algoma 115 kV Structure Reinforcement |
| 10-1-1-141 | Board Staff IR #73 - Centralized Information Retrieval System |
| 10-1-1-142 | Board Staff IR #74 - Fleet, IT Infrastructure, Office Furniture & Equipment |
| 10-1-1-144 | Board Staff IR #75 - Transmission Reinforcement Project |
| 10-1-1-167 | Board Staff IR #87 - Summary of Capital Investments |
| 10-2-1-3 | VECC IR #3 - Capital Projects in Service 2007-2010 |
| 10-2-1-4 | VECC IR #4 - Actual v. Forecast CapEx |

## 1.4 Capital Expenditures 2008

**Complete Settlement**: There is an agreement to settle this issue as follows:

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's capital additions for 2008, being $10,379,600, should be included in GLPT's rate base for the Test Year.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 1-4-1 | Materiality Threshold |
| 2-1-1-51 | Descriptions of 2008 Capital Expenditures in Service |
| 2-1-2-1 | Capital Expenditures Table |
| 2-1-3 | Appendices E, F, G and H of Confidential Filing #1 |
| 2-2-1-4 | 2008 Asset Continuity |
| 10-1-1-3 | Board Staff IR #2 - Services Provided by Others |
| 10-1-1-145 | Board Staff IR #76 - Classification of 2008 Capital Investments |
| 10-1-1-148 | Board Staff IR #77 - MacKay TS Refurbishment |
| 10-1-1-150 | Board Staff IR #78 - Third Line TS Miscellaneous Projects |
| 10-1-1-151 | Board Staff IR #79 - Magpie TS Line Protection Upgrades, Clergue TS Protection Upgrades and Magpie Structure/Component Replacement |
| 10-1-1-154 | Board Staff IR #80 - Power Potential Transformer at Magpie TS, Third Line TS Temporary Bus Installation and Third Line TS Transformer Refurbishment |
| 10-1-1-156 | Board Staff IR #81 - Variance for Previously Approved 2008 Capital Investments |
| 10-1-1-167 | Board Staff IR #87 - Summary of Capital Investments |
| 10-2-1-3 | VECC IR #3 - Capital Projects in Service 2007-2010 |
| 10-2-1-4 | VECC IR #4 - Actual v. Forecast CapEx |

### 1.5 Capital Expenditures 2007

**Complete Settlement**: There is an agreement to settle this issue as follows:

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's capital additions for 2007, being $9,470,500, should be included in GLPT's rate base for the Test Year.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 1-4-1 | Materiality Threshold |
| 2-1-1-67 | Descriptions of 2007 Capital Expenditures in Service |
| 2-1-2-1 | Capital Expenditures Table |
| 2-1-3 | Appendices I and J of Confidential Filing #1 |
| 2-2-1-3 | 2007 Asset Continuity |
| 10-1-1-3 | Board Staff IR #2 - Services Provided by Others |
| 10-1-1-158 | Board Staff IR #82 - Classification of 2007 Capital Investments |
| 10-1-1-160 | Board Staff IR #83 - Third Line TS T1 250 MVA Autotransformer Replacement |
| 10-1-1-161 | Board Staff IR #84 - Revision re Previously Approved - Transmission Reinforcement Project |
| 10-1-1-164 | Board Staff IR #85 - Revision re Previously Approved - Third Line Tie Breaker |
| 10-1-1-166 | Board Staff IR #86 - Revision re Previously Approved - MacKay Line and Bus Protections |
| 10-1-1-167 | Board Staff IR #87 - Summary of Capital Investments |
| 10-2-1-3 | VECC IR #3 - Capital Projects in Service 2007-2010 |
| 10-2-1-4 | VECC IR #4 - Actual v. Forecast CapEx |

### 1.6 Working Cash Allowance

**Complete Settlement**: There is an agreement to settle this issue as follows:

The working cash allowance for the Test Year has been calculated by GLPT using the results of the working cash study accepted by the Board in GLPL Transmission Division's 2005 transmission rate application (EB-2005-0241), subject to adjustments arising from the Settlement Agreement in that proceeding.

For the purpose of obtaining a complete settlement of all issues but one, the parties agree that GLPT's working cash allowance calculation is appropriate and that the total working cash requirement of $401,200 is therefore accepted for inclusion in rate base.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 2-1-1-79 | Working Capital Allowance |
| 2-4-1-1 | Working Capital Allowance |
| 10-1-1-173 | Board Staff IR #90 - Working Capital |
| 10-2-1-5 | VECC IR #5 - Working Capital Allowance |
| 11-2-1-5 | VECC Supplemental IR #21 - HST and Working Capital Allowance |

## 2 Cost of Capital for the Test Year

### 2.1 Cost of Debt

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application, GLPT proposed a rate of interest on debt equal to the effective interest rate on its debt, which is 6.874%. Although GLPT does not actually use short-term debt to finance its operations and, consequently, had initially proposed a cost of debt that did not include a short-term debt component, the Parties have agreed that GLPT's cost of debt should include a short-term debt component, as described further in the discussion of capital structure under section 2.3 of this Settlement Agreement.

The Parties agree that a 6.874% rate of interest on long-term debt and the Board-prescribed rate of interest on short-term debt currently in effect (2.07%) should be adopted by the Board for the purpose of determining the cost of debt component of GLPT's revenue requirement for the Test Year.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 5-1-1-2 | Cost of Debt |
| 4-3-5-1 | Interest Expense |
| 10-1-1-177 | Board Staff IR #93 - Capital Structure and Short-term Debt |
| 10-1-1-180 | Board Staff IR #94 - Capital Structure and Short-term Debt |
| 10-3-1-32 | SEC IR #19 - Interest Expense |
| 11-1-1-51 | Board Staff Supplemental IR #24 |

### 2.2 Cost of Equity

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application, GLPT initially proposed a return on equity of 10.5% for the Test Year. Subsequent to the release of the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* ("Cost of Capital Report"), in response to Board Staff IR #92(i), GLPT indicated that it was no longer proposing an ROE of 10.5%. Rather, GLPT expressed its view that the Board should apply the methodology as set out in the Board's Cost of Capital Report as this will provide a fair return. As shown in response to Board Staff IR #92(ii), the current deemed equity rate, based on the Cost of Capital Parameter Update letter published by the Board on February 24, 2010, is 9.85%.

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that a return on equity of 9.85% should be adopted by the Board for purposes of determining GLPT's rates for the 2010 Test Year.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 5-1-1-6 | Cost of Equity |
| 10-1-1-175 | Board Staff IR #92 - Cost of Capital |

## 2.3 Capital Structure

**Complete Settlement**: There is an agreement to settle this issue as follows:

GLPT's most recently approved capital structure is 55% debt and 45% equity. In the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, the Board allowed a transition period for utilities moving from any structure that was not 60% debt and 40% equity. Based on this approach, in its application GLPT initially proposed a two year transition period under which it proposed a capital structure of 57.5% debt and 42.5% equity for the Test Year with a target of implementing a structure of 60% debt and 40% equity in 2011.

Following the release of the Board's Cost of Capital Report in December 2009, GLPT indicated in response to Board Staff IR #94 that it was revising its proposal with respect to capital structure so as to reflect the direction set out in the Cost of Capital Report. In particular, GLPT stated that it proposed to maintain its existing structure of 55% debt and 45% equity. GLPT further explained its revised proposal in response to Board Staff Supplemental IR #23.

For the purpose of obtaining a complete settlement of all issues but one, the Parties have agreed that GLPT should transition toward a capital structure of 60% debt (comprised of 4% short-term and 56% long-term) and 40% equity. To make this transition, the Parties agree that for the 2010 Test Year GLPT should adopt a capital structure of 57.5% debt (comprised of 4% short-term debt and 53.5% long-term debt) and 42.5% equity. GLPT has indicated that it intends to file an application for 2011 and 2012 rates. As such, GLPT agrees that in its 2011 application it will adopt the target capital structure of 60% debt (comprised of 4% short-term debt and 56% long-term debt) and 40% equity.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 5-1-1-1 | Capital Structure |
| 10-1-1-180 | Board Staff IR #94 |
| 11-1-1-49 | Board Staff Supplemental IR #23 |

## 3 Cost of Service for the Test Year

In its application, GLPT initially proposed total Test Year Operating costs of $21,777,700. As shown in Table 4-1-1A, this was comprised of the following components:

- Operations, Maintenance and Administration ($11,105,600)
- Depreciation and Amortization ($7,406,900)
- Income Taxes ($2,861,500)
- Capital and Property Taxes ($403,700)

Operations, Maintenance & Administration expenses (OM&A) are considered in 3.1 of this Settlement Agreement, below.

Depreciation and Amortization expenses are considered in 3.2 of this Settlement Agreement.

Income Taxes, as well as Capital and Property Taxes, are considered together in 3.3 of this Settlement Agreement.

### 3.1 Operations, Maintenance & Administration

**Complete Settlement**: There is an agreement to settle this issue as follows:

As indicated above, GLPT initially proposed Test Year Operating costs that included OM&A costs of $11,105,600.

For the purpose of obtaining a complete settlement of all issues but one, the Parties have agreed that GLPT's OM&A expenses for the Test Year, as described herein, should be reduced to $9,000,000. The Parties further agree that the Board should approve the recovery of this amount by GLPT in rates for 2010.

As noted, GLPT has indicated that it intends to file an application for 2011 and 2012 rates. GLPT agrees that in doing so GLPT will not seek OM&A increases in excess of 2.5% per year for each of 2011 and 2012.

GLPT has accepted the challenge of reducing its forecasted OM&A in light of this settlement. GLPT has undertaken a preliminary review of its forecasted OM&A expenditures and is confident that it will be able to reduce its forecasted expenditures without putting the safety, reliability or sufficiency of its service at risk and without affecting its ability to maintain compliance with applicable regulatory requirements now in effect. In addition, GLPT will consider whether certain of its forecasted OM&A expenditures may be appropriately transferred to the Renewable Energy Deferral Account established pursuant to EB-2009-0409. The Parties have agreed that any OM&A expenditures that GLPT transfers to such deferral account will be subject to the Board's determinations with respect to that account, and will be recoverable from ratepayers if and only if the Board determines that the expenditures were appropriate included in the account.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 4-1-1 | Summary of Operating Costs |
| 4-2-1 | OM&A Overview |
| 4-2-1-38 | OM&A Overview - Appendix 'A' - GLPT Operations Cost Analysis by First Quartile Consulting |
| 4-2-2 | OM&A Variance Analysis |
| 4-2-4 | Shared Services and Corporate Cost Allocation |
| 10-1-1-5 | Board Staff IR #3 - OSCC Staff Reduction |
| 10-1-1-7 | Board Staff IR #4 - NERC training for OSCC staff |
| 10-1-1-9 | Board Staff IR #5 to #7 - FQC Benchmarking Report |
| 10-1-1-13 | Board Staff IR #8 and #9 - Vegetation Management |
| 10-1-1-20 | Board Staff IR #10 - Corporate Cost Allocation re Executive Management Team |
| 10-1-1-23 | Board Staff IR #12 - Natural Business Growth |
| 10-1-1-28 | Board Staff IR #13 - Green Energy and Green Economy Act |
| 10-1-1-29 | Board Staff IR #14 - Contracted Staff Increase 2007-2008 |
| 10-1-1-31 | Board Staff IR #15 - Variance Analysis |
| 10-1-1-33 | Board Staff IR #16 - Time Spent on Operations and Maintenance |
| 10-1-1-34 | Board Staff IR #17 - Old Share assigned to OSCC |
| 10-1-1-35 | Board Staff IR #18 - Account 4815/4910 |
| 10-1-1-38 | Board Staff IR #19 - Account 4916 and 4830/4930/4935 |
| 10-1-1-67 | Board Staff IR #34 - OSCC Usage |
| 10-1-1-68 | Board Staff IR #35 - Office Complex Use and Cost Allocation |
| 10-1-1-69 | Board Staff IR #36 - Cost Sharing with Affiliates |
| 10-1-1-70 | Board Staff IR #37 - Allocation of COO Costs |
| 10-1-1-72 | Board Staff IR #38 - Allocation of SCADA Equipment |
| 10-1-1-74 | Board Staff IR #39 - Corporate Cost Allocation from Parent of $298,571 |
| 10-1-1-78 | Board Staff IR #41 - OSCC Operational Prudence and Cost Responsibility |

| | |
|---|---|
| 10-1-1-83 | Board Staff IR #42 - OSCC Transmission and Distribution Cost Allocation |
| 10-3-1-22 | SEC IR #14 - OM&A Variance Analysis |
| 10-3-1-26 | SEC IR #17 - Shared Services and Corporate Cost Allocation |
| 11-1-1-1 | Board Staff Supplemental IR #1 - Executive Costs |
| 11-1-1-2 | Board Staff Supplemental IR #2 - Natural Business Growth |
| 11-1-1-4 | Board Staff Supplemental IR #3 - Office Complex |
| 11-1-1-14 | Board Staff Supplemental IR #8 - OSCC |
| 11-3-1-11 | SEC Supplemental IR #11 - Corporate Cost Allocation |
| 11-3-1-12 | SEC Supplemental IR #12 - Fibre Optic Network |
| 11-3-1-27 | SEC Supplemental IR #23 - SCADA Lease |
| 11-3-1-38 | SEC Supplemental IR #33 - SCADA Agreement |
| JT1.6 | Undertaking Response re OSCC |
| JT1.10 | Undertaking Response re SCADA Lease Agreement |

### 3.2 Depreciation and Amortization

**Complete Settlement**: There is an agreement to settle this issue as follows:

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that the Board should accept GLPT's proposed calculation of the depreciation expense for the Test Year of $7,406,900.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 2-1-1-78 | Amortization Policy |
| 2-3-1 | Accumulated Depreciation |
| 4-2-6 | Depreciation and Amortization |
| 10-1-1-85 | Board Staff IR #43 - Depreciation and Amortization Expense |
| 11-3-1-30 | SEC Supplemental IR #26 |

### 3.3 Capital, Property and Income Taxes

**Partial Settlement**: There is an agreement to settle this issue as follows:

In its initial application, GLPT:

- Calculates its capital tax expense for the Test Year as $145,500. The calculation of this amount is described in 4-3-3;
- Calculates its property tax expense for the Test Year as $258,200. The calculation of this amount is described in 4-3-4; and
- Calculates its income tax expense for the Test Year as $2,861,500. The calculation of this amount is described in 4-3-2.

Capital and Property Tax

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's calculations of capital and property taxes described herein, which total $403,700, are appropriate and should be included as part of its cost of service for the Test Year.

Income Tax

In its application, GLPT initially calculated its income tax allowance as $2,861,500 as set out in 4-3-2. An important component of this calculation is the Capital Cost Allowance ("CCA"), which is deducted from income in calculating the income tax provision for recovery.

To calculate its income tax expense, GLPT initially proposed that the calculation of CCA for regulatory purposes should disregard the income tax effect of the 2008 non-arm's length sale of the transmission assets by GLPL to GLPT, and treat CCA for regulatory purposes as though the assets were acquired by GLPT at "tax book value" (i.e. historic undepreciated capital cost or "UCC"). This did not include the increase in rate base that resulted from a revaluation of assets in 1996. This approach results in a CCA deduction of approximately $9.7 million.

The Parties have agreed that the calculation of CCA for regulatory purposes commencing in 2010 should incorporate the income tax effect of the 2008 sale, which increases the UCC available for deduction as of March 12, 2008 and effectively includes in the opening UCC post-2008 the upward revaluation of assets from 1996. As a result, the Parties agree that the CCA deduction to be used in calculating GLPT's income tax provision for recovery in the 2010 Test Year is approximately $11.7 million.

Due to the aforementioned change in the method to be used for calculating CCA, and the changes in the cost of capital set out elsewhere in this Agreement, GLPT's revised proposed income tax allowance for the Test Year is $1,729,806.

As noted in the preamble to this Settlement Agreement, the one issue that remains unsettled and which the Parties have agreed should be the subject of a hearing before the Board is the issue of whether GLPT is entitled to recover an amount in respect of income tax expense for the 2010 Test Year. The amount at issue for this hearing is the revised income tax allowance for the Test Year described above, being $1,729,806.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 4-3-1 | Tax Overview |
| 4-3-2 | Income Tax |
| 4-3-3 | Capital Tax |
| 4-3-4 | Property Tax |
| 10-1-1-92 | Board Staff IRs #45 to #61, inclusive |
| 10-2-1-8 | VECC IR #8 - Income Tax |
| 10-3-1-30 | SEC IR #18 - Income Tax |
| 11-1-1-15 | Board Staff Supplemental IR #9 to #19, inclusive |
| 11-3-1-5 | SEC Supplemental IR #5 to 7, inclusive |
| 11-3-1-32 | SEC Supplemental IR #28 |

# 4 Revenues and Charge Determinant Forecast

## 4.1 Revenues and Charge Determinant Forecast

**Complete Settlement**: There is an agreement to settle this issue as follows:

As described in 8-1-1, GLPT employed a methodology for developing a charge determinant forecast for its directly connected customers. As described in 8-2-1, this forecasting methodology was then combined with the approved charge determinants for Ontario's other three electricity transmitters in order to derive the Uniform Transmission Rate in Ontario (the "UTR"). GLPT's proposed annual charge determinants, which have been updated in accordance with Hydro One's 2010 charge determinant forecast in EB-2008-0272, are as follows:

| | **Proposed Annual Charge Determinants (MW)** | | |
|---|---|---|---|
| | **Network** | **Line Connection** | **Transformation Connection** |
| **GLPT** | 4,019.797 | 2,939.425 | 1,057.605 |
| **All Transmitters** | 247,035.950 | 238,309.948 Per Board Staff Calculation | 204,631.610 |

The Parties agree that the proposed charge determinants presented in the above table, are appropriate and should be accepted by the Board.

***Approval:***

Parties in Support: N/A

Parties Taking No Position: SEC, VECC, Energy Probe

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 3-1-1 | Operating Revenue |
| 3-1-2 | Other Revenue |
| 8-1-1 | Charge Determinant Forecast |
| 10-1-1-183 | Board Staff IR #96 - Charge Determinants |
| 10-1-1-186 | Board Staff IR #97 - Transmitter Reconciliation Final Data |
| 10-1-1-190 | Board Staff IR #98 - Transmission Revenue Streams |
| 11-1-1-54 | Board Staff Supplemental IR #25 (response at Appendix 25) |
| JT1.3 | Undertaking Response re Seasonality Effect of Load Forecast |

# 5 Rate Recovery of Revenue Requirement

## 5.1 Rate Implementation Date

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application, GLPT requested that its existing rates be made interim effective January 1, 2010 and that its proposed rates be made effective as of January 1, 2010. On January 29, 2010 the Board issued Procedural Order #1, which included a decision declaring GLPT's rates interim as of January 1, 2010.

For the purpose of obtaining a complete settlement of all issues but one, the Parties have agreed that GLPT's revised 2010 rates should be made effective as of January 1, 2010.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 1-1-2 | Application |

### 5.2 Cost Allocation

**Complete Settlement**: There is an agreement to settle this issue as follows:

GLPT proposes to allocate its incremental revenue requirement to the asset pools by applying the same proportions as set out in the current Ontario Transmission Rate Schedules, which were issued on July 3, 2009 as part of the Board's Decision and Order in EB-2008-0272.

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that GLPT's allocation of its incremental revenue requirement to the asset pools should be adopted by the Board.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

8-2-1 Calculation of Uniform Transmission Rates

### 5.3 Revenue Deficiency Deferral Account

**Complete Settlement**: There is an agreement to settle this issue as follows:

As noted in section 5.1 of this Settlement Agreement, GLPT in its application requested that its existing rates be made interim effective January 1, 2010 and that its proposed rates be made effective as of January 1, 2010. GLPT further requested authorization to establish a deferral account to record revenue requirement deficiencies incurred from January 1, 2010 until the date that GLPT's proposed 2010 rates are implemented. Also as noted in section 5.1 of this Settlement Agreement, on January 29, 2010 the Board issued Procedural Order #1, which included a decision declaring GLPT's rates interim as of January 1, 2010. For the purpose of obtaining a complete settlement of all issues but one, the Parties have agreed that GLPT should recover it's proposed revenue requirement effective as of January 1, 2010.

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that a deferral account should be established to record any deficiency or sufficiency for the period commencing January 1, 2010 to the date that the revised 2010 rates (reflecting GLPT's proposed new revenue requirement) are implemented, together with carrying costs, such carrying costs being based upon the applicable Board prescribed interest rate.

As explained in section 6.3 of this Settlement Agreement, GLPT proposes to recover or pay, as the case may be, the balance of the Revenue Deficiency/Sufficiency Deferral Account, as at the date of implementation, through an offset or addition to the amounts GLPT proposes to credit to ratepayers over a three-year period based on the aggregate balance of GLPT's existing deferral and variance accounts.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

See Appendix 'A' of this Settlement Agreement at Lines 1 and 22 of the Revenue Sufficiency/Deficiency Table.

# 6 Variance and Deferral Accounts

## 6.1 Existing Variance and Deferral Accounts

**Complete Settlement**: There is an agreement to settle this issue as follows:

GLPT proposes to disburse its December 31, 2008 audited balances in its existing variance and deferral accounts, along with forecasted accruals and carrying charges to December 31, 2009. The aggregate balance of the accounts is $2,962,700 to the credit of ratepayers, as set out below. The proposed methodology for disbursal is considered under issue 6.3 of this Settlement Agreement.

Account 1505 - Unrecovered Plant

This account has been used to record costs associated with readily identifiable assets that were used and useful, but which were retired in 2005 as a result of the Reinforcement Project and recovered over a 5-year period. GLPT explains in 9-1-2 that the closing balance as at December 31, 2009 which GLPT proposes to disburse, as shown in Table 9-1-2B, is a credit of $71,368 to the benefit of ratepayers. In addition, for the purpose of obtaining a complete settlement of all issues but one, the Parties agree that in consideration of settlement GLPT will credit to ratepayers under this Account 1505 a further amount of $3,063,900. This represents the costs recovered in respect of asset retirement that relate to the revaluation of assets in 1996.

Account 1508 - Other Regulatory Assets

This Account 1508 includes two sub-accounts. The Wholesale Meter Services Rebates sub-account was established to enable GLPT to provide rebates to certain metered market participants that were subject to duplicate charges for wholesale metering as a result of transitional provisions under the Market Rules following market opening. The Stakeholder Related Costs sub-account was established to cover costs of retaining a third-party consultant to review and report on cost allocation and transfer pricing, as agreed upon in the Settlement Agreement in EB-2005-0241 . GLPT explains in 9-1-3 that the closing balance as at December 31, 2009 which GLPT proposes to disburse, as shown in Table 5-1-3C, is a credit of $105,401 to the benefit of ratepayers. This is the net balance comprised of $122,102 payable to ratepayers under the Wholesale Meter Services Rebates sub-account and $16,701 receivable by GLPT under the Stakeholder Related Costs sub-account.

Account 1574 - Deferred Rate Impact Amounts

This account was established to record the revenue deficiency incurred by GLPT, plus carrying charges, under currently approved transmission rates beginning January 1, 2005. GLPT explains in 9-1-4 that the closing balance as at December 31, 2009 which GLPT proposes to disburse, as shown in Table 9-1-4A, is a credit of $2,577,664 to the benefit of ratepayers.

Accounts 1562 and 1592 - Changes in Large Corporations Tax

The Board created these accounts to deal with changes in tax legislation and tax rules with respect to PILs and taxes. Account 1562 applies to entries up to and including April 30, 2006, while Account 1592 relates to tax changes that affect the period after April 30, 2006. GLPT explains in 9-1-5 that the closing balances as at December 31, 2009 which GLPT proposes to disburse, as shown in Tables 9-1-5C and 9-1-5D, are $30,360 to the credit of GLPT for Account 1562 and $1,280,078 to the credit of ratepayers for Account 1592, resulting in a net balance to the credit of ratepayers of $1,249,718.

Account 1572 - Extraordinary Event Costs

As part of acquiring the transmission assets, GLPT incurred costs, which are recorded in Account 1572. These costs arose because of the unique circumstance of Section 71 of the *Ontario Energy Board Act* and the expiration of a legislative exemption to it that had previously been available. GLPT explains in 9-1-6 that the closing balance as at December 31, 2009 which GLPT proposes to disburse, as shown in Table 9-1-6A, is $1,041,454 recoverable by GLPT from ratepayers.

For the purpose of obtaining a complete settlement of all issues but one, the Parties agree that the Board should accept and approve such amounts for disbursal.

***Approval:***

Parties in Support: Energy Probe, SEC, VECC

Parties Taking No Position: N/A

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 9-1-1 | Deferral and Variance Accounts - Overview |
| 9-1-2 | Account 1505 - Unrecovered Plant |
| 9-1-3 | Account 1508 - Other Regulatory Assets |

| | |
|---|---|
| 9-1-4 | Account 1574 - Deferred Rate Impact Amounts |
| 9-1-5 | Accounts 1562 & 1592 - Changes in Large Corporations Tax |
| 9-1-6 | Account 1572 - Extraordinary Event Costs |
| 10-1-1-197 | Board Staff IR #101 - Authority re Use of Accounts 1562 and 1592 |
| 10-1-1-198 | Board Staff IR #102 - Disposition of Deferral and Variance Accounts |
| 10-1-1-203 | Board Staff IR #106 - Disposition of Account 1572 |

### 6.2 New Variance and Deferral Accounts

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application, GLPT requests approval to establish the following five new deferral or variance accounts:

- Pension Cost Variance Account
- OEB Cost Assessment Variance Account
- Infrastructure Investment, Green Energy Initiatives and Preliminary Planning Deferral Account
- Property Taxes and Use and Occupation Fee Variance Account
- IFRS Transition Deferral Account

In its application, GLPT further requested an accounting order to establish a deferral account to record revenue requirement deficiencies incurred from January 1, 2010 until GLPT's proposed 2010 rates are implemented. This is discussed in section 5.2 of this Settlement Agreement.

The Parties agree that GLPT should not establish the proposed Pension Cost Variance Account.

On March 25, 2010, in EB-2009-0409, the Board issued its Decision and Order authorizing GLPT to establish a "Renewable Energy Deferral Account" with sub-accounts to record capital expenditures as well as OM&A expenses related to renewable generation connection, system planning, and infrastructure investment arising from the *Green Energy and Green Economy Act, 2009*.

With respect to the remaining accounts that have been requested, for the purpose of obtaining a complete settlement of all issues but one, the Parties agree that the Board should authorize GLPT to establish and record costs in these proposed new accounts as described in the evidence filed by GLPT in support of these requests.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 9-1-1 | Deferral and Variance Accounts - Overview |
| 9-2-1 | Proposed Deferral and variance Accounts and Request for Direction |

10-1-1-199 Board Staff IR #103 - New Deferral Accounts

## 6.3 Disbursal of Existing Variance and Deferral Accounts

**Complete Settlement**: There is an agreement to settle this issue as follows:

In its application, GLPT proposed to disburse the aggregate balance of the existing deferral and variance accounts over a three-year period, with the appropriate interest. The aggregate balance to which this applies (exclusive of the additional amount in Account 1505 of $3,063,900, described below) is $2,962,700. GLPT further proposes to partially offset or add to this amount so as to recover its revenue deficiency, or credit its revenue sufficiency, for the period between January 1, 2010 and the date that the revised Uniform Transmission Rates reflecting GLPT's new revenue requirement are implemented, as discussed in section 5.3 of this Settlement Agreement.

GLPT proposes that, in each of the three years following the implementation date, GLPT will reduce its revenue required from Uniform Transmission Rates by one third of the aggregate balance net of GLPT's revenue deficiency of sufficiency as discussed above.

In addition, as discussed in section 6.1 of this Settlement Agreement, the Parties agree that GLPT will credit to ratepayers an amount of $3,063,900 under Account 1505, This will be disbursed to ratepayers over a period of five years with appropriate interest.

The Parties agree that GLPT's proposed methodology for disbursing the balances of existing variance and deferral accounts, as herein described, is appropriate and should be accepted and approved by the Board.

***Approval:***

| | |
|---|---|
| Parties in Support: | Energy Probe, SEC, VECC |
| Parties Taking No Position: | N/A |

***Evidence:*** The evidence in relation to this issue includes the following:

| | |
|---|---|
| 9-1-1 | Deferral and Variance Accounts - Overview |
| 9-3-1 | Disbursal of Existing Deferral and Variance Accounts |
| 10-1-1-198 | Board Staff IR #102 - Disposition of Deferral and Variance Accounts |
| 10-1-1-202 | Board Staff IR #105 - Rate Rider Determinations |
| 10-1-1-203 | Board Staff IR #106 - Disposition of Account 1572 |

# APPENDIX 'A'

# ISSUES LIST

**ISSUES LIST**

1. Calculation of Rate Base for the Test Year
   - (a) Capital Expenditures 2010
   - (b) Capital Expenditures 2009
   - (c) Capital Expenditures 2008
   - (d) Capital Expenditures 2007
   - (e) Working Cash Allowance
2. Cost of Capital For the Test Years
   - (a) Cost of Debt
   - (b) Cost of Equity
   - (c) Capital Structure
3. Cost of Service For the Test Years
   - (a) Operations, Maintenance & Administration
   - (b) Depreciation and Amortization
   - (c) Capital, Property and Income Taxes
4. Revenues and Charge Determinant Forecast
   - (a) Revenues and Charge Determinant Forecast
5. Rate Recovery of Revenue Requirement
   - (a) Rate Implementation Date
   - (b) Cost Allocation
   - (c) Revenue Deficiency Deferral Account
6. Variance and Deferral Accounts
   - (a) Existing Variance and Deferral Accounts
   - (b) New Variance and Deferral Accounts
   - (c) Disbursal of Existing Variance and Deferral Accounts

# APPENDIX 'B'

# REVENUE REQUIREMENT WORK FORM - REVISED TO REFLECT SETTLEMENT AGREEMENT

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP (1)

File Number: EB-2009-0408

Rate Year: 2010 *Version:* *1.0*

## Table of Content



**Notes:**
**(1)** Pale green cells represent inputs
**(2)** ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

**Data Input** (1)

| | | Application | | Adjustments | Per Board Decision | |
|---|---|---|---|---|---|---|
| 1 | **Rate Base** | | | | | |
| | Gross Fixed Assets (average) | $285,382,423 | (4) | $ - | $285,382,423 | |
| | Accumulated Depreciation (average) | ($76,784,441) | (5) | $ - | ($76,784,441) | |
| | Allowance for Working Capital: | | | | | |
| | Controllable Expenses | $11,105,600 | (6) | ($2,105,600) | $9,000,000 | |
| | Cost of Power | $ - | | $ - | $0 | |
| | Working Capital Rate (%) | 3.61% | | | 4.46% | |
| 2 | **Utility Income** | | | | | |
| | Operating Revenues: | | | | | |
| | Distribution Revenue at Current Rates | $34,696,200 | | | $34,785,000 | |
| | Distribution Revenue at Proposed Rates | $38,907,826 | | | $35,141,618 | |
| | Other Revenue: | | | | | |
| | Specific Service Charges | $ - | | | $ - | |
| | Late Payment Charges | $ - | | | $ - | |
| | Other Distribution Revenue | $ - | | | $ - | |
| | Other Income and Deductions | $7,200 | | | $7,200 | |
| | Operating Expenses: | | | | | |
| | OM+A Expenses | $11,105,600 | | ($2,105,600) | $9,000,000 | |
| | Depreciation/Amortization | $7,406,900 | | $ - | $7,406,900 | |
| | Property taxes | $258,200 | | $ - | $258,200 | |
| | Capital taxes | $145,500 | | | $145,500 | |
| | Other expenses | $ - | | $ - | $0 | |
| 3 | **Taxes/PILs** | | | | | |
| | Taxable Income: | | | | | |
| | Adjustments required to arrive at taxable income | ($2,957,500) | (3) | | ($4,899,016) | (6) |
| | Utility Income Taxes and Rates: | | | | | |
| | Income taxes (not grossed up) | $1,954,981 | | | $1,193,566 | |
| | Income taxes (grossed up) | $2,833,305 | | | $1,729,806 | |
| | Capital Taxes | $145,500 | | | $145,500 | |
| | Federal tax (%) | 18.00% | | | 18.00% | |
| | Provincial tax (%) | 13.00% | | | 13.00% | |
| | Income Tax Credits | $ - | | | $ - | |
| 4 | **Capitalization/Cost of Capital** | | | | | |
| | Capital Structure: | | | | | |
| | Long-term debt Capitalization Ratio (%) | 55.0% | | | 53.5% | |
| | Short-term debt Capitalization Ratio (%) | 0.0% | (2) | | 4.0% | (2) |
| | Common Equity Capitalization Ratio (%) | 45.0% | | | 42.5% | |
| | Prefered Shares Capitalization Ratio (%) | 0.0% | | | 0.0% | |
| | Cost of Capital | | | | | |
| | Long-term debt Cost Rate (%) | 6.87% | | | 6.87% | |
| | Short-term debt Cost Rate (%) | 2.07% | | | 2.07% | |
| | Common Equity Cost Rate (%) | 9.85% | | | 9.85% | |
| | Prefered Shares Cost Rate (%) | 0.00% | | | 0.00% | |

**Notes:**

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

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)
(2) 4.0% unless an Applicant has proposed or been approved for another amount.
(3) Net of addbacks and deductions to arrive at taxable income.
(4) Average of Gross Fixed Assets at beginning and end of the Test Year
(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
(6) Updated CCA is $11,667,316 instead of $9,725,800, an increase of $1,941,516 in CCA deduction available

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Rate Base

| Line No. | Particulars | | Application | Adjustments | Per Board Decision |
|---|---|---|---|---|---|
| 1 | Gross Fixed Assets (average) | (3) | $285,382,423 | $ - | $285,382,423 |
| 2 | Accumulated Depreciation (average) | (3) | ($76,784,441) | $ - | ($76,784,441) |
| 3 | Net Fixed Assets (average) | (3) | $208,597,982 | $ - | $208,597,982 |
| 4 | Allowance for Working Capital | (1) | $401,200 | $ - | $401,200 |
| 5 | **Total Rate Base** | | $208,999,182 | $ - | $208,999,182 |

| | (1) Allowance for Working Capital - Derivation | | | | |
|---|---|---|---|---|---|
| 6 | Controllable Expenses | | $11,105,600 | ($2,105,600) | $9,000,000 |
| 7 | Cost of Power | | $ - | $ - | $ - |
| 8 | Working Capital Base | | $11,105,600 | ($2,105,600) | $9,000,000 |
| 9 | Working Capital Rate % | (2) | 3.61% | | 4.46% |
| 10 | Working Capital Allowance | | $401,200 | $ - | $401,200 |

**Notes**

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

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Utility Income

| Line No. | Particulars | | Application | Adjustments | Per Board Decision |
|---|---|---|---|---|---|
| | **Operating Revenues:** | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | | $38,907,826 | ($3,766,208) | $35,141,618 |
| 2 | Other Revenue | (1) | $7,200 | $ - | $7,200 |
| 3 | Total Operating Revenues | | $38,915,026 | ($3,766,208) | $35,148,818 |
| | **Operating Expenses:** | | | | |
| 4 | OM+A Expenses | | $11,105,600 | ($2,105,600) | $9,000,000 |
| 5 | Depreciation/Amortization | | $7,406,900 | $ - | $7,406,900 |
| 6 | Property taxes | | $258,200 | $ - | $258,200 |
| 7 | Capital taxes | | $145,500 | $ - | $145,500 |
| 8 | Other expense | | $ - | $ - | $ - |
| 9 | Subtotal | | $18,916,200 | ($2,105,600) | $16,810,600 |
| 10 | Deemed Interest Expense | | $7,901,632 | ($42,448) | $7,859,184 |
| 11 | Total Expenses (lines 4 to 10) | | $26,817,832 | ($2,148,048) | $24,669,784 |
| 12 | **Utility income before income taxes** | | $12,097,194 | ($1,618,160) | $10,479,034 |
| 13 | Income taxes (grossed-up) | | $2,833,305 | ($1,103,500) | $1,729,806 |
| 14 | **Utility net income** | | $9,263,889 | ($514,660) | $8,749,228 |

**Notes**

(1)

| **Other Revenues / Revenue Offsets** | | |
|---|---|---|
| Specific Service Charges | $ - | $ - |
| Late Payment Charges | $ - | $ - |
| Other Distribution Revenue | $ - | $ - |
| Other Income and Deductions | $7,200 | $7,200 |
| Total Revenue Offsets | $7,200 | $7,200 |

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Taxes/PILs

| Line No. | Particulars | Application | Per Board Decision |
|---|---|---|---|
| | **Determination of Taxable Income** | | |
| 1 | Utility net income | $9,263,889 | $8,749,228 |
| 2 | Adjustments required to arrive at taxable utility income | ($2,957,500) | ($4,899,016) |
| 3 | Taxable income | $6,306,389 | $3,850,212 |
| | **Calculation of Utility income Taxes** | | |
| 4 | Income taxes | $1,954,981 | $1,193,566 |
| 5 | Capital taxes | $145,500 | $145,500 |
| 6 | Total taxes | $2,100,481 | $1,339,066 |
| 7 | Gross-up of Income Taxes | $878,325 | $536,240 |
| 8 | Grossed-up Income Taxes | $2,833,305 | $1,729,806 |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | $2,978,805 | $1,875,306 |
| 10 | Other tax Credits | $ - | $ - |
| | **Tax Rates** | | |
| 11 | Federal tax (%) | 18.00% | 18.00% |
| 12 | Provincial tax (%) | 13.00% | 13.00% |
| 13 | Total tax rate (%) | 31.00% | 31.00% |

**Notes**

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio (%) | Capitalization Ratio ($) | Cost Rate (%) | Return ($) |
|---|---|---|---|---|---|
| | **Application** | | | | |
| | **Debt** | | | | |
| 1 | Long-term Debt | 55.00% | $114,949,550 | 6.87% | $7,901,632 |
| 2 | Short-term Debt | 0.00% | $ - | 2.07% | $ - |
| 3 | **Total Debt** | 55.00% | $114,949,550 | 6.87% | $7,901,632 |
| | **Equity** | | | | |
| 4 | Common Equity | 45.00% | $94,049,632 | 9.85% | $9,263,889 |
| 5 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 6 | **Total Equity** | 45.00% | $94,049,632 | 9.85% | $9,263,889 |
| 7 | **Total** | 100% | $208,999,182 | 8.21% | $17,165,521 |
| | **Per Board Decision** | | | | |
| | **Debt** | | | | |
| 8 | Long-term Debt | 53.50% | $111,814,562 | 6.87% | $7,686,133 |
| 9 | Short-term Debt | 4.00% | $8,359,967 | 2.07% | $173,051 |
| 10 | **Total Debt** | 57.50% | $120,174,530 | 6.54% | $7,859,184 |
| | **Equity** | | | | |
| 11 | Common Equity | 42.5% | $88,824,652 | 9.85% | $8,749,228 |
| 12 | Preferred Shares | 0.0% | $ - | 0.00% | $ - |
| 13 | **Total Equity** | 42.5% | $88,824,652 | 9.85% | $8,749,228 |
| 14 | **Total** | 100% | $208,999,182 | 7.95% | $16,608,413 |

**Notes**

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

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Revenue Sufficiency/Deficiency

| Line No. | Particulars | Per Application: At Current Approved Rates | Per Application: At Proposed Rates | Per Board Decision: At Current Approved Rates | Per Board Decision: At Proposed Rates |
|---|---|---|---|---|---|
| 1 | Revenue Deficiency from Below | | $4,211,626 | | $356,618 |
| 2 | Distribution Revenue | $34,696,200 | $34,696,200 | $34,785,000 | $34,785,000 |
| 3 | Other Operating Revenue Offsets - net | $7,200 | $7,200 | $7,200 | $7,200 |
| 4 | **Total Revenue** | $34,703,400 | $38,915,026 | $34,792,200 | $35,148,818 |
| 5 | Operating Expenses | $18,916,200 | $18,916,200 | $16,810,600 | $16,810,600 |
| 6 | Deemed Interest Expense | $7,901,632 | $7,901,632 | $7,859,184 | $7,859,184 |
| | **Total Cost and Expenses** | $26,817,832 | $26,817,832 | $24,669,784 | $24,669,784 |
| 7 | **Utility Income Before Income Taxes** | $7,885,568 | $12,097,194 | $10,122,416 | $10,479,034 |
| 8 | Tax Adjustments to Accounting Income per 2009 PILs | ($2,957,500) | ($2,957,500) | ($4,899,016) | ($4,899,016) |
| 9 | **Taxable Income** | $4,928,068 | $9,139,694 | $5,223,400 | $5,580,018 |
| 10 | Income Tax Rate | 31.00% | 31.00% | 31.00% | 31.00% |
| 11 | **Income Tax on Taxable Income** | $1,527,701 | $2,833,305 | $1,619,254 | $1,729,806 |
| 12 | **Income Tax Credits** | $ - | $ - | $ - | $ - |
| 13 | **Utility Net Income** | $6,357,867 | $9,263,889 | $8,503,162 | $8,749,228 |
| 14 | **Utility Rate Base** | $208,999,182 | $208,999,182 | $208,999,182 | $208,999,182 |
| | Deemed Equity Portion of Rate Base | $94,049,632 | $94,049,632 | $88,824,652 | $88,824,652 |
| 15 | Income/Equity Rate Base (%) | 6.76% | 9.85% | 9.57% | 9.85% |
| 16 | Target Return - Equity on Rate Base | 9.85% | 9.85% | 9.85% | 9.85% |
| | Sufficiency/Deficiency in Return on Equity | -3.09% | 0.00% | -0.28% | 0.00% |
| 17 | Indicated Rate of Return | 6.82% | 8.21% | 7.83% | 7.95% |
| 18 | Requested Rate of Return on Rate Base | 8.21% | 8.21% | 7.95% | 7.95% |
| 19 | Sufficiency/Deficiency in Rate of Return | -1.39% | 0.00% | -0.12% | 0.00% |
| 20 | Target Return on Equity | $9,263,889 | $9,263,889 | $8,749,228 | $8,749,228 |
| 21 | Revenue Sufficiency/Deficiency | $2,906,022 | $ - | $246,066 | $ - |
| 22 | **Gross Revenue Sufficiency/Deficiency** | $4,211,626 (1) | | $356,618 (1) | |

**Notes:**

(1) Revenue Sufficiency/Deficiency divided by (1 - Tax Rate)
The deficiency reflected in the table above does not reflect collection or repayment of any regulatory assets or liabilities

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

## Revenue Requirement

| Line No. | Particulars | Application | Per Board Decision |
|---|---|---|---|
| 1 | OM&A Expenses | $11,105,600 | $9,000,000 |
| 2 | Amortization/Depreciation | $7,406,900 | $7,406,900 |
| 3 | Property Taxes | $258,200 | $258,200 |
| 4 | Capital Taxes | $145,500 | $145,500 |
| 5 | Income Taxes (Grossed up) | $2,833,305 | $1,729,806 |
| 6 | Other Expenses | $ - | $ - |
| 7 | Return | | |
| | Deemed Interest Expense | $7,901,632 | $7,859,184 |
| | Return on Deemed Equity | $9,263,889 | $8,749,228 |
| 8 | Distribution Revenue Requirement before Revenues | $38,915,026 | $35,148,818 |
| 9 | Distribution revenue | $38,907,826 | $35,141,618 |
| 10 | Other revenue | $7,200 | $7,200 |
| 11 | **Total revenue** | $38,915,026 | $35,148,818 |
| 12 | **Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)** | $ - (1) | $ - (1) |

**Notes**

(1) Line 11 - Line 8

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number: EB-2009-0408
Rate Year: 2010

| | | Selected Delivery Charge and Bill Impacts Per Draft Rate Order | | | | | Total Bill | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Monthly Delivery Charge | | | | | Total Bill | | | |
| | | | Per Draft | Change | | | | Per Draft | Change | |
| | | Current | Rate Order | $ | % | | Current | Rate Order | $ | % |
| **Residential** | **800 kWh/month** | | | $ - | | | | | $ - | |
| **GS < 50kW** | 2000 kWh/month | | | $ - | | | | | $ - | |

**Notes:**

# APPENDIX "B"

## August 31, 2010 Decision and Order of the Board in EB-2009-0408

**Ontario Energy Board**

**Commission de l'énergie de l'Ontario**

Ontario

**EB-2009-0408**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O.1998, c.15, (Schedule B);

**AND IN THE MATTER OF** an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP seeking changes to the uniform provincial transmission rates for 2010.

**BEFORE**: Cynthia Chaplin
Vice Chair and Presiding Member

Ken Quesnelle
Member

## DECISION AND ORDER

### THE APPLICATION AND PROCEEDING

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP ("GLPT" or the "Applicant") filed an Application with the Ontario Energy Board (the "Board") on November 30, 2009 under section 78 of the *Ontario Energy Board Act, 1998*, 1998 S.O. c.15, (Schedule B). GLPT sought approval for changes to the Uniform Transmission Rates (UTR) that GLPT and other transmitters charge for electricity transmission, to be effective January 1, 2010. The Board assigned Board file number EB-2009-0408 to the Rate Application.

GLPT also filed an application with the Board on November 27, 2009 requesting that a deferral account be granted for the purposes of recording capital expenditures as well as operation, maintenance and administration expenses related to renewable generation connection, system planning, and infrastructure investment arising from the *Green Energy and Green Economy Act , 2009* (the “Deferral Account Application”). The Board assigned Board file number EB-2009-0409 to the Deferral Account Application.

The Board issued a Notice of Applications and Combined Hearing dated December 31, 2009 for both applications. A decision on the Deferral Account Application was issued on March 25, 2010.

On January 29, 2010 the Board issued Procedural Order No. 1 and Interim Rate Decision, which included a schedule for procedural steps for the rate application (the “Procedural Schedule”) and determined that the current Uniform Transmission Rates as they relate to GLPT would be made interim as of January 1, 2010. The Board’s approval of the settlement agreement filed in this proceeding renders the new rates effective January 1, 2010.

The details covering the procedural steps leading to the conclusion of this proceeding is found in the May 21, 2010 Board Decision and Order accepting the Proposed Settlement Agreement and the July 21, 2010 Decision with Reasons dealing with the Tax Allowance Issue.

## IMPLEMENTATION

In the July 21, 2010 Decision, the Board noted that GLPT has a balance of approximately $2.5 million owing to ratepayers in account 1574, Deferred Rate Impact Amounts Account ("DRIAA"). The Board suggested that GLPT could use this account to fully offset the increase to its revenue requirement for 2010 resulting from this Decision, without necessitating changes to existing UTRs.

The Board concluded by directing GLPT to file its implementation proposal with the Board and all intervenors. The Board also directed that if GLPT cannot file an implementation proposal, it shall file a draft rate order including the Ontario Transmission Rate Schedules and Revenue Allocators and file a separate exhibit showing clearly the calculation of the uniform transmission rates and revenue allocators.

**GLPT's Implementation Proposal**

On July 30, 2010 GLPT filed its Implementation Proposal, attached as Appendix A to this Order, which would reflect the terms of the approved Settlement Agreement while avoiding the need for immediate changes to existing UTRs.

The proposed approach addresses the Board's preference to postpone changes to the existing Uniform Transmission Rates ("UTRs") until there is an opportunity to align GLPT's approved revenue requirement and charge determinants with the implementation of changes to the UTRs necessitated by revenue requirement changes for other Ontario transmitters.

GLPT's proposal outlines the accounting steps to cover two periods:

- the period from the Board approved effective date of January 1, 2010 for the recovery of GLPT's 2010 revenue requirement until the date that GLPT's approved 2010 revenue requirement is implemented through changes to UTRs (which date has yet to be determined) (the" Pre-Change Period");
- the period following the implementation of GLPT's approved 2010 revenue requirement through changes to UTRs, which date has yet to be determined (the "Post-Change Period"),

GLPT's proposal for Pre-Change Period is that it will "record an increase in its monthly revenue that is in proportion to the annual increase from the current Board approved revenue requirement to the 2010 Board approved revenue requirement." The proposed methodology is based on a 2% increase in revenue requirement from the level currently in place of $34,785,422 (EB-2005-0241) to the approved 2010 revenue requirement of $35,141,618 (EB-2009-0408).

GLPT's proposal also outlines the entries in Account 1574 for the two periods – Pre-Change Period (prior to UTR changes), and Post -Change Period (post UTR changes). The first entry would take place in the month that GLPT receives the final Board Order approving the proposed methodology, and will represent a catch-up for all months between January 1, 2010 and the noted month.

GLPT also included the steps it would take to implement Section 6.3 of the Settlement Agreement, with reference to Section 6.1 and the entry steps for Account 1505 to reflect the credit to ratepayers of $3,063,900 relating to the 1996 asset revaluation.

Board staff and VECC filed submissions supporting GLPT's proposals.

Board staff supported GLPT's proposal indicating that for a small transmitter such as GLPT, carrying out more detailed calculations to reflect the change in revenue as well as change in load forecast would not result in discernable increase in accuracy.

VECC provided its acceptance of GLPT's proposals for both the Pre-Change Period, and for the Post-Change Period, following an analysis to explore whether or not GLPT's forecast 2010 operating revenue at existing rates significantly exceeded GLPT's annual revenue requirement embedded in the exiting UTRs.

GLPT filed a letter on August 11, 2011 indicating that it had reviewed the Submissions by Board staff and VECC and would not be making reply submissions.

The Board is satisfied that GLPT's proposal is appropriate, and accepts the proposed tracking of the monthly incremental revenue in Account 1574 for the Pre-Change Period.  The Board also accepts that the first entry in Account 1574 will occur in August 2010, and will represent a catch-up for all months between January 1, 2010 and this Month of August, 2010.

## COST CLAIMS

In the July 21 Decision with Reasons, the Board indicated that VECC, Energy Probe, and SEC are eligible to seek an award of costs, and did set out the process for the parties to file their cost claims, for GLPT to file any objections to any of the cost claims, and for any party to respond whose claim the objection is made.

The Board received cost claims from the VECC, Energy Probe, and SEC. No comments or objections were received from GLPT.

**Board Findings**

The Board reviewed the cost claims received from VECC, Energy Probe, and SEC and has found that all parties are eligible for 100% of their reasonably incurred costs of participating in this proceeding. The Board finds that the cost claims of VECC, Energy Probe, and SEC are reasonable and GLPT shall reimburse all parties for their costs.

**THE BOARD THEREFORE ORDERS THAT:**

1. The uniform transmission rate (UTR) for the province of Ontario will not be adjusted at this time. Great Lakes Power Transmission LP will make the accounting entries in Account 1574 as prescribed in the Implementation Proposal filed on July 30, 2010, and attached as Appendix A to this Order.

2. Pursuant to section 30 of the Ontario Energy Board Act, 1998, Great Lakes Power Transmission LP shall immediately pay:

   - Vulnerable Energy Consumers Coalition $22,296.53;
   - School Energy Coalition $55,110.00; and
   - Energy Probe Research Foundation $12,239.94.

3. Pursuant to section 30 of the Ontario Energy Board Act, 1998, GLPT shall pay the Board's costs of and incidental to, this proceeding immediately upon receipt of the Board's invoice.

**DATED** at Toronto on August 31, 2010
**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli
Board Secretary

**APPENDIX A**
**TO**
**DECISION AND ORDER**
**AUGUST 31, 2010**

**IMPLEMENTATION PROPOSAL**
**GREAT LAKES POWER TRANSMISSION INC.**
**ON BEHALF OF**
**GREAT LAKES POWER TRANSMISSION LP**
**FILED JULY 30, 2010**
**EB-2009-0408**

TORYS LLP

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Tel 416.865.0040
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July 30, 2010

**RESS, COURIER & EMAIL**

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

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

**Re: Great Lakes Power Transmission LP - Application for 2010 Rates (EB-2009-0408) - Implementation Proposal**

We are counsel to the applicant, Great Lakes Power Transmission LP ("GLPT") in the above-referenced proceeding. The Ontario Energy Board (the "Board") issued its Decision With Reasons in this proceeding on July 21, 2010. In its Decision, the Board directed GLPT to file an implementation proposal with the Board and all intervenors within 10 calendar days. Accordingly, on behalf of GLPT, please find the attached implementation proposal.

Yours truly,

Charles Keizer

Tel 416.865.7512
Fax 416.865.7380
ckeizer@torys.com

cc: N. Mikhail, Board Staff
Intervenors
A. McPhee, GLPT
D. Fecteau, GLPT
M. Zajdeman, GLPT
J. Myers, Torys LLP

# ONTARIO ENERGY BOARD

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Sched. B)

**AND IN THE MATTER OF** an application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2010 transmission rates and related matters.

**EB-2009-0408**

# IMPLEMENTATION PROPOSAL

**Great Lakes Power Transmission Inc.**

**on behalf of Great Lakes Power Transmission LP**

July 30, 2010

**Introduction**

In its July 21, 2010 Decision and Order (the "Board Decision"), the Board directed Great Lakes Power Transmission LP ("GLPT") to file a proposal for the implementation of the recovery of GLPT's revenue requirement established by the Board Decision. In doing so, the Board noted its preference for minimizing, where appropriate, the number of changes to Uniform Transmission Rates ("UTRs") and encouraged the creation of an implementation proposal that did not necessitate changes to the existing UTRs. The Board commented on the possibility of GLPT using the balance in GLPT's Account 1574, Deferred Rate Impact Amounts Account ("DRIAA") to offset the increase to its 2010 revenue requirement arising from the Board Decision. If possible, this would remove the need to change existing UTRs, until there is an opportunity to more appropriately align GLPT's approved revenue requirement and charge determinants with the implementation of changes to the UTR necessitated by revenue requirement changes for other Ontario transmitters. GLPT respects the Board's preference for minimizing the number of changes to UTRs and offers the following implementation proposal that, if accepted, would reflect the terms of the approved Settlement Agreement and Board Decision while avoiding the need for immediate changes to existing UTRs.

**Period Prior to UTR Changes**

In respect of the period from the Board approved effective date of January 1, 2010 for the recovery of GLPT's 2010 revenue requirement until the date that GLPT's approved 2010 revenue requirement is implemented through changes to UTRs (which date has yet to be determined) (the " **Pre-Change Period**"), GLPT proposes as follows.

For each month during the Pre-Change Period, GLPT will record an increase in its monthly revenue that is in proportion to the annual increase from the current Board approved revenue requirement to the 2010 Board approved revenue requirement. In particular, as described below, the incremental monthly revenue amount arising from the revenue requirement increase would be calculated by multiplying the revenue received from the IESO under current rates by an increment that is equal to the percentage increase from GLPT's current revenue requirement (arising from EB-2005-0241) to GLPT's approved 2010 revenue requirement (arising from EB-2009-0408), i.e. the annual deficiency experienced under current rates.

GLPT believes that this method will determine monthly revenues that are consistent with the revenues that GLPT would receive if the UTRs were updated to incorporate GLPT's Board approved 2010 revenue requirement as of the effective date of January 1, 2010. All volume variance exposure will remain with GLPT. Below is an illustrative example in which it is assumed for simplicity and to eliminate the effect of volume variance, that GLPT receives the revenue to recover its revenue requirement in 12 equal monthly installments. Depending on volumetric changes, the monthly revenue could deviate from the average. However, the monthly revenue would be subject to the proportionate increment, such that the sum of the increased monthly revenue over the 12 month period commencing January 1, 2010 may be above or below the approved 2010 revenue requirement depending on the volumetric variance. The application of this methodology and the accounting treatment for a representative month (March 2010) is set out at Appendix "A" attached hereto.

| | | |
|---|---|---|
| Current Approved Revenue Requirement[1] | [A] | $34,785,422 |
| Revenue Requirement Effective Jan 1, 2010[2] | [B] | $35,141,618 |
| Annual Revenue Requirement Increase | [C] = [B] - [A] | $356,196 |
| **Percentage Increase in Revenue** | **[D] = [C] / [A]** | **1.02%** |

| | | |
|---|---|---|
| ***Hypothetical Scenario:*** | | |
| Current Average Monthly Revenue | [E] = [A] / 12 | $2,898,785 |
| Proportional Increase @ 1.02% | [F] = [D] * [E] | $29,683 |
| Average Monthly Revenue with Proportional Increase | [G] = [E] + [F] | $2,928,468 |
| **Total Annual Revenue** | **[G] * 12 = [B]** | **$35,141,618** |

Consistent with the suggestion made by the Board, GLPT will record the monthly incremental revenue in Account 1574. The amounts recorded will partially offset the balance that currently exists in that account and, therefore, partially offsetting the aggregate balance of all existing deferral and variance accounts owing to ratepayers.

The first entry to be made in Account 1574 will occur in the month that GLPT receives the final Board Order approving this methodology. This entry will represent a catch-up for all months between January 1, 2010 and the current month. For each month after the Board Order is received, the accrual will be recorded for the current month only.

**Post UTR Changes**

In respect of the period following the implementation of GLPT's approved 2010 revenue requirement through changes to UTRs, which date has yet to be determined (the "**Post-Change Period**"), GLPT proposes that it will cease recording the monthly incremental revenue amounts

---

[1] Arising from the Board's approval of the Settlement Agreement in EB-2005-0241 on September 15, 2005.

[2] GLPT's approved 2010 revenue requirement is $35,148,818. Of this amount, $7,200 will be received from non-IESO sources, resulting in $35,141,618 being required from the IESO.

in Account 1574. Consistent with Section 6.3 of the Settlement Agreement dated May 17, 2010 and accepted by the Board on May 21, 2010, GLPT will disburse the aggregate balance of the existing deferral and variance accounts over a three-year period, with the appropriate interest. The aggregate balance of $2,962,700[3] (to the credit of ratepayers) will be partially offset by the recording of monthly incremental revenues in Account 1574 in the manner described above. Upon the implementation of a future rate order for the UTR, in each of the first three years of the Post-Change Period, GLPT will reduce its annual revenue required from the UTRs by one third of the net of the balance of $2,962,700 and the offsetting amounts described above. GLPT will track any over- and under-recoveries such that any outstanding balance can be cleared through a future rate application.

In addition, consistent with Section 6.3 of the Settlement Agreement and with reference to Section 6.1 of the Settlement Agreement, upon the implementation of a future rate order for the UTR, in each of the first five years of the Post-Change Period, GLPT will reduce its annual revenue required from the UTRs by one fifth of the amount of $3,063,900 being the balance of Account 1505. "Appropriate interest" will be applied to the outstanding balance, as stated in Section 6.3 of Settlement. GLPT will track any over- and under-recoveries such that any outstanding balance can be cleared through a future rate application.

**Conclusion**

Based on the forgoing GLPT believes that it will be able to recover the increase in revenue requirement arising from the Board Decision and Settlement Agreement and to account for

---

[3] This initial amount of $2,962,700 (to the credit of ratepayers) reflects the aggregate balance of all existing deferral and variance accounts as of December 31, 2009.

disbursal of various deferral accounts, while leaving the UTRs unchanged until the revenue requirement needs of a number of transmitters can be implemented at one time.

## Appendix "A"
## Accounting Entries to Recognize Revenues that would have been Collected Had the Rates Been Implemented January 1, 2010
## (Deferred Rate Impact Account - "DRIAA")

1. To record the difference between the approved monthly revenue requirement and the actual monthly revenue collected in rates

   Debit Account 1574, DRIA

   Credit Account 4110, Transmission Services Revenue

   For the purposes of this entry, the monthly DRIA shall be calculated as described above, and as follows:

   DRIA = approved monthly revenue requirement (revenue collected at current rates, plus proportional increase in revenue requirement) – monthly revenue collected at currently approved rates

   Using March 2010 as a sample month:

| | | |
|---|---|---|
| Current Approved Revenue Requirement[4] | [A] | $34,785,422 |
| Revenue Requirement Effective Jan 1, 2010[5] | [B] | $35,141,618 |
| Annual Revenue Requirement Increase | [C] = [B] - [A] | $356,196 |
| **Percentage Increase in Revenue** | **[D] = [C] / [A]** | **1.02%** |

| | | |
|---|---|---|
| Revenue Received from IESO for March 2010[6] | [E] | $2,691,400 |
| Approved Monthly Revenue Requirement | [F] = ([E]*[D]) + [E] | 2,718,852 |
| **Proportional Increase @ 1.02% (DRIA Entry)** | **[G] = [F] - [E]** | **$27,452** |

The accounts in this proposal are prescribed by the Board for use under the Accounting Procedures Handbook for Electric Distribution Utilities.

---

[4] Arising from the Board's approval of the Settlement Agreement in EB-2005-0241 on September 15, 2005.

[5] GLPT's approved 2010 revenue requirement is $35,148,818. Of this amount, $7,200 will be received from non-IESO sources, resulting in $35,141,618 being required from the IESO.

[6] Cash received from IESO on Thursday, April 22, 2010

Exhibit 1, Tab 1, Schedule 9

Compliance with Uniform System of Accounts

# COMPLIANCE WITH UNIFORM SYSTEM OF ACCOUNTS

GLPT is not aware of any non-compliance with the Uniform System of Accounts.

Exhibit 1, Tab 1, Schedule 10

Description of Utility Operations

# DESCRIPTION OF UTILITY OPERATIONS

GLPT's transmission system, which is shown on the system map provided in *Figure 1-2-1 A* of Exhibit 1, Tab 2, Schedule 1, Appendix "A" is located in northern Ontario and consists of the following:

- 318.25 circuit km of 230 kV line and associated equipment;
- 232.37 circuit km of 115 kV line and associated equipment; and
- 11 circuit km of 44 kV line and associated equipment which has been deemed by the Board as serving a transmission function under section 84 of the *Ontario Energy Board Act*.

A detailed description of GLPT's transmission system is set out at Exhibit 1, Tab 2, Schedule 1, Appendix "A".

Exhibit 1, Tab 1, Schedule 11

Neighbouring Utilities

## NEIGHBOURING UTILITIES

GLPT’s neighbouring utilities are:

- PUC Distribution Inc. (ED-2002-0546);
- Hydro One Networks Inc. (ED-2003-0043, ET-2003-0035); and
- Algoma Power Inc. (ED-2009-0072).

Exhibit 1, Tab 1, Schedule 12

Corporate and Utility Organization

# CORPORATE & UTILITY ORGANIZATION

## 1. Utility Organizational Structure

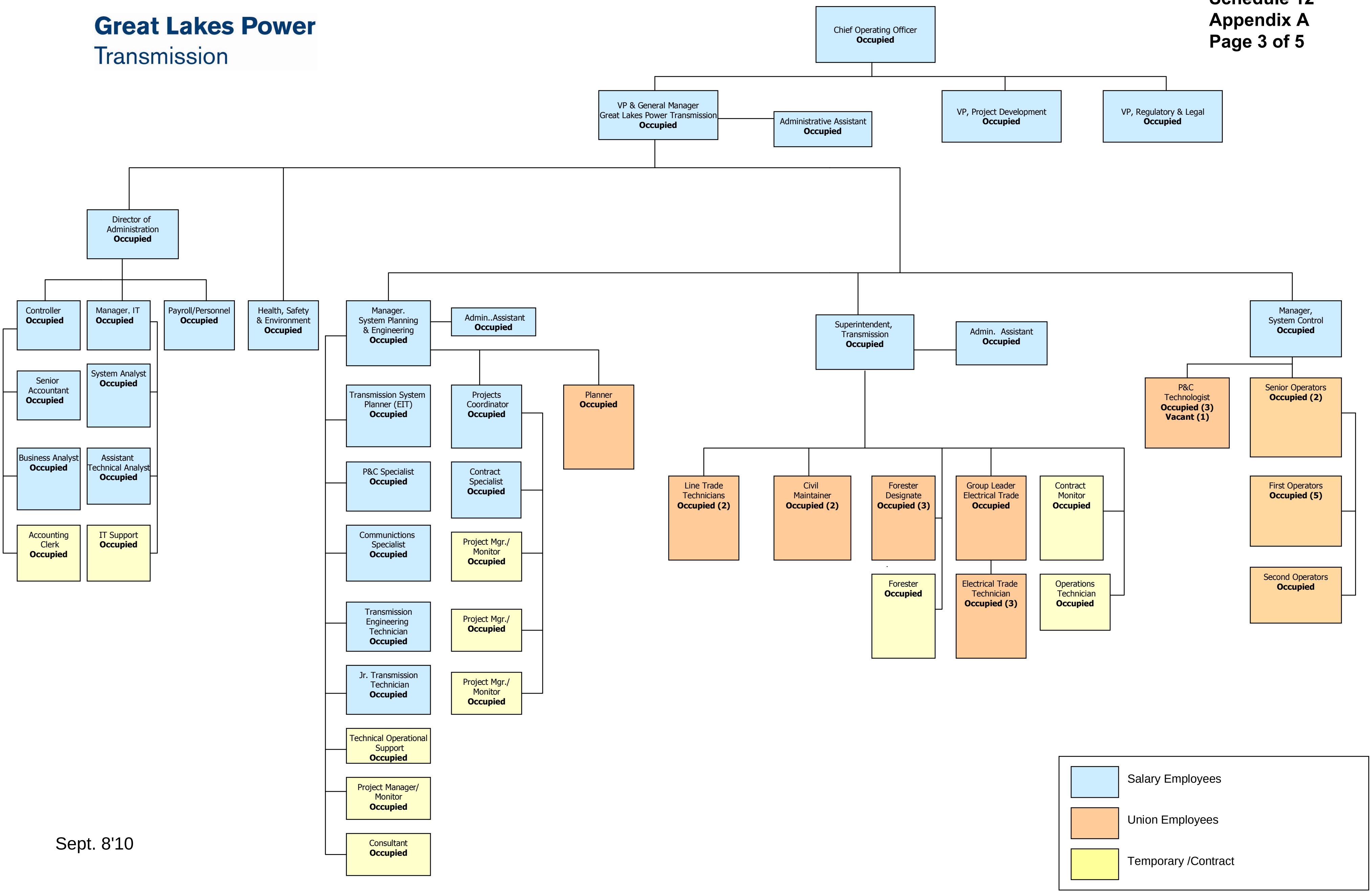
GLPT's current internal organizational structure is presented in **Appendix "A"**.

## 2. Corporate Entities Relationship Chart

A corporate entities relationship chart for GLPT is provided in **Appendix "B"**.

# APPENDIX "A"

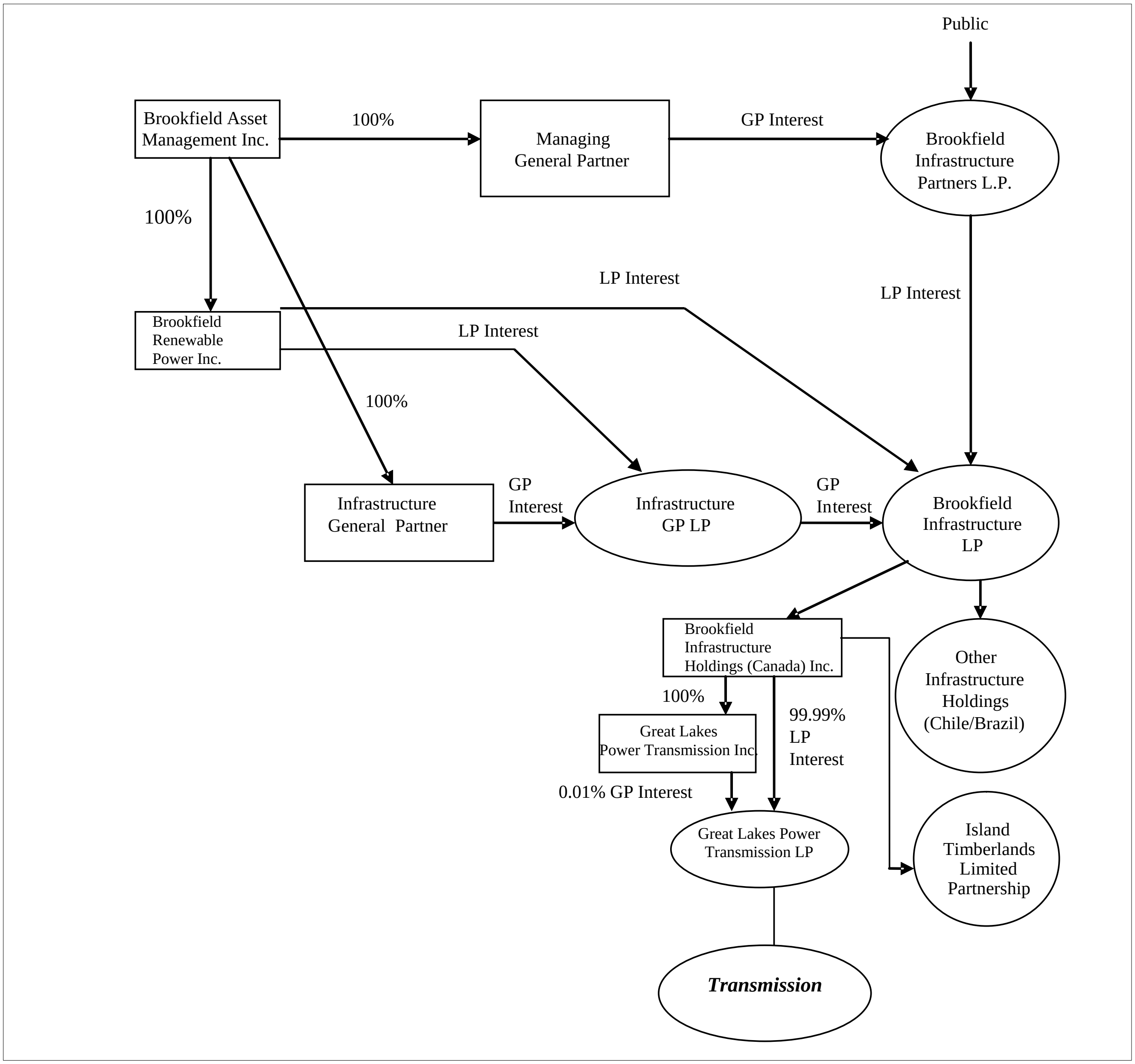
## GLPT ORGANIZATIONAL STRUCTURE


Great Lakes Power
Transmission
Chief Operating Officer Occupied
VP & General Manager Great Lakes Power Transmission Occupied
Administrative Assistant Occupied
VP, Project Development Occupied
VP, Regulatory & Legal Occupied
Director of Administration Occupied
Controller Occupied
Manager, IT Occupied
Payroll/Personnel Occupied
Health, Safety & Environment Occupied
Senior Accountant Occupied
System Analyst Occupied
Business Analyst Occupied
Assistant Technical Analyst Occupied
Accounting Clerk Occupied
IT Support Occupied
Manager. System Planning & Engineering Occupied
Admin..Assistant Occupied
Transmission System Planner (EIT) Occupied
Projects Coordinator Occupied
Planner Occupied
P&C Specialist Occupied
Contract Specialist Occupied
Communictions Specialist Occupied
Project Mgr./ Monitor Occupied
Transmission Engineering Technician Occupied
Project Mgr./ Occupied
Jr. Transmission Technician Occupied
Project Mgr./ Monitor Occupied
Technical Operational Support Occupied
Project Manager/ Monitor Occupied
Consultant Occupied
Superintendent, Transmission Occupied
Admin. Assistant Occupied
Line Trade Technicians Occupied (2)
Civil Maintainer Occupied (2)
Forester Designate Occupied (3)
Group Leader Electrical Trade Occupied
Contract Monitor Occupied
Forester Occupied
Electrical Trade Technician Occupied (3)
Operations Technician Occupied
Manager, System Control Occupied
P&C Technologist Occupied (3) Vacant (1)
Senior Operators Occupied (2)
First Operators Occupied (5)
Second Operators Occupied
Salary Employees
Union Employees
Temporary /Contract

Sept. 8'10

# APPENDIX "B"

## CORPORATE ENTITIES RELATIONSHIP CHART


Public
Brookfield Asset Management Inc.
100%
Managing General Partner
GP Interest
Brookfield Infrastructure Partners L.P.
100%
LP Interest
LP Interest
Brookfield Renewable Power Inc.
LP Interest
100%
Infrastructure General Partner
GP Interest
Infrastructure GP LP
GP Interest
Brookfield Infrastructure LP
Brookfield Infrastructure Holdings (Canada) Inc.
Other Infrastructure Holdings (Chile/Brazil)
100%
Great Lakes Power Transmission Inc.
99.99% LP Interest
0.01% GP Interest
Great Lakes Power Transmission LP
Island Timberlands Limited Partnership
Transmission

# Exhibit 1, Tab 1, Schedule 13

Status of Board Directives

## STATUS OF BOARD DIRECTIVES

At Exhibit 1, Tab 1, Schedule 8, GLPT has attached the Board's August 31, 2010 Decision and Order in EB-2009-0408 as **Appendix "B"**. This Decision and Order relates to the implementation of GLPT's revenue requirement, and the mechanism for recovery the deficiency experienced between the time its revenue requirement was effective (January 1, 2010) and the time it will be implemented (unknown).

The recovery of this deficiency is dealt with in Exhibit 9, Tab 1, Schedule 3 of this application, where USofA account 1574 is discussed.

Exhibit 1, Tab 1, Schedule 14

Witnesses & Witness CVs

# WITNESSES & WITNESS CVs

A list of witnesses and the curriculum vitae for those witnesses will be provided at such time as witness selection is completed.

Exhibit 1, Tab 2, Schedule 1

Summary of the Application

# SUMMARY OF THE APPLICATION

## 1.0 Introduction

This transmission rate application (the "Application"), filed by Great Lakes Power Transmission LP ("GLPT"), is based on 2011 and 2012 test years. For the 2011 test year, GLPT requests that the proposed rates become effective January 1, 2011. However, if in the event implementation is at a date later than January 1, 2011, GLPT requests that the existing transmission rates be made interim to permit the implementation of rates effective as of January 1, 2011. For the 2012 test year, GLPT requests that the rates proposed for 2012 become effective January 1, 2012.

Among other things, GLPT is applying for rates that will allow GLPT to recover its forecast 2011 and 2012 base revenue requirements in the amount of $36,416,900 and $38,337,500, respectively. The approval of GLPT's revenue requirement, less the balances of certain deferral and variance accounts payable to ratepayers in each test year, will result in a 0.04% and 0.15% change in the overall revenue requirement used in the calculation of Uniform Transmission Rates for each test year. The rate in the Network pool will remain the same in 2011, and will increase by $0.01 per kW from $2.97 per kW to $2.98 per kW in 2012. The rate in the Line Connection pool will remain the same at $0.73 per kW for both 2011 and 2012. The rate in the Transformation Connection pool will increase by $0.02 per kW from $1.71 per kW to $1.73 per kW in 2011 and remain at $1.73 per kW in 2012.[1] This change in the Uniform Transmission

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[1] Change arising partly to revenue requirement increase and partly to past acquisition of transformation equipment by large industrial customer.

Rate results in a 0.002% change to a typical residential customer's total bill, or approximately $0.00 per month for 2011 and a 0.008% change or $0.01 per month for 2012.

GLPT is a limited partnership duly registered in the Province of Ontario, the partners of which are Great Lakes Power Transmission Inc., as general partner, and Brookfield Infrastructure Holdings (Canada) Inc., as limited partner. GLPT is a licensed transmitter under licence number ET-2007-0649. A description of GLPT's transmission system and its significance to the IESO controlled grid, in particular the Ontario bulk power system, is set out at **Appendix "A"**.

In the summary that follows, GLPT has identified key aspects of the Application that the Board should be mindful of in its consideration of the Application. The summary also sets out a general overview of the Application.

## 2.0 Key Aspects

The first key aspect relates to the forecast OM&A expense for the 2011 and 2012 test years. The Board Approved Settlement Agreement in EB-2009-0408 created a unique circumstance for GLPT, as the agreement set in advance GLPT's OM&A changes for 2011 and 2012. In concluding a settlement, GLPT agreed that it would not seek OM&A increases in excess of 2.5% per year for each of 2011 and 2012.

GLPT adapted its budget process to work within the parameters set out in the Board Approved Settlement Agreement. In doing so, GLPT had to consider external factors such as the rate of CPI. In addition, GLPT had to take into account negotiated wage and benefit increases. Based on these drivers, GLPT reviewed its budget from a "top down" approach and considered those budget items that would be impacted by changes in CPI and wages and benefits. GLPT also considered changes to budgeted items that arose because of operational needs. Items for which there were no expected cost changes were also factored into the budget process.

GLPT's negotiated wages and benefits for 2011 and 2012 are 2.5%. In addition, in establishing its budgets for 2011 and 2012, GLPT assumed an inflation factor of 2.5%.

The result of the top down approach was a budgeted OM&A amount for 2011 and 2012 which increased by 2.5% in each year predominantly because of inflation and wages and benefits. For example, in excess of 95% of OM&A expenditures arise from third party contracts, materials and supplies and internal labour. These are either subject to CPI changes or negotiated wage increases.

To ensure the budgeted OM&A expenditures for the 2011 and 2012 test years would provide sufficient funding to allow for the continued safe and reliable operation of the transmission system, GLPT confirmed the budgeted OM&A expenditures for the 2011 and 2012 test years with front line managers via a bottom-up approach. GLPT used a bottom up approach that considers the needs and requirements of the organization in order to ensure sufficient funding to address those needs and requirements without sacrificing reliability or safety. This entailed a complete review of work plans and staffing requirements.

As a result of the forgoing, GLPT's OM&A expense increases by $225,000 in 2011 to $9,225,000 and increases by $230,625 in 2012 to $9,455,625.

The other key aspect relates to GLPT's Third Line Redevelopment Project. Third Line TS, located in Sault Ste. Marie, Ontario, is GLPT's largest station. The station has two sections, a 230 kV section and a 115 kV section. The Redevelopment Project relates only to the 115 kV section of Third Line TS. Third Line TS is part of the Ontario bulk power system and the IESO-controlled grid. If either of the 115 kV or the 230 kV sections of Third Line TS were to be degraded, destroyed, or otherwise made unavailable, this could adversely affect the reliability and operability of the Ontario bulk power system and thereby threaten the supply of power to numerous customers in the province. The station is also an important connection point that facilitates a parallel circuit with the Hydro One Networks Inc. ("HONI") transmission system, and thereby provides N-1 contingency for the Ontario bulk electricity system for this section of the East-West tie.

The Redevelopment Project, which carries an estimated cost that is in excess of 10% of GLPT's current rate base, is a very significant project for GLPT. In EB-2009-0408, GLPT sought approval from the Board for the need for all phases of the Redevelopment Project to be completed. As a result, the need for the Redevelopment Project was fully canvassed in evidence, including interrogatories and examination of witnesses. GLPT further sought the Board's approval for the addition of $1,230,000 into rate base in 2010, reflecting the portion of the project costs that are associated with elements of the Redevelopment Project that would go into service during 2010. That rate base addition was conditional upon the Board determining the need for all phases of the Redevelopment Project in that proceeding. In the Board Approved Settlement Agreement in that proceeding, GLPT's 2010 capital plan was approved as proposed.

As a result, GLPT is now seeking to bring the full costs of the project into rate base between 2011 and 2012. The project is to be completed by 2012, and is expected to result in rate base additions in each of 2010, 2011 and 2012 as follows:

*Table 1-2-1-A – Third Line TS 115 kV Redevelopment Project Costs*

| Year | Rate Base Addition ($) |
|---|---|
| 2010 | $1,230,000[2] |
| 2011 | $20,367,200 |
| 2012 | $2,102,800 |
| **Total** | **$23,700,000** |

GLPT's total capital expenditures in service in 2011 are forecasted to be approximately $26,393,700. Of this total, $20,367,200 relates to the Third Line Redevelopment project, leaving $6,026,500 for other capital expenditures in 2011. GLPT's total capital expenditures in service in 2012 are forecast to be approximately $8,969,400.

## 3.0 General Overview

The following is a general overview of the Application.

### 3.1 Rate Base

GLPT's rate base for 2011 has been forecast to be $217,297,000, being the total of the average of the forecast opening and closing net fixed assets ($216,675,900) and allowance for working

[2] Approved in EB-2009-0408

capital ($621,100). For 2012, GLPT has forecast rate base to be $226,120,500, being the total average of the forecast opening and closing net fixed assets ($225,606,700) and allowance for working capital ($513,800).

### 3.2 OM&A Expenses

An overview of OM&A expenses is provided in section 2.0 above.

### 3.3 Operating Revenue

GLPT is forecasting operating revenue of $35,141,600 for each of 2011 and 2012 based on existing rates. Any variances in operating revenue are driven primarily by variations in the provincial peak loads from year to year. GLPT's operating revenue forecast is set out at Exhibit 3, Tab 1, Schedule 1 and GLPT's charge determinant forecast is set out at Exhibit 8, Tab 1, Schedule 1 of this Application.

### 3.4 Cost of Capital

GLPT has adopted the capital structure and the methodology outlined in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (EB-2009-0084) and the applicable return on equity ("ROE") and short term interest rate provided in HONI's 2011/2012 Transmission rate application (EB-2010-0002). GLPT's deemed capital structure for rate making purposes is 60% debt and 40% common equity. The 60% debt component is comprised of 4% deemed short term debt and 56% long term debt.

GLPT's currently approved ROE is 9.85%[3]. GLPT's evidence reflects an ROE of 10.16% for the 2011 test year and 10.41% for the 2012 test year. These figures are consistent with HONI's proposed ROE figures for 2011 and 2012, which are based on the Board's formulaic approach in the Report of the Board (EB-2009-0084), using the Long Canada Bond Forecast for 2011 and 2012, based on the September Consensus Forecast and Bank of Canada data which was available in October 2009 and the change in the spread of A-rated Utility Bond Yield. Prior to implementing a 2011 or 2012 revenue requirement, GLPT will update the ROE for each test year with the Board-approved figure.

For GLPT the deemed short-term rate is 3.99% for 2011 using the November 2009 Global Insight Forecast plus a spread of 150 bps. The deemed short term rate is 5.00% for 2012 using the November 2009 Global Insight forecast plus a spread of 150 bps. GLPT's long term debt rate is calculated to be 6.86% for 2011 and 6.82% for 2012. The long term debt rate is calculated as the weighted average rate on embedded debt, new debt and forecast debt.

### 3.5 Deferral and Variance Accounts

GLPT is requesting approval for continuance of the following deferral/variance accounts:

(a) the continuation in the test period of the sub-account for OEB Cost Assessment variances, within account 1508;

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[3] Per Approved Settlement Agreement in EB-2009-0408, and per the Board's Cost of Capital Parameter Update letter dated February 24, 2010

(b) the continuation in the test period of the sub-account for Property Tax and Use and Occupation Permit Fee variances, within account 1508; and

Based upon the Board's Decision in EB-2009-0409, GLPT will continue to maintain in the test period sub-accounts for Infrastructure Investment, Green Energy Initiatives and Preliminary Planning costs, within account 1508. Based upon the Accounting Procedures Handbook, GLPT will also continue to maintain in the test period:

(a) the sub-account for International Financial Reporting Standards ("IFRS") transition costs, within account 1508; and

(b) account 1592 for tax variances.

GLPT is requesting approval to establish the following new deferral/variance accounts:

- Change in Costs due to IFRS Implementation Account; and,
- IFRS Gains and Losses on Disposal.

GLPT is also requesting the Board's direction on how to treat expenditures arising from an outstanding claim by Comstock Canada Ltd. ("Comstock") in respect of a major capital project for which GLPT obtained leave to construct in EB-2003-0162.

In the Board-Approved Settlement Agreement from EB-2009-0408, the parties agreed on the treatment of the various outstanding deferral and variance accounts. Upon implementation of a new Uniform Transmission Rate, it was agreed that the aggregate balance of the existing deferral accounts, less an offset related to GLPT's 2010 revenue deficiency, will be returned to ratepayers over a three-year period (the "Aggregate Regulatory Liability Balance"). In addition to this, GLPT agreed to credit ratepayers a further amount of $3,063,900 related to costs recovered in respect of an asset retirement. This amount will be returned to ratepayers over a five-year period.

These two balances have been recorded in sub-accounts of USofA account 1595. Further details on the disbursal of these sub-accounts can be found at Exhibit 9, Tab 3, Schedule 1.

In this application, GLPT is proposing to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011, related to the Third Line Redevelopment project.[4] These assets are currently used and useful but will be prematurely retired in 2011 as a result of the completion of the project. The total net book value of the assets to be retired will be $910,534 at December 31, 2011, which is a significant value to GLPT. GLPT proposes to recover the write-off of $910,534 by offsetting the amount against the Aggregate Regulatory Liability Balance that will be returned to customers over the three-year period referenced above.

### 3.6 Rate Design and Rates

Aspects related to rate design, including the charge determinant forecast, calculation of the Uniform Transmission Rates, variances in those rates and rate reconciliation are set out at Exhibit 8, Tab 2, Schedules 1 through 3. In calculating the Uniform Transmission Rates, GLPT has used the revenue requirement sought in this Application of $36,416,900 and $38,337,500 for 2011 and 2012 respectively, less the forecasted annual disbursal related to regulatory liabilities

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[4] The Third Line Redevelopment project is described in detail at Exhibit 2, Tab 1, Schedule 1

of $1,188,900 for each of 2011 and 2012, for a total of $35,228,000 and $37,148,600 respectively. As shown in these schedules, the resulting Uniform Transmission Rates arising from this Application are as follows:

- Network Rate: $2.97 per kW (2011) and $2.98 per kW (2012)
- Line Connection Rate: $0.73 per kW (2011) and $0.73 per kW (2012)
- Transformation Connection Rate: $1.73 per kW (2011) and $1.73 per kW (2012)

As indicated above, for the 2011 and 2012 forward test years the Application by GLPT results in a minimal change to the Uniform Transmission Rate and a negligible impact on a typical residential customer.

# APPENDIX "A"

## GLPT's Transmission System

# GLPT'S TRANSMISSION SYSTEM

With respect to GLPT's transmission system it is important to note that:

- GLPT's transmission system is located entirely in an area of dense vegetation and rugged terrain of the Canadian Shield; and
- GLPT's transmission system is critical to the reliability of the Ontario bulk power system.

## 1.0 Physical Location

GLPT's transmission system is located in the Algoma district of Ontario with its system extending from in and around Sault Ste. Marie, north to Wawa, and east from Sault Ste. Marie to a remote area at which HONI's Mississagi TS is located. A map of GLPT's system is shown in *Figure 1-2-1 A*, below.

*Figure 1-2-1 A - GLPT System Map*


This area is located in the Canadian Shield and is predominantly located in forest zones with dense vegetation and steep elevations in places. GLPT's transmission system extends through two forest zones. The southern portion of the system is in the Great Lakes-St. Lawrence forest zone, which is characterized by red and sugar maple, yellow birch, red oak, hemlock, red and white pine. The northern part is in the Boreal forest zone, characterized by black and white spruce, tamarack, aspen, white birch, balsam fir and jack pine. The terrain and vegetation present challenges to GLPT with respect to its vegetation management programs, as well as various aspects of its operations and maintenance.

### 1.1 GLPT's Significance to the IESO-Controlled Grid

GLPT's transmission system is a fundamental part of the bulk power system and the IESO-controlled grid. GLPT's transmission system is a critical link in that part of the IESO-controlled grid which extends from the Manitoba border to Sudbury, Ontario (Algoma TS, Hanmer TS) which, for the purpose of this evidence, is defined and referred to as the "Northwest Transmission System". As such, the condition and operation of GLPT's transmission system has a fundamental impact on the Northwest Transmission System.

The Northwest Transmission System can be divided into three sections:

- Manitoba to Wawa TS;
- Wawa TS to Mississagi TS; and
- Mississagi TS to Algoma TS (Sudbury).

(a) ***Manitoba to Wawa TS***

This section of the Northwest Transmission System evacuates generation comprised of a mix of hydraulic and thermal units.

The generation in excess of load in the Northwest section combined with any imports from Manitoba, is evacuated predominantly to the east through the HONI double circuit lines from Thunder Bay (Mackenzie TS, Lakehead TS) to Marathon (Marathon TS) to Wawa (Wawa TS). The interface between Marathon TS and Wawa TS is defined by the IESO as the East-West Tie ("EWT"). The east-to-west or west-to-east power flows along this interface are limited by post-contingency voltage stability considerations at Wawa TS. Power flow across the EWT is predominantly eastbound, delivering excess power from northwestern Ontario to Wawa TS.

(b) ***Wawa TS to Mississagi TS***

GLPT's and HONI's transmission systems run in parallel between Wawa TS and Mississagi TS (as shown in *Figure 1-2-1 A*). They affect each other's capability, operation and transmission system limits.

GLPT's transmission system runs 73 km north-south from Wawa TS to MacKay TS, 91 km from MacKay TS to Third Line TS and 76 km east-west from Third Line TS to Mississagi TS. It is comprised of a 230 kV line running from Third Line TS to MacKay TS denoted as K24G and a 230 kV line running from MacKay TS to Wawa TS denoted as W23K. There are two 230 kV lines running east-west from Third Line TS to Mississagi TS ("P21G and P22G").

Third Line TS is GLPT's largest station. The station has two sections, a 230 kV section and a 115 kV section. As part of the IESO-controlled grid, if either of the 115 kV or the 230 kV sections of Third Line TS were to be degraded, destroyed, or otherwise made unavailable, the reliability and operability of the Ontario bulk power system could be adversely affected and thereby threaten the supply of power to numerous customers throughout the province. The station is also a connection point that facilitates a parallel circuit with the HONI transmission system, as shown in *Figure 1-2-1 A* above.

Emanating from Third Line TS are three 230 kV circuits and nine 115 kV circuits, which connect various loads and generation facilities. The station serves the largest loads in the GLPT system, as it supplies power to the City of Sault Ste. Marie and to large industrial loads that include ESSAR Steel Inc., St. Marys Paper Inc. and Flakeboard Inc.

The HONI transmission system runs east-west for 204 km from Wawa TS to Mississagi TS. It is comprised of one double-circuit 230 kV line.

For the most part, the load directly connected to GLPT's transmission system is supplied via 115 kV circuits off of Third Line TS. The GLPT system's peak load is approximately 315 MW in summer and 445 MW in winter. Installed generation capacity connected to GLPT's transmission system is 674 MW. Therefore, during peak periods, the generation in excess of the GLPT load is evacuated predominantly to the east to Mississagi TS and added to the peak generation of 335 MW connected to the HONI transmission system in the Wawa-Mississagi Section.

(c) ***The Mississagi – Sudbury Section***

Mississagi TS is connected to Algoma TS (Sudbury) via HONI's double-circuit 230 kV line and to Hanmer TS (Sudbury) via HONI's single-circuit 230 kV line.

In provincial peak periods, the predominantly eastbound power flow across the EWT interface into Wawa TS, the excess generation out of GLPT's network and the generation from Aubrey Falls GS and Wells GS on HONI's transmission system converge at Mississagi TS to be transferred east to Sudbury and on to southern Ontario. As a result of the amount of energy deliverable to Mississagi TS through the GLPT transmission system, GLPT's system is critical with respect to the transmission of power from the Northwest Transmission System to southern Ontario.

In March 2004, the transmission division of GLPL obtained approval for the construction of the Transmission Reinforcement Project, which included, among other things, the construction of the 230 kV transmission lines running between Third Line TS and Wawa TS (K24G and W23K) and the refurbishment of the east-west line P21G running from Third Line TS to Mississagi TS.

This project provided a number of benefits. In particular, the IESO-controlled grid benefited by:

- eliminating transmission constraints and thereby increasing transfer limits to permit the full evacuation of generation from GLPT's system during system peak;
- eliminating the weakest link in the east-west system between Wawa TS and Mississagi TS;
- improving voltage stability at Wawa TS to increase the EWT east limit for specific generation collections and voltage stability at Mississagi TS to increase the Mississagi limit;
- eliminating the possibility of severing GLPT's system because of a double circuit outage on HONI's system, which in turn would result in severing the EWT; and
- allowing for future reinforcement of the EWT and Mississagi TS limits.

As noted above, the Third Line TS is a key component of GLPT's transmission system. GLPT will undertake a redevelopment project which involves the construction of a new 115 kV section for Third Line TS. The new section will be constructed in part on the existing station site and in part on undeveloped GLPT lands immediately to the west of the existing station. The work is strictly in relation to the 115 kV section of the station and no changes are planned for the 230 kV section.

Exhibit 1, Tab 2, Schedule 2

Budget Overview

# BUDGET OVERVIEW (CAPITAL AND OPERATING)

## 1.0 Operations, Maintenance and Administration

The Board Approved Settlement Agreement in EB-2009-0408 created a unique circumstance for GLPT, as the agreement set in advance GLPT’s OM&A changes for 2011 and 2012. GLPT adapted its budget process to work within the parameters set out in the Board Approved Settlement Agreement. In doing so, GLPT had to consider external factors such as the rate of CPI. In addition, GLPT had to take into account negotiated wage and benefit increases. Based on these drivers, GLPT reviewed its budget from a “top down” approach and considered those budget items that would be impacted by changes in CPI and wages and benefits. GLPT also considered changes to budgeted items that arose because of operational needs. Items for which there were no expected cost changes were also factored into the budget process.

The result of the top down approach was a budgeted OM&A amount for 2011 and 2012 which increased by 2.5% in each year predominantly because of inflation and wages and benefits. For example, in excess of 95% of OM&A expenditures arise from third party contracts, materials and supplies and internal labour. These expenditures are either subject to CPI changes or negotiated wage increases.

To ensure the budgeted OM&A expenditures for the 2011 and 2012 test years would provide sufficient funding to allow for the continued safe and reliable operation of the transmission system, GLPT confirmed the budgeted OM&A expenditures for the 2011 and 2012 test years with front line managers via a bottom-up approach. GLPT used a bottom up approach that considers the needs and requirements of the organization in order to ensure sufficient funding to address those needs and requirements without sacrificing reliability or safety. This entailed a complete review of work plans and staffing requirements.

To confirm budgeted maintenance expenditures for the 2011 and 2012 test years, GLPT used the information gathered through the implementation of the asset management plan, which is described at Exhibit 2, Tab 5, Schedule 1. Information is gathered from various sources, including through inspections, testing and asset condition assessments.

## 2.0 Capital Budget

For details on GLPT's capital budgeting process, please refer to the Asset Management schedule at Exhibit 2, Tab 5, Schedule 1. As indicated, GLPT has a comprehensive program for managing its existing assets through the inspection and maintenance of lines and stations and the undertaking of asset condition assessments. GLPT also has a rigorous process for optimizing the replacement of assets by ensuring that projects are appropriately prioritized.

## 3.0 Economic Assumptions Used

In calculating the budget for the 2011 and 2012 test years GLPT relied on the following economic assumption:

- GLPT utilized its negotiated labour rate of 2.5% in 2011 and 2012, and assumed 2.5% as an inflation factor, when calculating increases for OM&A expenditures.

Exhibit 1, Tab 2, Schedule 3

Methodology and Changes to Methodology

## METHODOLOGY AND CHANGES TO METHODOLOGY

GLPT has made no changes to its methodology as compared to the methodology used in the EB-2009-0408 application.

Exhibit 1, Tab 2, Schedule 4

Schedule of Overall Revenue Deficiency/Sufficiency

# CALCULATION OF REVENUE DEFICIENCY

*Table 1-2-4 A – Schedule of Overall Revenue Deficiency*

| ($000's) | | 2010 Approved | 2010 Forecast | 2011 Test Year - Current | 2011 Test Year - Proposed | 2012 Test Year - Current | 2012 Test Year - Proposed |
|---|---|---|---|---|---|---|---|
| Operating Revenue * | | $35,148.8 | $35,172.2 | $35,172.4 | $36,447.7 | $35,172.7 | $38,368.6 |
| Operation, Maintenance & Admin. | | 9,000.0 | 9,750.0 | 9,225.0 | 9,225.0 | 9,455.6 | 9,455.6 |
| Depreciation & Amortization | | 7,406.9 | 7,460.7 | 7,975.1 | 7,975.1 | 8,615.9 | 8,615.9 |
| Retirement of Readily Identifiable Assets | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property Taxes | | 125.0 | 125.0 | 128.1 | 128.1 | 131.3 | 131.3 |
| Payments in Lieu of Taxes to First Nations | | 133.2 | 133.2 | 136.5 | 136.5 | 139.9 | 139.9 |
| Provincial Capital Tax | | 145.5 | 145.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Costs & Expenses | | 16,810.6 | 17,614.5 | 17,464.7 | 17,464.7 | 18,342.8 | 18,342.8 |
| Utility Income Before Taxes | | 18,338.2 | 17,557.7 | 17,707.7 | 18,983.0 | 16,829.9 | 20,025.8 |
| Income Taxes | | 1,729.8 | 1,443.6 | 1,097.3 | 1,457.6 | 683.0 | 1,521.9 |
| Utility Income | **[A]** | 16,608.4 | 16,114.1 | 16,610.4 | 17,525.4 | 16,146.9 | 18,503.9 |
| Utility Rate Base | **[B]** | 208,999.2 | 209,183.5 | 217,297.0 | 217,297.0 | 226,120.5 | 226,120.5 |
| Indicated Rate of Return | **[C]** = [A] / [B] | 7.95% | 7.70% | 7.64% | 8.07% | 7.14% | 8.18% |
| Approved/Requested Rate of Return | **[D]** | 7.95% | 7.95% | 8.07% | 8.07% | 8.18% | 8.18% |
| (Deficiency)/Sufficiency in Return | **[E]** = [C] - [D] | 0.00% | -0.24% | -0.42% | 0.00% | -1.04% | 0.00% |
| Revenue (Deficiency)/Sufficiency | **[F]** = [B] * [E] | 0.0 | (509.0) | (915.0) | (0.0) | (2,357.0) | 0.0 |
| Provision for Income Taxes | | 0.0 | (228.7) | (360.3) | (0.0) | (838.9) | 0.0 |
| Gross Revenue (Deficiency)/Sufficiency | | 0.0 | (737.7) | (1,275.3) | (0.0) | (3,195.9) | 0.0 |
| **Service Revenue Requirement:** | | **35,148.8** | **35,909.8** | **36,447.7** | **36,447.7** | **38,368.6** | **38,368.6** |
| Less: Revenue from Other Sources | | 7.2 | 30.6 | 30.8 | 30.8 | 31.1 | 31.1 |
| **Base Revenue Requirement:** | | **$35,141.6** | **$35,879.3** | **$36,416.9** | **$36,416.9** | **$38,337.5** | **$38,337.5** |

* For 2011/2012, Operating Revenue includes Transmission Services Revenue and Other Income

Exhibit 1, Tab 2, Schedule 5

Numerical Description of the Deficiency/Sufficiency

## NUMERICAL DESCRIPTION OF REVENUE DEFICIENCY

*Table 1-2-5 A – Numerical Description of Revenue Deficiency - 2011*

| **Cost of Capital** | **($000's)** | **($000's)** |
|---|---|---|
| 2011 Rate Base | $217,297.0 | |
| Requested Rate of Return | 8.07% | $17,525.4 |
| **Cost of Service** | | |
| Operations, Maintenance & Admin | 9,225.0 | |
| Depreciation & Amortization | 7,975.1 | |
| Property Taxes | 264.7 | |
| Capital Taxes | 0.0 | |
| Income Taxes | 1,097.3 | 18,562.0 |
| **Operating Revenue** | | |
| Transmission Services Revenue | | (35,172.4) |
| Gross (Deficiency)/Sufficiency | | (915.0) |
| Income Taxes on (Deficiency)/Sufficiency | | (360.3) |
| Gross Revenue (Deficiency)/Sufficiency - 2011 | | **($1,275.3)** |

*Table 1-2-5 B – Numerical Description of Revenue Deficiency - 2012*

| **Cost of Capital** | **($000's)** | **($000's)** |
|---|---|---|
| 2012 Rate Base | $226,120.5 | |
| Requested Rate of Return | 8.18% | $18,503.9 |
| **Cost of Service** | | |
| Operations, Maintenance & Admin | 9,455.6 | |
| Depreciation & Amortization | 8,615.9 | |
| Property Taxes | 271.3 | |
| Capital Taxes | 0.0 | |
| Income Taxes | 683.0 | 19,025.8 |
| **Operating Revenue** | | |
| Transmission Services Revenue | | (35,172.7) |
| Gross (Deficiency)/Sufficiency | | (2,357.0) |
| Income Taxes on (Deficiency)/Sufficiency | | (838.9) |
| Gross Revenue (Deficiency)/Sufficiency - 2012 | | **($3,195.9)** |

Exhibit 1, Tab 2, Schedule 6

Revenue Requirement Work Forms (2011 & 2012)

## REVENUE REQUIREMENT WORK FORMS – 2011 & 2012

GLPT's revenue requirement work forms for 2011 and 2012 are provided at **Appendices "A"** and **"B"**, respectively.

# <u>APPENDIX "A"</u>

## Revenue Requirement Work Form 2011

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP (1)

File Number:

Rate Year: 2011

Version: 2.11

## Table of Content



**Notes:**

**(1)** Pale green cells represent inputs

**(2)** Pale yellow cells represent drop=down lists

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

**(4)** ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel format.***

Version: 2.11

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

**Data Input** (1)

| | | Initial Application | | (7) | Per Board Decision | |
|---|---|---|---|---|---|---|
| 1 | **Rate Base** | | | | | |
| | Gross Fixed Assets (average) | $302,943,886 | | $ 302,943,886 | $302,943,886 | |
| | Accumulated Depreciation (average) | ($86,268,030) | (5) | -$ 86,268,030 | ($86,268,030) | |
| | Allowance for Working Capital: | | | | | |
| | Controllable Expenses | $9,225,000 | | $ 9,225,000 | $9,225,000 | |
| | Cost of Power | $ - | | | $0 | |
| | Working Capital Rate (%) | 6.73% | | 6.73% | 6.73% | |
| 2 | **Utility Income** | | | | | |
| | Operating Revenues: | | | | | |
| | Distribution Revenue at Current Rates | $35,141,618 | | | | |
| | Distribution Revenue at Proposed Rates | $36,416,907 | | | | |
| | Other Revenue: | | | | | |
| | Specific Service Charges | | | | | |
| | Late Payment Charges | | | | | |
| | Other Distribution Revenue | | | | | |
| | Other Income and Deductions | $30,800 | | | | |
| | Operating Expenses: | | | | | |
| | OM+A Expenses | $9,225,000 | | $ 9,225,000 | $9,225,000 | |
| | Depreciation/Amortization | $7,975,063 | | $ 7,975,063 | $7,975,063 | |
| | Property taxes | $264,655 | | $ 264,655 | $264,655 | |
| | Capital taxes | $0 | | | | |
| | Other expenses | $ - | | 0 | $0 | |
| 3 | **Taxes/PILs** | | | | | |
| | Taxable Income: | | | | | |
| | Adjustments required to arrive at taxable income | ($5,129,024) | (3) | | | |
| | Utility Income Taxes and Rates: | | | | | |
| | Income taxes (not grossed up) | $1,045,794 | | | | |
| | Income taxes (grossed up) | $1,457,553 | | | | |
| | Capital Taxes | $ - | (6) | (6) | | (6) |
| | Federal tax (%) | 16.50% | | | | |
| | Provincial tax (%) | 11.75% | | | | |
| | Income Tax Credits | | | | | |
| 4 | **Capitalization/Cost of Capital** | | | | | |
| | Capital Structure: | | | | | |
| | Long-term debt Capitalization Ratio (%) | 56.0% | | | | |
| | Short-term debt Capitalization Ratio (%) | 4.0% | (2) | (2) | | (2) |
| | Common Equity Capitalization Ratio (%) | 40.0% | | | | |
| | Prefered Shares Capitalization Ratio (%) | | | | | |
| | | 100.0% | | | | |
| | Cost of Capital | | | | | |
| | Long-term debt Cost Rate (%) | 6.86% | | | | |
| | Short-term debt Cost Rate (%) | 3.99% | | | | |
| | Common Equity Cost Rate (%) | 10.16% | | | | |
| | Prefered Shares Cost Rate (%) | | | | | |

**Notes:**

Data inputs are required on on this Sheet A. Data Input Sheet, and on Sheets 7A and 7B, for Bill IMpacts. Data on this input sheet complete sheets 1 through 6 (Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the data. Notes should be put on the applicable pages to

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)
(2) 4.0% unless an Applicant has proposed or been approved for another amount.
(3) Net of addbacks and deductions to arrive at taxable income.
(4) Average of Gross Fixed Assets at beginning and end of the Test Year
(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
(6) Not applicable as of July 1, 2010
(7) Select option from drop-down list by clicking on cell M10. This columnallows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outsome of any Settlement Process can be reflected.

Version: 2.11

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

Ontario

## Rate Base

| Line No. | Particulars | | Initial Application | | | | Per Board Decision |
|---|---|---|---|---|---|---|---|
| 1 | Gross Fixed Assets (average) | (3) | $302,943,886 | $ - | $302,943,886 | $ - | $302,943,886 |
| 2 | Accumulated Depreciation (average) | (3) | ($86,268,030) | $ - | ($86,268,030) | $ - | ($86,268,030) |
| 3 | Net Fixed Assets (average) | (3) | $216,675,856 | $ - | $216,675,856 | $ - | $216,675,856 |
| 4 | Allowance for Working Capital | (1) | $621,133 | $ - | $621,133 | $ - | $621,133 |
| 5 | **Total Rate Base** | | $217,296,989 | $ - | $217,296,989 | $ - | $217,296,989 |

| | (1) **Allowance for Working Capital - Derivation** | | | | | | |
|---|---|---|---|---|---|---|---|
| 6 | Controllable Expenses | | $9,225,000 | $ - | $9,225,000 | $ - | $9,225,000 |
| 7 | Cost of Power | | $ - | $ - | $ - | $ - | $ - |
| 8 | Working Capital Base | | $9,225,000 | $ - | $9,225,000 | $ - | $9,225,000 |
| 9 | Working Capital Rate % | (2) | 6.73% | 0.00% | 6.73% | 0.00% | 6.73% |
| 10 | Working Capital Allowance | | $621,133 | $ - | $621,133 | $ - | $621,133 |

**Notes**

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

Ontario

# REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

## Utility income

| Line No. | Particulars | | Initial Application | | | | Per Board Decision |
|---|---|---|---|---|---|---|---|
| | **Operating Revenues:** | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | | $36,416,907 | ($36,416,907) | $ - | $ - | $ - |
| 2 | Other Revenue | (1) | $30,800 | ($30,800) | $ - | $ - | $ - |
| 3 | Total Operating Revenues | | $36,447,707 | ($36,447,707) | $ - | $ - | $ - |
| | **Operating Expenses:** | | | | | | |
| 4 | OM+A Expenses | | $9,225,000 | $ - | $9,225,000 | $ - | $9,225,000 |
| 5 | Depreciation/Amortization | | $7,975,063 | $ - | $7,975,063 | $ - | $7,975,063 |
| 6 | Property taxes | | $264,655 | $ - | $264,655 | $ - | $264,655 |
| 7 | Capital taxes | | $ - | $ - | $ - | $ - | $ - |
| 8 | Other expense | | $ - | $ - | $ - | $ - | $ - |
| 9 | Subtotal (lines 4 to 8) | | $17,464,718 | $ - | $17,464,718 | $ - | $17,464,718 |
| 10 | Deemed Interest Expense | | $8,694,487 | ($8,694,487) | $ - | $ - | $ - |
| 11 | Total Expenses (lines 9 to 10) | | $26,159,205 | ($8,694,487) | $17,464,718 | $ - | $17,464,718 |
| 12 | **Utility income before income taxes** | | $10,288,502 | ($27,753,220) | ($17,464,718) | $ - | ($17,464,718) |
| 13 | Income taxes (grossed-up) | | $1,457,553 | $ - | $1,457,553 | $ - | $1,457,553 |
| 14 | **Utility net income** | | $8,830,950 | ($27,753,220) | ($18,922,271) | $ - | ($18,922,271) |

**Notes**

(1)

| Other Revenues / Revenue Offsets | | | | | |
|---|---|---|---|---|---|
| Specific Service Charges | $ - | | $ - | | $ - |
| Late Payment Charges | $ - | | $ - | | $ - |
| Other Distribution Revenue | $ - | | $ - | | $ - |
| Other Income and Deductions | $30,800 | | $ - | | $ - |
| Total Revenue Offsets | $30,800 | $ - | $ - | $ - | $ - |

Ontario

# REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

## Taxes/PILs

| Line No. | Particulars | Application | | | | Per Board Decision | |
|---|---|---|---|---|---|---|---|
| | **Determination of Taxable Income** | | | | | | |
| 1 | Utility net income before taxes | $8,830,950 | | $ - | | $ - | |
| 2 | Adjustments required to arrive at taxable utility income | ($5,129,024) | | $ - | | ($5,129,024) | |
| 3 | Taxable income | $3,701,926 | | $ - | | ($5,129,024) | |
| | **Calculation of Utility income Taxes** | | | | | | |
| 4 | Income taxes | $1,045,794 | | $1,045,794 | | $1,045,794 | |
| 5 | Capital taxes | $ - | (1) | $ - | (1) | $ - | (1) |
| 6 | Total taxes | $1,045,794 | | $1,045,794 | | $1,045,794 | |
| 7 | Gross-up of Income Taxes | $411,759 | | $411,759 | | $411,759 | |
| 8 | Grossed-up Income Taxes | $1,457,553 | | $1,457,553 | | $1,457,553 | |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | $1,457,553 | | $1,457,553 | | $1,457,553 | |
| 10 | Other tax Credits | $ - | | $ - | | $ - | |
| | **Tax Rates** | | | | | | |
| 11 | Federal tax (%) | 16.50% | | 16.50% | | 16.50% | |
| 12 | Provincial tax (%) | 11.75% | | 11.75% | | 11.75% | |
| 13 | Total tax rate (%) | 28.25% | | 28.25% | | 28.25% | |

**Notes**

**(1)** Capital Taxes not applicable after July 1, 2010 (i.e. for 2011 and later test years)

# REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

## Capitalization/Cost of Capital

**Initial Application**

| Line No. | Particulars | Capitalization Ratio (%) | Capitalization Ratio ($) | Cost Rate (%) | Return ($) |
|---|---|---|---|---|---|
| | **Debt** | | | | |
| 1 | Long-term Debt | 56.00% | $121,686,314 | 6.86% | $8,347,681 |
| 2 | Short-term Debt | 4.00% | $8,691,880 | 3.99% | $346,806 |
| 3 | **Total Debt** | 60.00% | $130,378,193 | 6.67% | $8,694,487 |
| | **Equity** | | | | |
| 4 | Common Equity | 40.00% | $86,918,796 | 10.16% | $8,830,950 |
| 5 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 6 | **Total Equity** | 40.00% | $86,918,796 | 10.16% | $8,830,950 |
| 7 | **Total** | 100.00% | $217,296,989 | 8.07% | $17,525,437 |

| Line No. | Particulars | Capitalization Ratio (%) | Capitalization Ratio ($) | Cost Rate (%) | Return ($) |
|---|---|---|---|---|---|
| | **Debt** | | | | |
| 1 | Long-term Debt | 0.00% | $ - | 0.00% | $ - |
| 2 | Short-term Debt | 0.00% | $ - | 0.00% | $ - |
| 3 | **Total Debt** | 0.00% | $ - | 0.00% | $ - |
| | **Equity** | | | | |
| 4 | Common Equity | 0.00% | $ - | 0.00% | $ - |
| 5 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 6 | **Total Equity** | 0.00% | $ - | 0.00% | $ - |
| 7 | **Total** | 0.00% | $217,296,989 | 0.00% | $ - |

**Per Board Decision**

| Line No. | Particulars | Capitalization Ratio (%) | Capitalization Ratio ($) | Cost Rate (%) | Return ($) |
|---|---|---|---|---|---|
| | **Debt** | | | | |
| 8 | Long-term Debt | 0.00% | $ - | 6.86% | $ - |
| 9 | Short-term Debt | 0.00% | $ - | 3.99% | $ - |
| 10 | **Total Debt** | 0.00% | $ - | 0.00% | $ - |
| | **Equity** | | | | |
| 11 | Common Equity | 0.00% | $ - | 10.16% | $ - |
| 12 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 13 | **Total Equity** | 0.00% | $ - | 0.00% | $ - |
| 14 | **Total** | 0.00% | $217,296,989 | 0.00% | $ - |

**Notes**

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

Version: 2.11

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

Ontario

## Revenue Sufficiency/Deficiency

| Line No. | Particulars | Initial Application: At Current Approved Rates | Initial Application: At Proposed Rates | At Current Approved Rates | At Proposed Rates | Per Board Decision: At Current Approved Rates | Per Board Decision: At Proposed Rates |
|---|---|---|---|---|---|---|---|
| 1 | Revenue Deficiency from Below | | $1,275,289 | | ($19,696,342) | | $17,464,718 |
| 2 | Distribution Revenue | $35,141,618 | $35,141,618 | $35,141,618 | $56,113,249 | $ - | ($17,464,718) |
| 3 | Other Operating Revenue Offsets - net | $30,800 | $30,800 | $ - | $ - | $ - | $ - |
| 4 | **Total Revenue** | $35,172,418 | $36,447,707 | $35,141,618 | $36,416,907 | $ - | $ - |
| 5 | Operating Expenses | $17,464,718 | $17,464,718 | $17,464,718 | $17,464,718 | $17,464,718 | $17,464,718 |
| 6 | Deemed Interest Expense | $8,694,487 | $8,694,487 | $ - | $ - | $ - | $ - |
| | **Total Cost and Expenses** | $26,159,205 | $26,159,205 | $17,464,718 | $17,464,718 | $17,464,718 | $17,464,718 |
| 7 | **Utility Income Before Income Taxes** | $9,013,213 | $10,288,502 | $17,676,900 | $18,952,189 | ($17,464,718) | ($17,464,718) |
| 8 | Tax Adjustments to Accounting Income per 2009 PILs | ($5,129,024) | ($5,129,024) | ($5,129,024) | ($5,129,024) | $ - | $ - |
| 9 | **Taxable Income** | $3,884,189 | $5,159,478 | $12,547,876 | $13,823,165 | ($17,464,718) | ($17,464,718) |
| 10 | Income Tax Rate | 28.25% | 28.25% | 28.25% | 28.25% | 28.25% | 28.25% |
| 11 | **Income Tax on Taxable Income** | $1,097,283 | $1,457,553 | $3,544,775 | $3,905,044 | ($4,933,783) | ($4,933,783) |
| 12 | **Income Tax Credits** | $ - | $ - | $ - | $ - | $ - | $ - |
| 13 | **Utility Net Income** | $7,915,930 | $8,830,950 | $14,132,125 | ($18,922,271) | ($12,530,935) | ($18,922,271) |
| 14 | **Utility Rate Base** | $217,296,989 | $217,296,989 | $217,296,989 | $217,296,989 | $217,296,989 | $217,296,989 |
| | Deemed Equity Portion of Rate Base | $86,918,796 | $86,918,796 | $ - | $ - | $ - | $ - |
| 15 | Income/Equity Rate Base (%) | 9.11% | 10.16% | 0.00% | 0.00% | 0.00% | 0.00% |
| 16 | Target Return - Equity on Rate Base | 10.16% | 10.16% | 0.00% | 0.00% | 0.00% | 0.00% |
| 17 | Sufficiency/Deficiency in Return on Equity | -1.05% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 18 | Indicated Rate of Return | 7.64% | 8.07% | 6.50% | 0.00% | -5.77% | 0.00% |
| 19 | Requested Rate of Return on Rate Base | 8.07% | 8.07% | 0.00% | 0.00% | 0.00% | 0.00% |
| 20 | Sufficiency/Deficiency in Rate of Return | -0.42% | 0.00% | 6.50% | 0.00% | -5.77% | 0.00% |
| 21 | Target Return on Equity | $8,830,950 | $8,830,950 | $ - | $ - | $ - | $ - |
| 22 | Revenue Deficiency/(Sufficiency) | $915,020 | $ - | ($14,132,125) | $ - | $12,530,935 | $ - |
| 23 | **Gross Revenue Deficiency/(Sufficiency)** | $1,275,289 **(1)** | | ($19,696,342) **(1)** | | $17,464,718 **(1)** | |

**Notes:**

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

Version: 2.11

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2011

## Revenue Requirement

| Line No. | Particulars | Application | | | | Per Board Decision | |
|---|---|---|---|---|---|---|---|
| 1 | OM&A Expenses | $9,225,000 | | $9,225,000 | | $9,225,000 | |
| 2 | Amortization/Depreciation | $7,975,063 | | $7,975,063 | | $7,975,063 | |
| 3 | Property Taxes | $264,655 | | $264,655 | | $264,655 | |
| 4 | Capital Taxes | $ - | | $ - | | $ - | |
| 5 | Income Taxes (Grossed up) | $1,457,553 | | $1,457,553 | | $1,457,553 | |
| 6 | Other Expenses | $ - | | $ - | | $ - | |
| 7 | Return | | | | | | |
| | Deemed Interest Expense | $8,694,487 | | $ - | | $ - | |
| | Return on Deemed Equity | $8,830,950 | | $ - | | $ - | |
| 8 | Distribution Revenue Requirement before Revenues | $36,447,707 | | $18,922,271 | | $18,922,271 | |
| 9 | Distribution revenue | $36,416,907 | | $ - | | $ - | |
| 10 | Other revenue | $30,800 | | $ - | | $ - | |
| 11 | **Total revenue** | $36,447,707 | | $ - | | $ - | |
| 12 | **Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)** | $ - | **(1)** | ($18,922,271) | **(1)** | ($18,922,271) | **(1)** |

**Notes**

**(1)** Line 11 - Line 8

**APPENDIX "B"**

**Revenue Requirement Work Form 2012**

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP (1)

File Number:

Rate Year: 2012

Version: 2.11

## Table of Content



**Notes:**

(1) Pale green cells represent inputs
(2) Pale yellow cells represent drop=down lists
(3) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
(4) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel format.***

Version: 2.11

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

**Data Input** (1)

| | Initial Application | | (7) | | Per Board Decision |
|---|---|---|---|---|---|
| **1 Rate Base** | | | | | |
| Gross Fixed Assets (average) | $319,671,150 | | $ 319,671,150 | | $319,671,150 |
| Accumulated Depreciation (average) | ($94,064,498) | (5) | -$ 94,064,498 | | ($94,064,498) |
| Allowance for Working Capital: | | | | | |
| Controllable Expenses | $9,455,625 | | $ 9,455,625 | | $9,455,625 |
| Cost of Power | $ - | | | | $0 |
| Working Capital Rate (%) | 5.43% | | 5.43% | | 5.43% |
| **2 Utility Income** | | | | | |
| Operating Revenues: | | | | | |
| Distribution Revenue at Current Rates | $35,141,618 | | | | |
| Distribution Revenue at Proposed Rates | $38,337,474 | | | | |
| Other Revenue: | | | | | |
| Specific Service Charges | | | | | |
| Late Payment Charges | | | | | |
| Other Distribution Revenue | | | | | |
| Other Income and Deductions | $31,100 | | | | |
| Operating Expenses: | | | | | |
| OM+A Expenses | $9,455,625 | | $ 9,455,625 | | $9,455,625 |
| Depreciation/Amortization | $8,615,893 | | $ 8,615,893 | | $8,615,893 |
| Property taxes | $271,271 | | $ 271,271 | | $271,271 |
| Capital taxes | $0 | | | | |
| Other expenses | | | | | |
| **3 Taxes/PILs** | | | | | |
| Taxable Income: | | | | | |
| Adjustments required to arrive at taxable income | ($5,139,851) | (3) | | | |
| Utility Income Taxes and Rates: | | | | | |
| Income taxes (not grossed up) | $1,122,399 | | | | |
| Income taxes (grossed up) | $1,521,897 | | | | |
| Capital Taxes | $ - | (6) | | (6) | (6) |
| Federal tax (%) | 15.00% | | | | |
| Provincial tax (%) | 11.25% | | | | |
| Income Tax Credits | $ - | | | | |
| **4 Capitalization/Cost of Capital** | | | | | |
| Capital Structure: | | | | | |
| Long-term debt Capitalization Ratio (%) | 56.0% | | | | |
| Short-term debt Capitalization Ratio (%) | 4.0% | (2) | | (2) | (2) |
| Common Equity Capitalization Ratio (%) | 40.0% | | | | |
| Prefered Shares Capitalization Ratio (%) | | | | | |
| | 100.0% | | | | |
| Cost of Capital | | | | | |
| Long-term debt Cost Rate (%) | 6.82% | | | | |
| Short-term debt Cost Rate (%) | 5.00% | | | | |
| Common Equity Cost Rate (%) | 10.41% | | | | |
| Prefered Shares Cost Rate (%) | | | | | |

**Notes:**

Data inputs are required on on this Sheet A. Data Input Sheet, and on Sheets 7A and 7B, for Bill IMpacts. Data on this input sheet complete sheets 1 through 6 (Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the data. Notes should be put on the applicable pages to

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)
(2) 4.0% unless an Applicant has proposed or been approved for another amount.
(3) Net of addbacks and deductions to arrive at taxable income.
(4) Average of Gross Fixed Assets at beginning and end of the Test Year
(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
(6) Not applicable as of July 1, 2010
(7) Select option from drop-down list by clicking on cell M10. This columnallows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outsome of any Settlement Process can be reflected.

Version: 2.1

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

Ontario

## Rate Base

| Line No. | Particulars | | Initial Application | | | | | Per Board Decision |
|---|---|---|---|---|---|---|---|---|
| 1 | Gross Fixed Assets (average) | (3) | $319,671,150 | $ - | $319,671,150 | $ - | | $319,671,150 |
| 2 | Accumulated Depreciation (average) | (3) | ($94,064,498) | $ - | ($94,064,498) | $ - | | ($94,064,498) |
| 3 | Net Fixed Assets (average) | (3) | $225,606,652 | $ - | $225,606,652 | $ - | | $225,606,652 |
| 4 | Allowance for Working Capital | (1) | $513,799 | $ - | $513,799 | $ - | | $513,799 |
| 5 | **Total Rate Base** | | $226,120,451 | $ - | $226,120,451 | $ - | | $226,120,451 |

| | (1) | | **Allowance for Working Capital - Derivation** | | | | |
|---|---|---|---|---|---|---|---|
| 6 | Controllable Expenses | | $9,455,625 | $ - | $9,455,625 | $ - | $9,455,625 |
| 7 | Cost of Power | | $ - | $ - | $ - | $ - | $ - |
| 8 | Working Capital Base | | $9,455,625 | $ - | $9,455,625 | $ - | $9,455,625 |
| 9 | Working Capital Rate % | (2) | 5.43% | 0.00% | 5.43% | 0.00% | 5.43% |
| 10 | Working Capital Allowance | | $513,799 | $ - | $513,799 | $ - | $513,799 |

**Notes**

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

Ontario

# REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

## Utility income

| Line No. | Particulars | | Initial Application | | | | Per Board Decision |
|---|---|---|---|---|---|---|---|
| | **Operating Revenues:** | | | | | | |
| 1 | Distribution Revenue (at Proposed Rates) | | $38,337,474 | ($38,337,474) | $ - | $ - | $ - |
| 2 | Other Revenue | (1) | $31,100 | ($31,100) | $ - | $ - | $ - |
| 3 | Total Operating Revenues | | $38,368,574 | ($38,368,574) | $ - | $ - | $ - |
| | **Operating Expenses:** | | | | | | |
| 4 | OM+A Expenses | | $9,455,625 | $ - | $9,455,625 | $ - | $9,455,625 |
| 5 | Depreciation/Amortization | | $8,615,893 | $ - | $8,615,893 | $ - | $8,615,893 |
| 6 | Property taxes | | $271,271 | $ - | $271,271 | $ - | $271,271 |
| 7 | Capital taxes | | $ - | $ - | $ - | $ - | $ - |
| 8 | Other expense | | $ - | $ - | | $ - | |
| 9 | Subtotal (lines 4 to 8) | | $18,342,789 | $ - | $18,342,789 | $ - | $18,342,789 |
| 10 | Deemed Interest Expense | | $9,088,233 | ($9,088,233) | $ - | $ - | $ - |
| 11 | Total Expenses (lines 9 to 10) | | $27,431,022 | ($9,088,233) | $18,342,789 | $ - | $18,342,789 |
| 12 | **Utility income before income taxes** | | $10,937,552 | ($29,280,341) | ($18,342,789) | $ - | ($18,342,789) |
| 13 | Income taxes (grossed-up) | | $1,521,897 | $ - | $1,521,897 | $ - | $1,521,897 |
| 14 | **Utility net income** | | $9,415,656 | ($29,280,341) | ($19,864,686) | $ - | ($19,864,686) |

**Notes**

(1)

| Other Revenues / Revenue Offsets | | | | | |
|---|---|---|---|---|---|
| Specific Service Charges | $ - | | $ - | | $ - |
| Late Payment Charges | $ - | | $ - | | $ - |
| Other Distribution Revenue | $ - | | $ - | | $ - |
| Other Income and Deductions | $31,100 | | $ - | | $ - |
| Total Revenue Offsets | $31,100 | $ - | $ - | $ - | $ - |

Version: 2.11

Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

## Taxes/PILs

| Line No. | Particulars | Application | | | | Per Board Decision | |
|---|---|---|---|---|---|---|---|
| | **Determination of Taxable Income** | | | | | | |
| 1 | Utility net income before taxes | $9,415,656 | | $ - | | $ - | |
| 2 | Adjustments required to arrive at taxable utility income | ($5,139,851) | | $ - | | ($5,139,851) | |
| 3 | Taxable income | $4,275,805 | | $ - | | ($5,139,851) | |
| | **Calculation of Utility income Taxes** | | | | | | |
| 4 | Income taxes | $1,122,399 | | $1,122,399 | | $1,122,399 | |
| 5 | Capital taxes | $ - | (1) | $ - | (1) | $ - | (1) |
| 6 | Total taxes | $1,122,399 | | $1,122,399 | | $1,122,399 | |
| 7 | Gross-up of Income Taxes | $399,498 | | $399,498 | | $399,498 | |
| 8 | Grossed-up Income Taxes | $1,521,897 | | $1,521,897 | | $1,521,897 | |
| 9 | PILs / tax Allowance (Grossed-up Income taxes + Capital taxes) | $1,521,897 | | $1,521,897 | | $1,521,897 | |
| 10 | Other tax Credits | $ - | | $ - | | $ - | |
| | **Tax Rates** | | | | | | |
| 11 | Federal tax (%) | 15.00% | | 15.00% | | 15.00% | |
| 12 | Provincial tax (%) | 11.25% | | 11.25% | | 11.25% | |
| 13 | Total tax rate (%) | 26.25% | | 26.25% | | 26.25% | |

**Notes**

(1) Capital Taxes not applicable after July 1, 2010 (i.e. for 2011 and later test years)

Ontario

# REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

## Capitalization/Cost of Capital

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---|---|---|---|---|---|
| | **Initial Application** | | | | |
| | | (%) | ($) | (%) | ($) |
| | **Debt** | | | | |
| 1 | Long-term Debt | 56.00% | $126,627,453 | 6.82% | $8,635,992 |
| 2 | Short-term Debt | 4.00% | $9,044,818 | 5.00% | $452,241 |
| 3 | **Total Debt** | 60.00% | $135,672,271 | 6.70% | $9,088,233 |
| | **Equity** | | | | |
| 4 | Common Equity | 40.00% | $90,448,180 | 10.41% | $9,415,656 |
| 5 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 6 | **Total Equity** | 40.00% | $90,448,180 | 10.41% | $9,415,656 |
| 7 | **Total** | 100.00% | $226,120,451 | 8.18% | $18,503,889 |

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---|---|---|---|---|---|
| | | (%) | ($) | (%) | ($) |
| | **Debt** | | | | |
| 1 | Long-term Debt | 0.00% | $ - | 0.00% | $ - |
| 2 | Short-term Debt | 0.00% | $ - | 0.00% | $ - |
| 3 | **Total Debt** | 0.00% | $ - | 0.00% | $ - |
| | **Equity** | | | | |
| 4 | Common Equity | 0.00% | $ - | 0.00% | $ - |
| 5 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 6 | **Total Equity** | 0.00% | $ - | 0.00% | $ - |
| 7 | **Total** | 0.00% | $226,120,451 | 0.00% | $ - |

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|---|---|---|---|---|---|
| | **Per Board Decision** | | | | |
| | | (%) | ($) | (%) | ($) |
| | **Debt** | | | | |
| 8 | Long-term Debt | 0.00% | $ - | 6.82% | $ - |
| 9 | Short-term Debt | 0.00% | $ - | 5.00% | $ - |
| 10 | **Total Debt** | 0.00% | $ - | 0.00% | $ - |
| | **Equity** | | | | |
| 11 | Common Equity | 0.00% | $ - | 10.41% | $ - |
| 12 | Preferred Shares | 0.00% | $ - | 0.00% | $ - |
| 13 | **Total Equity** | 0.00% | $ - | 0.00% | $ - |
| 14 | **Total** | 0.00% | $226,120,451 | 0.00% | $ - |

**Notes**

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

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# REVENUE REQUIREMENT WORK FORM

Ontario

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

## Revenue Sufficiency/Deficiency

| Line No. | Particulars | Initial Application: At Current Approved Rates | Initial Application: At Proposed Rates | At Current Approved Rates | At Proposed Rates | Per Board Decision: At Current Approved Rates | Per Board Decision: At Proposed Rates |
|---|---|---|---|---|---|---|---|
| 1 | Revenue Deficiency from Below | | $3,195,856 | | ($18,628,267) | | $18,342,789 |
| 2 | Distribution Revenue | $35,141,618 | $35,141,618 | $35,141,618 | $56,965,742 | $ - | ($18,342,789) |
| 3 | Other Operating Revenue Offsets - net | $31,100 | $31,100 | $ - | $ - | $ - | $ - |
| 4 | **Total Revenue** | $35,172,718 | $38,368,574 | $35,141,618 | $38,337,474 | $ - | $ - |
| 5 | Operating Expenses | $18,342,789 | $18,342,789 | $18,342,789 | $18,342,789 | $18,342,789 | $18,342,789 |
| 6 | Deemed Interest Expense | $9,088,233 | $9,088,233 | $ - | $ - | $ - | $ - |
| | **Total Cost and Expenses** | $27,431,022 | $27,431,022 | $18,342,789 | $18,342,789 | $18,342,789 | $18,342,789 |
| 7 | **Utility Income Before Income Taxes** | $7,741,696 | $10,937,552 | $16,798,829 | $19,994,685 | ($18,342,789) | ($18,342,789) |
| 8 | Tax Adjustments to Accounting Income per 2009 PILs | ($5,139,851) | ($5,139,851) | ($5,139,851) | ($5,139,851) | $ - | $ - |
| 9 | **Taxable Income** | $2,601,845 | $5,797,701 | $11,658,978 | $14,854,834 | ($18,342,789) | ($18,342,789) |
| 10 | Income Tax Rate | 26.25% | 26.25% | 26.25% | 26.25% | 26.25% | 26.25% |
| 11 | **Income Tax on Taxable Income** | $682,984 | $1,521,897 | $3,060,482 | $3,899,394 | ($4,814,982) | ($4,814,982) |
| 12 | **Income Tax Credits** | $ - | $ - | $ - | $ - | $ - | $ - |
| 13 | **Utility Net Income** | $7,058,712 | $9,415,656 | $13,738,347 | ($19,864,686) | ($13,527,807) | ($19,864,686) |
| 14 | **Utility Rate Base** | $226,120,451 | $226,120,451 | $226,120,451 | $226,120,451 | $226,120,451 | $226,120,451 |
| | Deemed Equity Portion of Rate Base | $90,448,180 | $90,448,180 | $ - | $ - | $ - | $ - |
| 15 | Income/Equity Rate Base (%) | 7.80% | 10.41% | 0.00% | 0.00% | 0.00% | 0.00% |
| 16 | Target Return - Equity on Rate Base | 10.41% | 10.41% | 0.00% | 0.00% | 0.00% | 0.00% |
| 17 | Sufficiency/Deficiency in Return on Equity | -2.61% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 18 | Indicated Rate of Return | 7.14% | 8.18% | 6.08% | 0.00% | -5.98% | 0.00% |
| 19 | Requested Rate of Return on Rate Base | 8.18% | 8.18% | 0.00% | 0.00% | 0.00% | 0.00% |
| 20 | Sufficiency/Deficiency in Rate of Return | -1.04% | 0.00% | 6.08% | 0.00% | -5.98% | 0.00% |
| 21 | Target Return on Equity | $9,415,656 | $9,415,656 | $ - | $ - | $ - | $ - |
| 22 | Revenue Deficiency/(Sufficiency) | $2,356,944 | $ - | ($13,738,347) | $ - | $13,527,807 | $ - |
| 23 | **Gross Revenue Deficiency/(Sufficiency)** | $3,195,856 **(1)** | | ($18,628,267) **(1)** | | $18,342,789 **(1)** | |

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

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Ontario

# REVENUE REQUIREMENT WORK FORM

Name of LDC: Great Lakes Power Transmission LP
File Number:
Rate Year: 2012

## Revenue Requirement

| Line No. | Particulars | Application | | | | Per Board Decision | |
|---|---|---|---|---|---|---|---|
| 1 | OM&A Expenses | $9,455,625 | | $9,455,625 | | $9,455,625 | |
| 2 | Amortization/Depreciation | $8,615,893 | | $8,615,893 | | $8,615,893 | |
| 3 | Property Taxes | $271,271 | | $271,271 | | $271,271 | |
| 4 | Capital Taxes | $ - | | $ - | | $ - | |
| 5 | Income Taxes (Grossed up) | $1,521,897 | | $1,521,897 | | $1,521,897 | |
| 6 | Other Expenses | $ - | | | | | |
| 7 | Return | | | | | | |
| | Deemed Interest Expense | $9,088,233 | | $ - | | $ - | |
| | Return on Deemed Equity | $9,415,656 | | $ - | | $ - | |
| 8 | Distribution Revenue Requirement before Revenues | $38,368,574 | | $19,864,686 | | $19,864,686 | |
| 9 | Distribution revenue | $38,337,474 | | $ - | | $ - | |
| 10 | Other revenue | $31,100 | | $ - | | $ - | |
| 11 | **Total revenue** | $38,368,574 | | $ - | | $ - | |
| 12 | **Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)** | $ - | (1) | ($19,864,686) | (1) | ($19,864,686) | (1) |

**Notes**
(1) Line 11 - Line 8

Exhibit 1, Tab 2, Schedule 7

Sensitivity Analysis

## SENSITIVITY ANALYSIS

| Change Criteria | Proportional Change in 2011 Revenue Requirement | Proportional Change in 2012 Revenue Requirement |
|---|---|---|
| 1% Increase in Rate Base | $210,025, or 0.58% | $218,553, or 0.57% |
| 1% Increase in Cost of Service[1] | $174,647, or 0.48% | $183,428, or 0.48% |
| 5% Increase in Cost of Service[1] | $873,235, or 2.40% | $917,140, or 2.39% |
| 1% Increase in Cost of Long-Term Debt[2] | $1,216,863, or 3.34% | $1,266,275, or 3.30% |
| 1% Increase in Cost of Short-Term Debt[3] | $86,919, or 0.24% | $90,448, or 0.24% |
| 1% Increase in Cost of Equity[4] | $1,211,412, or 3.33% | $1,226,416, or 3.20% |
| 1% Change in Capital Structure[5] | $158,633, or 0.44% | $164,961, or 0.43% |

[1] Cost of Service includes OM&A, Depreciation and Property taxes
[2] The increase in Cost of Debt is an increase of 1% to each of the proposed Long Term and Short Term Debt rates
[3] The increase in Cost of Debt is an increase of 1% to each of the proposed Long Term and Short Term Debt rates
[4] The increase in Cost of Equity is an increase of 1% to the proposed Return on Equity rate
[5] The impact of a 1% change in capital structure is calculated by decreasing the long-term debt component from 56% to 55% and increasing the equity component from 40% to 41%.

Exhibit 1, Tab 3, Schedule 1

Audited Financial Statements - Historical (2009)

# AUDITED FINANCIAL STATEMENTS – 2009

GLPT's audited financial statements for 2009 are provided in **Appendix "A"**.

# APPENDIX "A"

## Audited Financial Statements for 2009

Financial Statements

# GREAT LAKES POWER TRANSMISSION LIMITED PARTNERSHIP

December 31, 2009

Deloitte.

Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON  M5J 2V1
Canada

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# Auditors' Report

To the Partners of
Great Lakes Power Transmission Limited Partnership

We have audited the balance sheet of Great Lakes Power Transmission Limited Partnership (the "Partnership") as at December 31, 2009 and the statements of partners' equity, income and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the General Partner, Great Lakes Power Transmission Inc.  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 Partnership as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

April 9, 2010

# Great Lakes Power Transmission Limited Partnership

## Balance Sheet

as at December 31, 2009

| *thousands of CDN dollars* | *Notes* | | **2009** | | 2008 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| ***Current Assets*** | | | | | |
| Cash | | **$** | **393** | $ | 1,990 |
| Accounts receivable | | | **3,152** | | 3,014 |
| Due from related parties | *5* | | **203** | | - |
| Prepaid expenses and other | | | **215** | | - |
| Current portion of regulatory asset | *8* | | **358** | | 1,649 |
| | | | **4,321** | | 6,653 |
| **Pension asset** | *9* | | **1,587** | | - |
| **Regulatory asset** | *8* | | **716** | | 4,044 |
| **Property, plant and equipment, net** | *6* | | **215,401** | | 212,330 |
| | | **$** | **222,025** | $ | 223,027 |
| **Liabilities and Capital Account** | | | | | |
| ***Current liabilities*** | | | | | |
| Accounts and other payables | | **$** | **1,635** | $ | 505 |
| Current portion of regulatory liability | *8* | | **1,340** | | - |
| Due to related parties | *5* | | **279** | | 2,080 |
| | | | **3,254** | | 2,585 |
| **Pension liability** | *9* | | **1,837** | | - |
| **Regulatory liability** | *8* | | **2,680** | | 2,512 |
| **Trans senior bonds** | *7* | | **117,025** | | 119,079 |
| | | | **124,796** | | 124,176 |
| **Partners' Equity** | | | **97,229** | | 98,851 |
| | | **$** | **222,025** | $ | 223,027 |

# Great Lakes Power Transmission Limited Partnership

## Statement of Partners' Equity

for the year ended December 31, 2009

| *thousands of CDN dollars* | *Notes* | **Brookfield Infrastructure Holdings (Canada) Inc.** | **Great Lakes Power Transmission Inc.** | **2009** | 2008 |
|---|---|---|---|---|---|
| Partners' equity, beginning of year | | $ 98,754 | $ 97 | **$ 98,851** | $ 76,409 |
| Allocation of net income | | 7,371 | 7 | **7,378** | 10,708 |
| Allocation of contributed surplus adjustment | *14* | - | - | **-** | 21,275 |
| Distributions | | (8,991) | (9) | **(9,000)** | (9,541) |
| **Partners' equity, end of year** | | $ 97,134 | $ 95 | **$ 97,229** | $ 98,851 |

# Great Lakes Power Transmission Limited Partnership
## Statement of Income and Comprehensive Income
for the year ended December 31, 2009

| *thousands of CDN dollars* | *Notes* | | **2009** | | 2008 |
|---|---|---|---|---|---|
| **Revenues** | | **$** | **31,888** | $ | 35,074 |
| **Expenses** | | | | | |
| Operating and administration | | | **6,288** | | 5,021 |
| Maintenance | | | **1,622** | | 2,309 |
| Taxes, other than income taxes | | | **93** | | 66 |
| | | | **8,003** | | 7,396 |
| | | | **23,885** | | 27,678 |
| Interest | *11* | | **7,832** | | 7,787 |
| Depreciation | | | **6,973** | | 6,549 |
| Loss on disposal of property, plant and equipment | *8* | | **1,649** | | 1,749 |
| Other expenses | | | **53** | | 28 |
| Net income before income taxes | | | **7,378** | | 11,565 |
| Current tax provision | *12* | | **-** | | 754 |
| Future tax provision | *12* | | **-** | | 103 |
| **Net income and comprehensive income** | | **$** | **7,378** | $ | 10,708 |

# Great Lakes Power Transmission Limited Partnership
## Statement of Cash Flows
for the year ended December 31, 2009

| *thousands of CDN dollars* | *Notes* | **2009** | 2008 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | | **$ 7,378** | $ 10,708 |
| Items not affecting cash; | | | |
| Depreciation | | **6,973** | 6,549 |
| Amortization of prepaid expenses | | **611** | 178 |
| Non-cash interest expense | | **144** | 40 |
| Future income taxes | | **-** | 103 |
| Loss on disposal of property, plant and equipment | | **1,649** | 1,749 |
| Net change in non-cash working capital and other | *10* | **(390)** | (2,811) |
| | | **16,365** | 16,516 |
| **Investing activities** | | | |
| Receipt of amounts due from related parties | | **-** | 3,718 |
| Proceeds on disposition of property, plant and equipment | | **2** | 7 |
| Additions to property, plant and equipment | | **(11,244)** | (13,538) |
| Net changes in regulatory assets and liabilities | | **2,280** | (2,810) |
| | | **(8,962)** | (12,623) |
| **Financing activities** | | | |
| Dividends paid | | **(9,000)** | (9,541) |
| Increase in borrowings | | **-** | 4,250 |
| | | **(9,000)** | (5,291) |
| Decrease in cash | | **(1,597)** | (1,398) |
| Cash, beginning of year | | **1,990** | 3,388 |
| **Cash, end of year** | | **$ 393** | $ 1,990 |

## 1. NATURE AND DESCRIPTION OF BUSINESS

Great Lakes Power Transmission Limited Partnership (the "Partnership") was formed on May 17, 2007 for the purpose of acquiring the assets and liabilities of the transmission division of Great Lakes Power Limited ("GLPL"). The Partnership completed this purchase on March 12, 2008 for total cash consideration of $92,500, which was paid directly to GLPL by Brookfield Infrastructure Partners LP ("BIP"), the ultimate parent of the Partnership. BIP then contributed these net assets directly to the Partnership.

Brookfield Infrastructure Holdings (Canada) Inc. is the Limited Partner and holds a 99.9% interest in the Partnership. Great Lakes Power Transmission Inc., the General Partner, holds a 0.1% limited interest in the Partnership and is responsible for management of the Partnership. Both the General and Limited partners are wholly owned subsidiaries of BIP.

As both the Partnership and GLPL were owned and operated by the same ultimate parent at the time of the acquisition, this transaction constitutes a reorganization of entities under common control and has been accounted for using the continuity of influence method. Accordingly, these financial statements have been presented giving retroactive effect to this transaction using historical carrying costs of the assets and liabilities of the transmission division of GLPL for all periods presented. This treatment is described in further detail in note 2.

The Partnership is engaged in the transmission of electricity to the area adjacent to Sault Ste. Marie, Canada and is subject to the regulations of the Ontario Energy Board (the "OEB").

## 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are reported in thousands of Canadian dollars, except as otherwise noted.

These financial statements reflect the results of the Partnership for the twelve month period ended December 31, 2009. As required under the continuity of influence method these financial statements have been prepared as if the Partnership owned the assets and liabilities of Great Lakes Power Limited Transmission Division ("GLPLTD") in the comparative period. As the Partnership did not have any of its own operations prior to March 12, 2008 the comparatives contained within these financial statements effectively represent the operations of GLPLTD for the period January 1 to March 12, 2008 and the results of the Partnership for the period March 13 to December 31, 2008. The difference between the exchange value of the assets and liabilities transferred on sale and the proceeds has been treated as an increase to contributed surplus as of March 12, 2008 (see note 14).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of these financial statements:

(a) *Property, plant and equipment*

Property, plant and equipment are recorded at cost, including costs of acquisition incurred by the Partnership, less accumulated depreciation. The cost of the property, plant and equipment is depreciated over the estimated service lives of the assets as follows:

| | Method | Rate |
|---|---|---|
| Buildings | Straight-line | 40 years |
| Transmission stations, towers and related fixtures | Straight-line | 25 to 40 years |
| Equipment | Straight-line | 5 to 40 years |

Construction work in progress is not depreciated until the assets are put into service.

(b) *Impairment of long-lived assets*

The Partnership reviews long-lived assets for other than temporary impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The determination of whether impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. Should an asset be considered to be impaired, an impairment loss is recognized in an amount equal to the excess of the asset's carrying value over its fair value.

(c) *Deferred financing fees*

Financing costs associated with the offering of debt are capitalized, netted against the debt, and amortized over the term of the debt using the effective interest method.

(d) *Capitalization of interest*

Interest on funds used in construction is charged to construction work in progress at the prescribed rate of return applicable to the rate base.

(e) *Revenue recognition*

The Partnership recognizes revenue on an accrual basis, when electricity is wheeled, at the regulated rate established by the OEB.

(f) *Income taxes*

As of March 12, 2008, the date of the transfer of the transmission assets from GLPL, the Partnership recorded no income tax transactions, and balances previously recorded by GLPLTD have been adjusted against contributed surplus. This is because the Partnership is not subject to income taxation as a result of its formation as a limited partnership.

Prior to March 12, 2008, the Partnership used the asset and liability method in accounting for income taxes. Under this method, future income tax assets and liabilities were determined based on differences between the financial reporting and tax basis of assets and liabilities, and were measured using the enacted, or substantively enacted, tax rates and laws that would have been in effect when the differences are expected to reverse, taking into account the organization of the Partnership's financial affairs and its impact on taxable income and tax losses.

(g) *Pension and Employee Future Benefits*

The cost of retirement benefits for the Partnership's defined benefit pension plan and post employment benefits is recognized as the benefits are earned by employees. The Partnership uses the projected benefit method pro-rated on the length of service and management's best estimate assumptions to value its pension and other retirement benefits. Assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are being amortized on a linear basis over the average remaining service period of active members expected to receive the benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service lives under the defined benefit pension plan as at December 31, 2009 varies from 12.0 to 16.0 years. The average remaining service life under the post-employment benefit plan as at December 31, 2009 is 16.0 years.

(h) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. During the years presented, management has made a number of estimates and valuation assumptions including accruals and depreciation. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

(i) *Rate Regulation*

On January 1, 2005, the Partnership adopted CICA Handbook Accounting Guideline 19, *Disclosure by Entities Subject to Rate Regulation*. The Partnership is regulated by the OEB. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred costs will be recovered in the future, the Partnership may defer these costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, the Partnership reports a regulatory liability. Also, if the regulation provides for lesser or greater planned revenue to be received or returned by the Partnership through future rates, the Partnership recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation.

(j) *Goodwill and Intangible Assets*

Effective January 1, 2009, the Partnership adopted CICA Handbook Section 3064, Goodwill and Intangible Assets ("Section 3064"), replacing Handbook Sections 3062, Goodwill and Other Intangible Assets and 3450, Research and Development Costs.

Section 3064 established standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles by profit-oriented enterprises. Implementation of this standard did not have a material impact on the Partnership's financial statements.

## 4. CHANGES IN ACCOUNTING POLICIES

### Rate Regulated Enterprises

During 2007, the Accounting Standards Board ("AcSB") issued an exposure draft proposing to remove all specific references to rate regulated accounting from the CICA Handbook. In August 2007, the AcSB decided to remove a temporary exemption in CICA Handbook Section 1100 "Generally Accepted Accounting Principles", retain existing references to rate regulated accounting in the CICA Handbook, amend CICA Handbook Section 3465 "Income Taxes" to require the recognition of future income tax liabilities and assets as well as a corresponding regulatory asset or liability, and retain existing requirements to disclose the effects of rate regulation per AcG-19. The new rules will apply retrospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2009.

As explained in note 3, the Partnership is not subject to income taxation and as a result these changes did not have an impact on the Partnership.

### Credit Risk and the Fair Value of Financial Assets and Liabilities – EIC-173

In January 2009, the Emerging Issues Committee of the CICA issued Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which was effective for the Partnership on January 1, 2009, had no impact on the financial position or results of operations because the Partnership had been incorporating the aforementioned credit risks into its valuation methodology before the EIC was issued.

### Financial Instruments – Disclosures – Handbook Section 3862

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments – Disclosures*, to enhance disclosure requirements about the liquidity risk of financial instruments, to include new disclosure requirements about fair value measurements of financial instruments and to include implementation guidance about fair value measurement disclosures to assist in applying the Handbook Section. Handbook Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

i. Level 1 – inputs are based on unadjusted quoted prices in active markets for identical assets and liabilities;
ii. Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
iii. Level 3 – inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments to Handbook Section 3862 had no impact on the Partnership's financial position or results of operations.

*(thousands of CDN dollars)*

## 5. RELATED PARTY TRANSACTIONS

(a) In the normal course of operations, Riskcorp Inc., an insurance broker related through common control, entered into transactions with GLPLTD and the Partnership to provide insurance. These transactions have been measured at exchange value. The total cost allocated to the Partnership in 2009 was $178 (2008 - $115) and no amount remains outstanding at year end (2008 - $nil).

(b) In accordance with an OM&A agreement that existed between the Partnership and GLPL between March 13, 2008 and June 30, 2009, the transmission assets were operated by GLPL, and all costs were passed on to the Partnership. GLPL was responsible for all operating, maintenance, administrative, and capital activity, the cost of which was tracked and billed to the Partnership with no mark-up.

(c) The Partnership has provided services to and received services from entities under common control in the normal course of operations. The balances payable and receivable for these services are non-interest bearing and unsecured. The balances payable to and receivable from related parties will come due during the following year.

(d) As a result, the following balances are receivable (payable) at December 31:

| | **2009** | 2008 |
|---|---|---|
| *Due from related parties* | | |
| Services provided to entities under common control | **$ 203** | $ - |
| *Due to related parties* | | |
| Services received from entities under common control | **(279)** | - |
| Costs paid by GLPL on behalf of the Partnership | **-** | (2,080) |
| | **$ (76)** | $ (2,080) |

## 6. PROPERTY, PLANT AND EQUIPMENT

| | **Cost** | **Accumulated Depreciation** | **2009 Net Book Value** | 2008 Net Book Value |
|---|---|---|---|---|
| Land | **$ 929** | **$ -** | **$ 929** | $ 544 |
| Buildings | **15,224** | **4,552** | **10,672** | 10,192 |
| Transmission stations, towers and related fixtures | **270,766** | **70,934** | **199,832** | 199,366 |
| Construction work in progress | **3,968** | **-** | **3,968** | 2,228 |
| | **$ 290,887** | **$ 75,486** | **$ 215,401** | $ 212,330 |

Cost and accumulated depreciation as at December 31, 2008 were $278,605 and $66,275, respectively.

During 2009, the Partnership disposed of assets that had a net book value of $2 for net proceeds of $2 (2008 - $107 and $7, respectively).

*(thousands of CDN dollars)*

## 7. TRANS SENIOR BONDS

On March 12, 2008, the financing agreement of the First Mortgage Bonds was amended to remove the security against the generation assets and to convert 31.25% of the principal amount of the Series 1 Bonds into Trans Senior Bonds having a principal of $120,000, the terms of which remain substantially unchanged. The Trans Senior Bonds are now secured by a charge on transmission present and future real property assets of the Partnership. On behalf of the Partnership, a company related through common control, Brookfield Renewable Power Inc. ("BRPI"), obtained a letter of credit in the amount of $3,960 to cover six months of interest payments on the Trans Senior Bonds.

The fair market value of the Trans Senior Bonds is $131,951 based on current market prices for debt with similar terms (2008 - $110,990). Amortization of deferred financing fees for the year related to the Partnership's long-term debt is included in interest expense and totalled $144 (2008 - $40).

The Trans Senior Bonds ("the Bonds") bear interest at the rate of 6.6%. Semi-annual payments of interest only are due and payable on June and December 16 each year until and including June 16, 2013. Equal blended semi-annual payments of principal and interest on the Bonds will commence on December 16, 2013 and will continue until and including June 16, 2023. The Bonds will not be fully amortized by their maturity date. The remaining principal balance of the Bonds will be fully due on June 16, 2023.

During the year management evaluated its previous estimates surrounding regulatory assets to determine if amounts would be collected in future rate applications. As a result it was determined that $2,198 of deferred financing fees should be reclassified from regulatory assets to Trans Senior Bonds.

| | **2009** | 2008 |
|---|---|---|
| Trans Senior Bonds | **$ 120,000** | $ 120,000 |
| Less: Unamortized deferred financing fees | **(2,975)** | (921) |
| | **$ 117,025** | $ 119,079 |

*(thousands of CDN dollars)*

## 8. EFFECT OF RATE REGULATION

The Partnership recorded the following regulatory assets and liabilities as at December 31:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| *Regulatory assets:* | | | | |
| Deferred loss on disposal of transmission assets | **$** | **-** | $ | 1,649 |
| Wholesale metering services rebates | | **-** | | 465 |
| Reorganization costs relating to the transfer of assets | | **1,041** | | 3,562 |
| Other regulatory assets | | **33** | | 17 |
| Less: current portion | | **(358)** | | (1,649) |
| Long-term portion | **$** | **716** | $ | 4,044 |
| *Regulatory liability:* | | | | |
| Deferred rate impact accrual | **$** | **2,578** | $ | 2,512 |
| Deferred loss on disposal of transmission assets | | **71** | | - |
| Wholesale metering services rebates | | **122** | | - |
| Changes in tax legislation | | **1,249** | | - |
| Less: current portion | | **(1,340)** | | - |
| Total | **$** | **2,680** | $ | 2,512 |

The Partnership operates in accordance with the regulations of the OEB. Regulatory assets and liabilities represent certain revenues earned or costs incurred in the current year or in prior years that have been or are expected to be recovered from customers upon approval from the OEB. In the absence of rate regulation, these balances would have been recorded as revenues or expenses in the statement of income and comprehensive income.

*Reorganization costs relating to the transfer of assets*

These reorganization costs were the result of the transfer of the Partnership's assets from GLPL to the Partnership. Legislation through the *Ontario Energy Board Act, 1998* requires the separation of transmission assets from generation assets; however, GLPL had an exemption to operate its transmission, distribution, and generation business within the same company until December 31, 2008. The costs associated with the transfer of the Partnership's assets were capitalized as regulatory assets as they are eligible for recovery through future rates, subject to OEB approval. The Partnership has included its request to recover this amount in its 2010 rate application filed with the OEB on November 30, 2009.

*Other regulatory assets*

Other regulatory assets are driven by three drivers, as follows:

(a) The Partnership incurred costs related to a study undertaken as a result of the settlement agreed upon in the last transmission rate application. As approved by the OEB, these costs have been deferred and will be recovered at a later date, and there is no risk of non-collection of this balance. The Partnership has included its request to recover this amount in its 2010 rate application filed with the OEB on November 30, 2009.

(b) The Partnership incurred incremental administrative expenses related to IFRS. The OEB has approved a deferral account to track incremental administrative expenses for the purposes of future recovery. The Partnership will include its request to recover this amount in its next rate application filing to the OEB.

(c) The Partnership incurred incremental costs related to the OEB's Feed-in-Tariff program, which is a program initiated for the development of renewable generation. The OEB has approved a deferral account to track similar costs for other regulated utilities in the province, and the Partnership believes it will be eligible to recover these costs through a future rate application. The Partnership will include its request to recover this amount in its next rate application filing to the OEB.

*Deferred rate impact accrual*

The deferred rate impact accrual ("DRIA") was for revenues being recovered through the 2005 rate application filed with the OEB. On November 1, 2007, the OEB implemented a new uniform transmission rate as a result of the rate application filed by Hydro One Networks Inc. This resulted in the termination of the over recovery of the DRIA. At December 31, 2009, the DRIA balance of $2,578 is payable to the Ontario transmission rate-payers. The Partnership has included its request to disburse this amount in its 2010 rate application filed with the OEB on November 30, 2009.

*Deferred loss on disposal of transmission assets*

As prescribed by regulatory order, gains or losses on disposals of assets are recorded as a regulatory asset or liability subject to approval by the OEB. For the year ended December 31, 2005, GLPLTD incurred a loss on disposal of transmission assets of $8,246. This regulatory asset was recovered over a period of five years, which commenced on April 1, 2005, through rate increases. During 2009, the Partnership recovered the remaining $1,649, plus an additional $71 of the deferred loss. The Partnership has included its request to disburse this amount in its 2010 rate application filed with the OEB on November 30, 2009.

*Wholesale metering services rebates*

As prescribed by regulatory order, the rebates related to metering services were recorded as a regulatory asset. The Partnership was responsible for paying the rebates and recording them in a regulatory asset deferral account. As a result of a change in a management assumption in 2009, the Partnership reduced the balance of the deferral account by the total costs avoided as a result of no longer providing meter services between 2005 and 2009. The Partnership has included its request to disburse this amount in its 2010 rate application filed with the OEB on November 30, 2009.

*Changes in tax legislation*

This amount relates to differences that resulted from legislative changes to tax rates and rules in comparison to those rates and rules assumed in the Partnership's most recently approved revenue requirement. The purpose of capturing these amounts for future disbursal or recovery is to ensure that both ratepayers and regulated utilities are protected from changes in legislation that may affect the amount of taxes payable by a utility in any given year.

Between 2005 and 2009, income and capital tax rates have declined, resulting in the Partnership collecting a surplus of revenue when compared to the actual tax expenses incurred. As a result, the Partnership is required to return the excess funds to ratepayers and has included its request to disburse this amount in its 2010 rate application filed with the OEB on November 30, 2009.

## 9. PENSION AND EMPLOYEE FUTURE BENEFITS

The Partnership is part of a registered defined benefit, final pay pension plan and an unfunded non-pension benefit plan (the “Plans”). The Plans were transferred to the Partnership from GLPL on July 1, 2009, and they are representative of the employees transferred from GLPL to the Partnership on the same date. The consideration paid from GLPL to the Partnership as a result of the transfer was $156.

The non-pension plan includes benefits such as health and dental care, retirement bonuses and life insurance. The obligation under these plans is determined periodically through the preparation of actuarial valuations. The benefit plan contribution for the Partnership for 2009 was $298. The investment rate of return was 7.50%. The discount rate used was 7.50% with a rate of compensation increase of 3.50%.

The Partnership also participates in a defined contribution pension plan provided to certain employees. The Partnership contributes amounts based on the level of employee contributions for this plan.

The Partnership’s defined benefit pension plan and post employment benefits information is provided in the following table. As the stand-alone plan is a new plan for the Partnership, no comparative information is available.

*(thousands of CDN dollars)*

| | | 2009 |
|---|---|---|
| | **Defined Benefit Pension Plan** | **Non-Pension Benefits Plan** |
| **Weighted average assumptions** | | |
| **Benefit obligation** | | |
| Discount rate | 6.70% | 6.70% |
| Rate of compensation increase | 3.50% | 3.50% |
| Initial health care trend rate | - | 7.07% |
| Ultimate trend rate | - | 4.43% |
| Year ultimate rate reached | - | 2029 |
| **Benefit expense** | | |
| Discount rate | 7.50% | 7.50% |
| Long-term rate of return on plan assets | 7.50% | - |
| Rate of compensation increase | 3.50% | 3.50% |
| Initial health care trend rate | - | 7.18% |
| Ultimate trend rate | - | 4.43% |
| Year ultimate rate reached | - | 2029 |
| **Accrued benefit obligations** | | |
| Balance, beginning of period | $ 10,820 | $ 1,762 |
| Current service cost | 69 | 27 |
| Interest cost | 405 | 85 |
| Employee contributions | 57 | - |
| Net benefit payments | (313) | (55) |
| Actuarial loss | 1,252 | 768 |
| Balance, end of year | $ 12,290 | $ 2,587 |
| **Fair value plan assets** | | |
| Balance, beginning of period | $ 10,840 | $ - |
| Employer contributions | 243 | 55 |
| Employee contributions | 57 | - |
| Actual return on plan assets | 903 | - |
| Benefits paid | (313) | (55) |
| Balance, end of year | $ 11,730 | $ - |
| **Reconciliation of accrued benefit liability** | | |
| Plan (deficit) | $ (560) | $ (2,587) |
| Unamortized transitional obligation | 686 | 700 |
| Unamortized net actuarial loss | 1,461 | 50 |
| Accrued benefit asset (liability) | $ 1,587 | $ (1,837) |
| **Expense** | | |
| Current service costs | $ 69 | $ 27 |
| Interest cost | 405 | 85 |
| Actual return on plan assets | (903) | - |
| Actuarial loss | 1,252 | 768 |
| **Costs arising in the year** | 823 | 880 |
| Differences between costs arising in the period and costs recognized in the period in respect of: | | |
| Actuarial loss | (1,252) | (768) |
| Return on plan assets | 496 | - |
| Transitional obligation | 74 | 59 |
| **Net expense** | $ 141 | $ 171 |

*(thousands of CDN dollars)*

In 2009, the total employer expense for the Partnership's defined contribution pension plan was $28.

*Actuarial valuations*

Actuarial valuations for the Partnership's plans are required every year. The most recent actuarial valuations for the pension and non-pension benefit plans were completed on July 1, 2009. The Partnership measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The valuations include an indexation of pension payments of 2.0% per year. The Partnership may choose to perform valuations for these plans prior to the earliest required dates.

*Sensitivity analysis*

The Partnership's sensitivity in the non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2009, is summarized as follows:

| | Benefit Obligation | Benefit Expense |
|---|---|---|
| Impact of a 1% increase in health care cost trend rate | $ 1,150 | $ 117 |
| Impact of a 1% decrease in health care cost trend rate | $ (911) | $ (90) |

*Asset category*

The partnership's defined benefit pension plan asset allocations at December 31, by asset category are as follows:

| | **2009** |
|---|---|
| Equity securities | **61%** |
| Debt securities | **39%** |
| Total | **100%** |

*Cash payments*

All employer contributions were fully paid during the year and as such, no balance owing remains outstanding as at year-end.

## 10. STATEMENT OF CASH FLOWS

| | **2009** | 2008 |
|---|---|---|
| Accounts receivable | **$ (138)** | $ 165 |
| Prepaid expenses and other | **(826)** | - |
| Due from related parties | **(203)** | - |
| Pension asset and liability | **250** | - |
| Due to related parties | **(1,801)** | 1,493 |
| Accounts and other payables | **2,328** | (5,208) |
| Taxes payable | **-** | 739 |
| | **$ (390)** | $ (2,811) |

*(thousands of CDN dollars)*

Capital asset additions totaling $404 have been excluded from the Statement of Cash Flows as they remain unpaid at year end. During 2009, capital asset additions totaling $1,602 have been included in the Statement of Cash Flows as they were accrued at December 31, 2008 and paid in 2009.

## 11. INTEREST AND FINANCING FEES

The net interest and financing fees recorded in the financial statements at December 31 are comprised as follows:

| | | **2009** | | 2008 |
|---|---|---|---|---|
| Interest expense incurred | **$** | **7,920** | $ | 8,045 |
| Amortization of deferred financing fees | | **144** | | 40 |
| Other interest | | **(48)** | | 46 |
| Capitalized interest | | **(184)** | | (344) |
| | **$** | **7,832** | $ | 7,787 |

## 12. INCOME TAXES

The Partnership does not record income tax expenses as it is not subject to income taxation as a result of its formation as a limited partnership.

The provision for income taxes in the statement of income and comprehensive income represents the income taxes payable for the period from January 1, 2008 to March 12, 2008, while the ownership and operation of the transmission assets was the responsibility of GLPL. The provision for income taxes in the 2008 comparative statement of income and comprehensive income represents an effective tax rate different than the Canadian statutory rate of 33.50%. The differences are as follows:

| | | **2009** | | Mar 12, 2008 |
|---|---|---|---|---|
| Net income before taxes | **$** | **-** | $ | 2,683 |
| Computed income tax expense at Canadian statutory rate | | **-** | | 899 |
| *Decrease resulting from:* | | | | |
| Impact of future rate change on future income tax liability | | **-** | | (42) |
| Income tax provision | **$** | **-** | $ | 857 |

The Partnership does not record a future income tax liability as it is not subject to income taxation as a result of its formation as a limited partnership.

## 13. PARTNERSHIP UNITS

The Partnership is authorized to issue an unlimited number of Class A and Class B partnership units, of which 19,898 Class A units and 1 Class B unit were issued and outstanding as at December 31, 2008. There has been no change in the number of units issued during 2009 and the value of these units is nominal.

*(thousands of CDN dollars)*

## 14. CONTRIBUTED SURPLUS

As part of the purchase and sale agreement between GLPL and the Partnership (discussed in note 1) certain assets and liabilities were excluded from the transfer. As a result, the Partnership has recorded the following adjustments to remove these amounts and has credited them to contributed surplus:

| | March 12, 2008 |
|---|---|
| Taxes payable | $ 1,848 |
| Future income tax liability | 19,442 |
| PST receivable | (500) |
| | **$ 20,790** |

In addition a contribution of $485k was made by BIP and has been included in contributed surplus.

| | March 12, 2008 |
|---|---|
| Assets and liabilities not transferred to the Partnership | $ 20,790 |
| Contribution of capital by Brookfield Infrastructure Partners LP | 485 |
| | **$ 21,275** |

## 15. FUTURE ACCOUNTING POLICY CHANGES

### International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board of Canada (“AcSB”) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Partnership is in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. Although the impact of the adoption of IFRS on the Partnership’s financial position and results of operations is not yet reasonably determinable or estimable, the Partnership does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS.

### Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.

This section has also been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment applies retrospectively to financial statements for fiscal years beginning on or after January 1, 2010. The Partnership expects these amendments will have no impact on its results of operations and financial position.

*(thousands of CDN dollars)*

### Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625 – "Comprehensive Revaluation of Assets and Liabilities" to be consistent with Handbook Section 1582 – "Business Combinations", Handbook Section 1601 and Handbook Section 1602, which were issued in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Partnership does not expect these amendments to have an impact on its results of operations and financial position.

## 16. CAPITAL MANAGEMENT

The Partnership's primary capital management objective is to ensure the sustainability of its capital to support continuing operations, meet its financial obligations, allow for growth opportunities and provide stable dividends to its partners. The Partnership manages its capital to maintain an investment grade credit rating while providing its ultimate parent with a prudent use of leverage to enhance returns and ensure access to incremental borrowings needed to fund new growth initiatives.

The Partnership manages its capital structure in accordance with changes in economic conditions. Generally, developments are funded with external borrowings. In order to adjust the capital structure, the Partnership may elect to adjust the dividend amount paid to its partners, increase or reduce the equity participation in new and existing operations, adjust the level of capital spending or issue new partnership units.

The Partnership manages its capital in order to maintain a debt to capitalization ratio below 75%. As at December 31, 2009, the ratio was 55% (2008 – 55%). The table below presents the detail of the Partnership's capitalization and the calculation of the ratio:

| | **2009** | 2008 |
|---|---|---|
| **Debt** | | |
| Trans Senior Bonds | **$ 120,000** | $ 120,000 |
| | **120,000** | 120,000 |
| Partners' equity | **97,274** | 98,851 |
| **Total capitalization** | **$ 217,274** | $ 218,851 |
| **Debt to capitalization** | **55%** | 55% |

## 17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Partnership classifies its financial assets and liabilities as outlined below:

Cash is designated as a financial asset held-for-trading and is measured at fair value through net income at each period end.

Accounts receivable as well as due from related parties are classified as loans and receivables, accounts and other payables, due to related parties, and Trans Senior Bonds are classified as other financial liabilities, and each are measured at fair value at inception and are subsequently measured at amortized cost using the effective interest method.

The carrying value approximates fair value for the Partnership's financial assets and liabilities, with the exception of long-term debt.

The Partnership has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. The Partnership's management is responsible for determining the acceptable level of risk.

**Market Risk**

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market prices.

*Interest Rates:*
The Partnership's long-term debt is subject to a fixed interest rate of 6.6%, payable semi-annually on June 16 and December 16. As a result of having fixed rate debt, fluctuations in market interest rates are not expected to materially affect the Partnership's cash flows.

**Credit Risk**

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Partnership would incur a loss in replacing the defaulted transaction. The Partnership's financial instruments that are potentially exposed to credit risks are accounts receivable. The Partnership actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures.

The vast majority of accounts receivable transactions entered by the Partnership are with the Independent Electricity System Operator ("IESO"). The IESO operates the provincial transmission system, and is a reliable counterparty. The quality of the Partnership's counterparties mitigates the Partnership's exposure to credit risk.

**Liquidity Risk**

Liquidity risk is the risk the Partnership cannot meet a demand for cash or fund an obligation when due. Liquidity risk is mitigated by the Partnership's cash and cash equivalent balances and through the use and management of amounts due from related parties. The Partnership is subject to risk associated with debt financing, including the ability to refinance its debt at maturity. This risk is mitigated by the long-term duration of the Partnership's debt secured by high quality assets.

## 18. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Partnership executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents the Partnership from making a reasonable estimate of the maximum potential amount the Partnership could be required to pay third parties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Partnership has not made significant payments under such indemnification agreements.

On behalf of the Partnership, BRPI obtained a letter of credit totalling $3,960 to cover six months of interest payments on the Trans Senior Bonds. No amount has been drawn against this letter of credit.

In the normal course of operations, the Partnership has committed as at December 31, 2009 to spend approximately $404 (2008 - $1,602) on capital projects in future years.

The Partnership may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the ordinary course of business which the Partnership believes would not reasonably be expected to have a material adverse effect on the financial condition of the Partnership.

There are no specified decommissioning costs relating to the Ontario transmission assets. The Partnership has a comprehensive repair and capital expenditure program to ensure that its transmission lines are maintained to optimum industry standards. Replacement of the assets occurs in accordance with a long term capital plan and would involve typical costs of removal as part of that process. In the circumstance where a portion of a line or other assets were removed completely, there may be some contractual obligations under private or crown easements or other land rights which require the transmission owner to reinstate the land to a certain standard, typically the shape it was prior to the construction of the transmission assets. As well, certain environmental, land use and/or utility legislation, regulations and policy may apply in which we would have to comply with remediation requirements set by the government. The requirements will typically depend on the specific property characteristics and what criteria the government determines to be appropriate to meet safety and environmental concerns. These asset lives are indeterminate given their nature. As the individual assets or components reach the end of their useful lives, they are retired and replaced. Historically, certain asset components have been replaced a number of times, thus creating a perpetual asset with an indeterminate life. As such, the retirement date for these lines cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be determined at this time. As a result, no liability has been accrued in these financial statements.

Exhibit 1, Tab 3, Schedule 2

Pro Forma Financial Statements (2010-2012)

## PRO-FORMA FINANCIAL STATEMENTS – 2010, 2011 & 2012

GLPT's pro forma financial statements for 2010, 2011 and 2012 are provided in **Appendix "A"**.

## <u>APPENDIX “A”</u>

## Pro Forma Financial Statements for 2010 - 2012

Pro-Forma
Financial Statements

# GREAT LAKES POWER TRANSMISSION LP

For the years ended December 31

# GREAT LAKES POWER TRANSMISSION LP
## PRO-FORMA BALANCE SHEET
### As at December 31

| *thousands of CDN dollars* | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| ***Current assets*** | | | |
| Cash | $ 2,360 | $ 1,735 | $ 902 |
| Accounts receivable | 3,210 | 3,051 | 2,970 |
| Materials and supplies | 250 | 250 | 250 |
| Prepaid expenses and other | 150 | 150 | 150 |
| | 5,970 | 5,186 | 4,272 |
| **Pension asset** | 1,587 | 1,587 | 1,587 |
| **Regulatory asset** | 1,500 | 1,200 | 981 |
| **Property, plant and equipment** | 233,403 | 233,595 | 219,431 |
| | $ 242,460 | $ 241,568 | $ 226,271 |
| **Liabilities and Capital Account** | | | |
| ***Current liabilities*** | | | |
| Accounts and other payables | $ 1,000 | $ 1,000 | $ 1,083 |
| Current portion of regulatory liability | 1,189 | 1,189 | 1,189 |
| | 2,189 | 2,189 | 2,272 |
| **Pension liability** | 1,837 | 1,837 | 1,837 |
| **Regulatory liability** | 1,234 | 2,423 | 3,611 |
| **Trans senior bonds** | 117,515 | 117,341 | 117,177 |
| **Intercompany loan** | 22,500 | 22,500 | 7,500 |
| | 145,275 | 146,289 | 132,397 |
| **Capital account** | 97,185 | 95,278 | 93,874 |
| | $ 242,460 | $ 241,568 | $ 226,271 |

# GREAT LAKES POWER TRANSMISSION LP
## PRO-FORMA STATEMENT OF PARTNERS' EQUITY
### Years ended December 31

| *thousands of CDN dollars* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Partners' equity, beginning of year | $ 95,278 | $ 93,874 | $ 97,229 |
| Allocation of net income | 10,907 | 10,405 | 6,645 |
| Distributions | (9,000) | (9,000) | (10,000) |
| **Partners' equity, end of year** | **$ 97,185** | **$ 95,278** | **$ 93,874** |

# GREAT LAKES POWER TRANSMISSION LP
## PRO-FORMA STATEMENT OF INCOME
### Years ended December 31

| *thousands of CDN dollars* | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Revenues** | $ 38,338 | $ 36,416 | $ 35,100 |
| **Expenses** | | | |
| Operating and administrative | 7,459 | 7,276 | 7,849 |
| Maintenance | 2,137 | 2,085 | 2,034 |
| Taxes, other than income taxes | 131 | 128 | 125 |
| | 9,727 | 9,489 | 10,008 |
| | 28,611 | 26,927 | 25,092 |
| Interest | 9,082 | 8,541 | 7,916 |
| Depreciation | 8,653 | 8,012 | 7,498 |
| Loss (gain) on disposal of property, plant and equipment | - | - | 3,064 |
| Other income, net | (31) | (31) | (31) |
| Net income before income taxes | 10,907 | 10,405 | 6,645 |
| Income taxes - current | - | - | - |
| Income taxes - future | - | - | - |
| **Net income and comprehensive income** | $ 10,907 | $ 10,405 | $ 6,645 |

# GREAT LAKES POWER TRANSMISSION LP
## PRO-FORMA STATEMENT OF CASH FLOWS
**Years ended December 31**

| *thousands of CDN dollars* | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ 10,907 | $ 10,405 | $ 6,645 |
| Items not affecting cash | | | |
| Depreciation | 8,653 | 8,012 | 7,498 |
| Amortization of prepaid expenses | - | - | 65 |
| Non-cash interest expense | 174 | 164 | 152 |
| Loss (gain) on disposal of property, plant and equipment | - | - | 3,064 |
| Net change in non-cash working capital and other | (159) | (164) | (696) |
| | 19,575 | 18,417 | 16,728 |
| **Investing activities** | | | |
| Additions to property, plant and equipment | (8,461) | (22,176) | (11,528) |
| Net changes in regulatory assets and liabilities | (1,489) | (1,408) | (2,191) |
| | (9,950) | (23,584) | (13,719) |
| **Financing activities** | | | |
| Distributions paid | (9,000) | (9,000) | (10,000) |
| Increase in borrowings | - | 15,000 | 7,500 |
| | (9,000) | 6,000 | (2,500) |
| Increase (decrease) in cash | 625 | 833 | 509 |
| Cash, beginning of year | 1,735 | 902 | 393 |
| **Cash, end of year** | $ 2,360 | $ 1,735 | $ 902 |

Exhibit 1, Tab 3, Schedule 3

Reconciliation

# RECONCILIATION TO FINANCIAL STATEMENTS

## 1.0 Operations, Maintenance and Administration (“OM&A”)

GLPT has provided *Table 1-3-3 A* which reconciles the total operating, maintenance and administration (“OM&A”) expenses from GLPT’s historical actual and pro-forma financial statements to the total OM&A expenses provided in Exhibit 4 of this application. The ‘Total OM&A per Financial Statements’ line in *Table 1-3-3 A* is equal to the ‘Operating and administration’ line plus the ‘Maintenance’ line in GLPT’s Statement of Income and Comprehensive Income in GLPT’s financial statements.

*Table 1-3-3 A – Reconciliation of OM&A to Financial Statements*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|
| **Total OM&A per Financial Statements** | **$5,894.0** | **$7,330.0** | **$7,910.0** | **$9,883.0** | **$9,361.0** | **$9,596.0** |
| *Reconciling Items:* | | | | | | |
| Net revenue - merchandising & jobbing | (27.1) | (0.1) | 6.1 | - | - | - |
| Accrual adjustment | 400.0 | - | (45.0) | - | - | - |
| Donations | (45.0) | - | (63.3) | - | - | - |
| First Nations PILs Tax | (133.2) | (129.0) | (128.8) | (133.0) | (136.0) | (140.0) |
| Other (rounding) | 0.8 | 1.0 | 0.1 | - | - | (0.4) |
| **Adjusted OM&A per Financial Statements** | **$6,089.6** | **$7,201.9** | **$7,679.1** | **$9,750.0** | **$9,225.0** | **$9,455.6** |
| **Total OM&A per Table 4-2-1 A** | **$6,089.6** | **$7,201.9** | **$7,679.4** | **$9,750.0** | **$9,225.0** | **$9,455.6** |

The reconciling items reflected in the table are described below:

*Net revenue – merchandising & jobbing* is the net of GLPT’s merchandising and jobbing revenue and expenses. In GLPT’s financial statements, they are included in OM&A. In this application, these costs and revenues are described in Other Income at Exhibit 3, Tab 1, Schedule 2.

*Accrual adjustment* is related to an adjustment arising from GLPT's audited financial statements in 2007. The amount in *Table 1-3-3 A* reflects a reduction made to GLPT's OM&A in the preparation of the 2007 audited financial statements, which arose as a result of an over-accrual of a prior period expense. If GLPT were to consider this adjustment in the 2007 OM&A in this application, the total OM&A would not be reflective of the actual operations of 2007. Because this adjustment was not related to actual 2007 operations, it was removed from GLPT's operating costs in Exhibit 4, Tab 1, Schedule 1, and throughout the application.

*Donations* are included in GLPT's OM&A per financial statements, but are not included in the OM&A GLPT is seeking in this application.

*First Nations PILs Tax* is related to GLPT's payments made in lieu of taxes to First Nations. In GLPT's financial statements, these costs are reflected in OM&A, however GLPT is seeking to recover these costs in Exhibit 4, Tab 3, Schedule 4 – property taxes.

## 2.0 Net Income

GLPT has provided *Table 1-3-3 B* which reconciles the net income per GLPT's pro-forma financial statements to the expected net income per GLPT's cost of capital.

*Table 1-3-3 B – Reconciliation of Net Income*

| ($000's) | 2011 | 2012 |
|---|---|---|
| **Net Income in Pro-Forma FS** | **$10,404.7** | **$10,906.7** |
| Add Back: | | |
| Disallowed Depreciation Expense | 37.1 | 37.1 |
| Actual Interest Expense | 8,541.3 | 9,082.1 |
| Subtract: | | |
| Income Tax Provision | (1,457.6) | (1,521.9) |
| Deemed Interest Expense | (8,694.5) | (9,088.2) |
| **Adjusted Pro-Forma Net Income** | **$8,831.1** | **$9,415.8** |
| Rate Base | 217,297.0 | 226,120.5 |
| Equity Component | 40.0% | 40.0% |
| Total Equity | 86,918.8 | 90,448.2 |
| ROE Rate | 10.16% | 10.41% |
| **Expected Regulatory Net Income** | **$8,830.9** | **$9,415.7** |
| **Variance** | **$0.1** | **$0.1** |

The reconciling items reflected in the table are described below:

*Disallowed Depreciation Expense* – GLPT's depreciation per financial statements includes $37,100 in deprecation expense related to a disallowed addition from 2005 (EB-2005-0241). This amount is to be added back to the financial statement net income.

*Actual Interest Expense* – this represents the actual interest expense incurred by GLPT, and is to be added back to the financial statement net income (and offset by the deemed interest expense described below).

*Income Tax Provision* – because GLPT's financial statements are prepared for the Limited Partnership, income tax is not included. As a result, the income tax provision included in rates is deducted from the financial statement net income.

*Deemed Interest Expense* – as noted above, the deemed interest expense needs to be deducted from net income to offset the addition of actual interest expense. Deemed interest needs to be included in the calculation of pro-forma net income from a regulatory perspective.

Exhibit 1, Tab 3, Schedule 4

Rating Report

## <u>RATING REPORT</u>

A copy of a Private Rating Report for Great Lakes Power Transmission LP, prepared by Dominion Bond Rating Service (DBRS) and dated September 14, 2010, is provided in **Appendix "A"**.

# APPENDIX "A"

## Private Rating Report for GLPT

# Great Lakes Power Transmission LP

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**The Company**
Great Lakes Power Transmission LP (GLPT) is a single-purpose subsidiary of Brookfield Infrastructure Partners (BIP) established in 2008 to purchase the transmission assets of Great Lakes Power Limited (GLPL) and assume $120 million of GLPL's senior secured bonds associated with the assets.

## Private Rating

| Debt | Private Rating | Rating Action | Trend |
|---|---|---|---|
| Senior Bonds | A | Confirmed | Stable |

## Rating Update

DBRS has confirmed the private rating on the $120 million of Series 1 Senior Bonds (the Bonds) of Great Lakes Power Transmission LP (GLPT or the Company) at "A" with a Stable trend. The rating confirmation reflects the strength of GLPT's regulated transmission assets and operations in northern Ontario and the cost-of-service-based rate framework which provides relatively stable and predictable cash flow.

For the 12-month period ended June 30, 2010, revenues and EBITDA were close to $32 million and $23 million, respectively. Substantial reinforcement and enhancement programs in recent years increased the rate base and extended asset life. Revenues and EBITDA are expected to remain reasonably stable in the medium term. Depreciation expenses are expected to be lower than capital expenditures at least through 2015, keeping the rate base relatively stable. The credit metrics are viewed as strong given the low level of business risk, with EBITDA-to-interest at 2.9 times (x), and cash flow-to-debt at 12%. DBRS expects GLPT to manage its distributions in order to maintain its regulatory-approved capital structure.

Due to the regulated nature of GLPT's business, the rating would be affected by potential changes in regulation. Unfavourable developments in laws or regulations relevant to GLPT or negative results in future rate cases could have a material impact on the Company. DBRS believes this risk is low, given the minimal change in transmission-related regulations in Ontario since the breakup of generation, transmission and distribution functions of the government-owned utilities. The refinancing risk is sufficiently mitigated by the long life and low-risk nature of GLPT's transmission assets and operations.

## Rating Considerations

**Strengths**
(1) Stable earnings from regulated rates
(2) Reliable and long-life assets with good operating history and recently completed system reinforcement and upgrades
(3) Six-month debt service reserve

**Challenges**
(1) Regulatory risk
(2) Approved ROEs sensitive to interest rates
(3) Refinancing risk with only partial amortization in later years and a balloon payment at maturity
(4) Some volume risk related to peak demand

## Summary Financial Information

| | Years ended December 31 | | | | LTM ended June 30 |
|---|---|---|---|---|---|
| | 2006R* | 2007* | 2008 | 2009 | 2010 |
| Revenues | 34.7 | 35.6 | 35.1 | 31.9 | 32.3 |
| EBITDA | 28.5 | 29.2 | 27.7 | 23.9 | 22.8 |
| Operating cash flow | 16.8 | 17.0 | 19.1 | 16.1 | 15.0 |
| Cash flow/total debt | 15% | 15% | 16% | 13% | 12% |
| Cash flow/capex | 0.87x | 0.95x | 1.41x | 1.43x | 1.55x |
| EBITDA interest coverage | 4.34x | 3.82x | 3.56x | 3.02x | 2.88x |
| Debt/EBITDA | 4.07x | 3.97x | 4.34x | 5.02x | 5.26x |
| Debt service coverage | 2.84x | 2.60x | 2.84x | 2.42x | 2.28x |
| Total debt in capital structure | 64.1% | 60.2% | 54.8% | 55.2% | 56.1% |

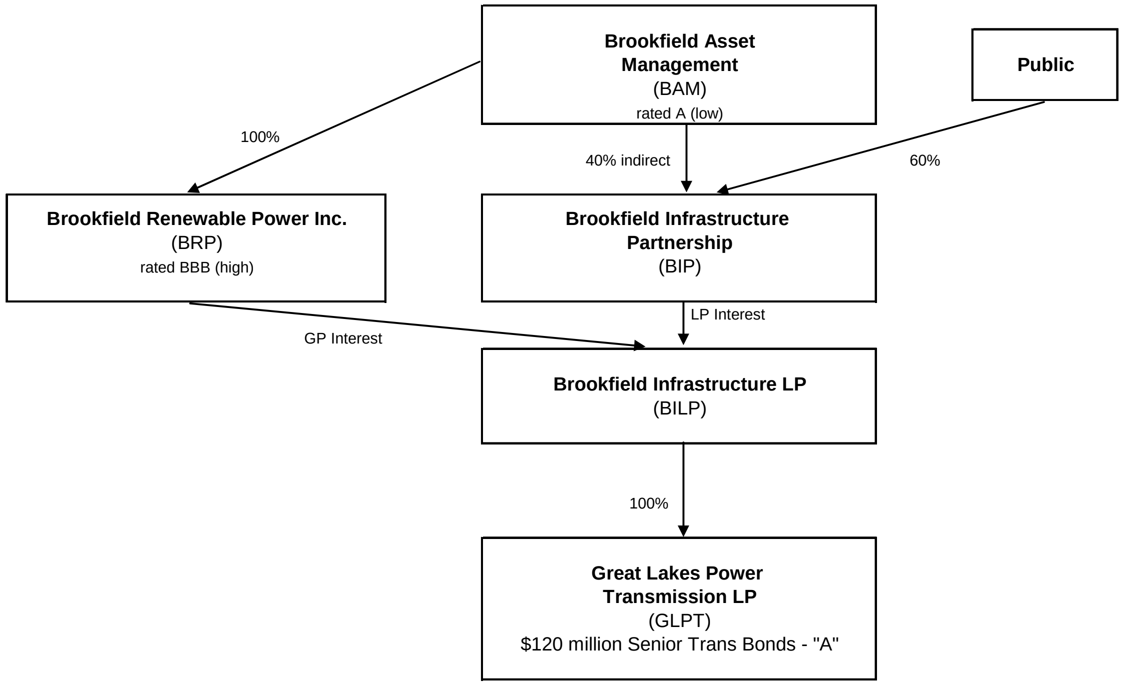
** Based on the statements of the transmission division of GLPL.*

Note: table may not add up due to rounding effects.

**Great Lakes Power Transmission LP**

**Report Date:**
September 14, 2010

## Simplified Organizational Chart




GLPT's Bonds have the following key covenants and security:

- Six-month debt service reserve in an account under the trustee's name for the benefit of the bondholders.
- Distribution test: Trailing and forward-looking 12-month EBITDA-to-debt service ratio no lower than 1.5 times.
- Debt incurrence test: Trailing 12-month EBITDA-to-pro forma interest no lower than 3.0 times; no rating change to the existing rating; a minimum rating of BBB; new bonds to have the same maturity date and amortize no sooner than existing bonds.

DBRS notes that the Bonds do not have a capex reserve requirement after the intensive capex program that was completed in the past several years. The capex requirements going forward are generally low and manageable.

## Rating Considerations Details

**Strengths**

(1) Regulated transmission in Ontario generally has low business risk, with relatively predictable revenues and cash flow. GLPT's transmission operation is regulated by the Ontario Energy Board (OEB) and under the cost-of-service ratemaking methodology. Rates are set to recover prudently-incurred costs, including O&M, depreciation, taxes, cost of debt and a return on equity.

According to the recent rate decision in July 2010, GLPT's transmission assets have: (a) an approved rate base of almost $209 million; (b) a regulated capital structure of 57.5/42.5 debt-to-equity; (c) an approved return on equity at 9.85% (5.5% premium over a Canadian government long-bond yield) and cost of long-term debt at 6.87%; and (d) a total revenue requirement of $35 million for 2010. The revenue requirement is received on a monthly basis from the Independent Electricity System Operator (IESO), a creation of the Province of Ontario (the Province) that receives its powers through provincial regulation and legislation. GLPT's revenue requirement is added to that of the other transmission owners in Ontario (with Hydro One Inc. having the dominant position). GLPT revenue requirements account for approximately 2.9% of the provincial total.

Major capital expenditures for lines longer than two kilometres would require the OEB's pre-approval through a Leave to Construct, which grants the approval to proceed with capital projects, with an expected capital cost. If actual costs exceed expected amounts, OEB approval is required to include the overages in rate base, with "prudency" usually being the key determinant in this process. Routine capital expenditures are approved through the rate application process.

(2) GLPT and its predecessor have been providing transmission service in its territory since 1916. The assets have been upgraded, replaced or re-enforced in cycles similar to what the Company carried out in recent years. Although revenues are not explicitly tied to performance, GLPT has been achieving good operating performance, which helps the Company maintain good standing with the regulators.

(3) The Bonds have a debt service reserve equal to six months of interest. This liquidity protection is considered adequate, given the stable and predicable nature of GLPT's business and manageable capex going forward.

**Challenges**

(1) Regulatory uncertainties are the main risk in GLPT's business. This risk factor is intertwined with other key risk factors such as unexpected increases in capital program costs. To the extent that the OEB deems capital cost overruns to be imprudent, GLPT would not be able to recover that portion of costs in rate base. This risk is relatively muted for the next five to ten years as the Company has completed a round of intensive capital improvements. Capital expenditures going forward will be mainly for routine maintenance and reinforcement. Annual costs are expected to be a manageable level of approximately $10 million to $15 million in the near to medium term and level off to less than $10 million after 2015. The sustaining or maintenance type of capital programs normally has limited scope or risk of construction work, if any, and more certainty in regulatory approval of full cost recovery. In addition, the Company has generally had a positive relationship with the regulators and has not had any significant difficulty in obtaining approval for its rate cases, either through pre-arranged negotiated settlements or through other regulatory processes. GLPT significantly increased its rate base from 2003 to 2007, with no major regulatory issues on capital cost recovery.

Although any unfavourable change in the rate framework and process and the general regulatory environment for electric transmission in Ontario could present uncertainty to GLPT's business, no significant, adverse changes are expected.

(2) In December 2009, the OEB changed its methodology on the calculation of a utility company's allowed return on equity (ROE). The formula was reset to address the relatively low ROE levels in the past few years and to reduce its sensitivity to changes in Canadian government long bond yield. In February 2010, the OEB issued a letter on the Cost of Capital Parameter Update for 2010 Cost of Service Applications and set a ROE of 9.85% in reflection of the financial market conditions. ROE calculations will still be partially based on the Canadian government bond yield, albeit to a lesser extent.

(3) The Bonds will be amortized per a 25-year mortgage-style schedule (or $10 million equal annual payments) after 2013 and will have a balloon payment (79% of original amount) due at maturity in 2023. The refinancing risk is mitigated by the long-lived, regulated and stable nature of GLPT's assets and operations. The Bonds outstanding at maturity are expected to be less than 60% of GLPT's then-current rate base and around 4.0 times projected EBITDA, which are viewed as financeable metrics, given the steady, low-risk cash flow stream of GLPT's regulated transmission business.

(4) Revenues are affected by the peak transmission demand in Ontario, which is part of the reason behind the 9% year-over-year decline in 2009. This volume risk is somewhat mitigated, however, as the volume forecast is updated and rates are recalculated annually to reflect the more current demand level.

## Financial Profile

| (CAD million) | For years ended December 31 | | | | LTM June 30 |
|---|---|---|---|---|---|
| | 2006R* | 2007* | 2008 | 2009 | 2010 |
| Transmission revenues | 34.7 | 35.6 | 35.1 | 31.9 | 32.3 |
| Operating costs | 6.2 | 6.4 | 7.4 | 8.0 | 9.5 |
| EBITDA | 28.5 | 29.2 | 27.7 | 23.9 | 22.8 |
| Depreciation | 5.5 | 6.1 | 6.5 | 7.0 | 7.3 |
| EBIT | 22.9 | 23.1 | 21.1 | 16.9 | 15.6 |
| Gross interest on senior debt | 6.6 | 7.6 | 7.8 | 7.9 | 7.9 |
| Other interest expense and/or amtz. of financing costs | - | (0.2) | 0.0 | (0.1) | (0.0) |
| Earnings before tax | 16.4 | 15.7 | 13.3 | 9.1 | 7.7 |
| Current income tax | 5.1 | 4.8 | 0.8 | - | - |
| Future income tax | (1.7) | (2.2) | 0.1 | - | - |
| Net income (before extras) | 13.0 | 13.1 | 12.5 | 9.1 | 7.7 |
| | | | | | |
| Estimated operating cash flow | 16.8 | 17.0 | 19.1 | 16.1 | 15.0 |
| Interest on senior debt | 6.6 | 7.6 | 7.8 | 7.9 | 7.9 |
| Cash available for debt service and capex | 23.4 | 24.7 | 26.9 | 24.0 | 22.9 |
| | | | | | |
| Maintenance capital expenditures | *4.8* | *4.8* | *4.8* | *4.8* | *4.8* |
| Enhancement capital expenditure | 14.5 | 13.2 | 8.7 | 6.4 | 4.9 |
| Total capital expenditure | 19.3 | 18.0 | 13.5 | 11.2 | 9.7 |
| | | | | | |
| Free cash flow | (2.5) | (1.0) | 5.6 | 4.8 | 5.3 |
| | | | | | |
| YE principal outstanding | 116 | 116 | 120 | 120 | 120 |
| EBITDA interest coverage | 4.34 x | 3.82 x | 3.56 x | 3.02 x | 2.88 x |
| EBITDA interest Coverage (after maintenance capex) | 3.61 x | 3.19 x | 2.94 x | 2.41 x | 2.28 x |
| Debt service coverage ratio (before maintenance capex) | 3.57 x | 3.23 x | 3.46 x | 3.03 x | 2.89 x |
| Debt service coverage ratio (after maintenance capex) | 2.84 x | 2.60 x | 2.84 x | 2.42 x | 2.28 x |
| Cash flow/debt | 15% | 15% | 16% | 13% | 12% |
| Debt/capital | 64% | 60% | 55% | 55% | 56% |
| Est. Rate Base | 196 | 197 | 197 | 197 | 200 |

** Based on the statements of the transmission division of GLPL.*
Note: Table may not add up due to rounding.

**Summary**

- EBITDA and earnings in 2009 were lower mainly due to the softer economy and peak transmission demand in the province.
- The operating expenses were higher due to a new operating structure that replaced the old operating and management agreement with GLPL. As of July 2009, GLPT is operated independently with its own staff and personnel.
- Enhancement capex has eased to more normalized levels since 2008.
- Key credit metrics in 2009, however, continued to be strong, given the low level of business risk, with EBITDA-to-interest of 3.0x, cash flow-to-debt of 13%, and debt-to-capital of 55%. These are consistent with the current "A" rating.

**Great Lakes Power Transmission LP**

**Report Date:**
September 14, 2010

**Outlook**

- The rate case approved in July 2010 resulted in a rate base of $209 million and revenue requirement of $35 million for 2010. A new rate case will be submitted later this year for 2011-2012.
- The capital structure in the current approval is 57.5% debt-to-capital. This is in transition to 60% in the next rate case, to be consistent with the level approved for all other transmission companies in the Province.
- The capital programs completed in 2005 have set up a very solid foundation for operations in the next ten to twenty years. Capital expenditures for the next few years, although slightly higher than the 20-year average, will be manageable and primarily maintenance related. DBRS expects the maintenance capex to be funded with internal cash flow.
- Revenues will be consistent with the rate base, staying above $35 million for the next few years, as depreciation stays more or less in line with capital spending and asset addition.
- The Bonds will begin to partially amortize in 2013 (25-year mortgage-style), reflecting the rate base and revenue profiles. DBRS expects GLPT to manage distribution levels in order to maintain the capital structure within regulatory-approved levels.
- Liquidity is viewed as adequate, with stable regulated cash flows and limited capital expenditures. The $4 million debt service reserve provides further protection against unexpected cash flow shortfalls.

## Description of Operations

- GLPT's assets are located along the eastern shore of Lake Superior, north of Sault Ste. Marie, Ontario.
- The assets consist of 14 transmission stations, 725 kilometres of high- and medium-voltage transmission lines, and related infrastructure, covering an area of 12,000 square kilometres in the Algoma region of Ontario.
- The asset network is interconnected with five industrial customers and two local distribution companies as well as to the rest of the Ontario power grid at Wawa and Mississagi, Ontario, east of Sault Ste. Marie.
- Based on instructions received from the IESO, GLPT switches and controls its transmission equipment remotely through a supervisory control and data acquisition (SCADA) centre located in the city of Sault Ste. Marie.
- Transmission in Ontario is regulated by the OEB, and rates are designed to recover allowed costs, including debt financing, and earn a specified rate of return on equity.
- According to the most recent rate case approved in July 2010, GLPT's transmission assets have:
  - An approved rate base of $209 million.
  - A regulated capital structure of 57.5/42.5 debt-to-equity, in transition to 60/40.
  - An approved return on equity of 9.85% and long-term debt interest rate of 6.87%.
- Transmission assets earn a guaranteed perpetual payment stream regardless of utilization.
- Maintenance capital expenditures, on a levelized basis, are expected to be less than $10 million annually for transmission.

**Great Lakes Power Transmission LP**

**Report Date:**
September 14, 2010

## Great Lakes Power Transmission LP
## Summary Balance Sheet

| **(CAD millions)** | Dec. 31 | | Jun. 30 | | Dec. 31 | | Jun. 30 |
|---|---|---|---|---|---|---|---|
| **Assets** | 2008 | 2009 | 2010 | **Liabilities & Equity** | 2008 | 2009 | 2010 |
| Cash + equivalents | 2.0 | 0.4 | 0.9 | Accounts payable & accruals | 0.5 | 1.6 | 1.6 |
| Int. & accounts rec. | 3.0 | 3.2 | 3.1 | Due to related parties | 2.1 | 0.3 | 0.3 |
| Due from related parties | - | 0.2 | 0.3 | Others | - | 3.9 | 6.1 |
| Prepaid expenses & others | 1.6 | 0.2 | 0.3 | **Current liabilities** | 2.6 | 5.9 | 8.0 |
| **Current Assets** | 6.7 | 4.0 | 4.5 | Senior secured bonds | 2.5 | 1.8 | 2.0 |
| Due from related parties | - | - | - | Subordinate secured bonds | 119.1 | 117.0 | 117.1 |
| Regulatory asset | 4.0 | 2.6 | 2.7 | Future income tax liability | - | - | - |
| Net fixed assets | 212.3 | 215.4 | 214.0 | Capital account | 98.9 | 97.2 | 94.0 |
| **Total** | 223.0 | 222.0 | 221.1 | **Total** | 223.0 | 222.0 | 221.1 |

Note: table may not add up due to rounding effects.

**Great Lakes Power Transmission LP**

**Report Date:**
September 14, 2010

## Private Rating

| Debt | Rating | Rating Action | Trend |
|---|---|---|---|
| Series 1 Senior Bonds | A | Confirmed | Stable |

## Rating History

| | Current | 2009 | 2008 |
|---|---|---|---|
| Series 1 Senior Bonds | A | A | A |



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

Exhibit 1, Tab 3, Schedule 5

BIP 2009 Annual Report

# BROOKFIELD INFRASTRUCTURE PARTNERS L.P. ANNUAL REPORT

Brookfield Infrastructure Partner L.P.'s most recent annual report is provided in **Appendix "A"**.

**APPENDIX "A"**

**Brookfield Infrastructure Partner L.P. Annual Report**

As filed with the Securities and Exchange Commission on June 1, 2010

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington D.C. 20549**

# FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**for the fiscal year ended December 31, 2009**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-33632**

# BROOKFIELD INFRASTRUCTURE PARTNERS L.P.
*(Exact name of Registrant as specified in its charter)*

**Bermuda**
*(Jurisdiction of incorporation or organization)*

**Canon's Court**
**22 Victoria Street,**
**Hamilton, HM 12, Bermuda**
*(Address of principal executive offices)*

**Securities registered pursuant to Section 12(b) of the Act:**

**7 Reid Street, 4th Floor**
**Hamilton, HM 11, Bermuda**
**+1 441 296-4480**
*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

| Title of class | Name of each exchange on which registered |
|---|---|
| Limited Partnership Units | New York Stock Exchange; Toronto Stock Exchange |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**
**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**
**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**63,155,680 Limited Partnership Units as of December 31, 2009**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☒ **No** ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes** ☐ **No** ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

**Large accelerated filer** ☐ **Accelerated filer** ☐ **Non-accelerated filer** ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☒ **U.S. GAAP** ☐ **International Financial Reporting Standards as issued by the International Accounting Standards Board** ☐ **Other**

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** ☐ **Item 18** ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ☐ **No** ☒

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## INTRODUCTION AND USE OF CERTAIN TERMS

Unless otherwise specified, information provided in this Form 20-F is as of December 31, 2009.

Unless the context requires otherwise, when used in this annual report on Form 20-F, the terms "we", "us" and "our" refer to Brookfield Infrastructure Partners L.P., Brookfield Infrastructure, the Holding Entities and the operating entities, each as defined below, taken together. All dollar amounts contained in this Form 20-F are expressed in U.S. dollars and references to "dollars", "$" or "US$" are to U.S. dollars, all references to "C$" are to Canadian dollars and all references to "A$" are to Australian dollars. In addition, unless the context suggests otherwise, references to:

- an "affiliate" of any person are to any other person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such person;
- "BBI" are to, collectively, Babcock & Brown Infrastructure Limited and Babcock & Brown Infrastructure Trust;
- the "BBI Transaction" are to the restructuring and recapitalization of BBI pursuant to the agreement entered into between our partnership and Brookfield, among others;
- "Brookfield" are to Brookfield Asset Management and any affiliate of Brookfield Asset Management, other than us;
- "Brookfield Asset Management" are to Brookfield Asset Management Inc.;
- "Brookfield Infrastructure" are to Brookfield Infrastructure L.P.;
- the "current operations" are to the businesses in which we hold an interest as set out in Item 4.B "Business Overview";
- "DBCT" are to Dalrymple Bay Coal Terminal;
- "Euroports" are to Euroports Holdings s.à.r.l.;
- our "fee for service operations" are to our interest in NGPL, WestNet Rail, PD Ports, Euroports, TGN and IEG Distribution, as described in Item 4.B "Business Overview—Current Operations—Fee for Service—Overview";
- "Holding Entities" are to the subsidiaries of Brookfield Infrastructure, from time-to-time, through which it indirectly holds all of our interests in the operating entities;
- "IEG" means collectively IEG Connections and IEG Distribution;
- "IEG Connections" are to International Energy Group's natural gas and electricity connections provider business in the UK;
- "IEG Distribution" are to International Energy Group's distribution of liquid petroleum gas and natural gas business in the Channel Islands and Isle of Man;
- the "Infrastructure General Partner" are to Brookfield Infrastructure General Partner Limited, which serves as the general partner of the Infrastructure GP LP;
- the "Infrastructure GP LP" are to Brookfield Infrastructure GP L.P., which serves as the general partner of Brookfield Infrastructure;
- "Island Timberlands" are to Island Timberlands Limited Partnership;
- our "limited partnership agreement" are to the amended and restated limited partnership agreement of our partnership;
- "Longview" are to Longview Timber Holdings, Corp.;

- the "Manager" are to Brookfield Infrastructure Group Inc. and, unless the context otherwise requires, include any other affiliate of Brookfield Asset Management that provides services to us pursuant to the Master Services Agreement or any other service agreement or arrangement;
- our "Managing General Partner" are to Brookfield Infrastructure Partners Limited, which serves as our partnership's general partner;
- "Master Services Agreement" are to the master management and administration agreement dated as of December 4, 2007, among the Service Recipients, Brookfield Infrastructure Group Inc. and certain other affiliates of Brookfield Asset Management who are party thereto;
- "NGPL" are to the Natural Gas Pipeline Company of America;
- the "Offering" is to the issuance by public offering of 39,585,000 of our units on November 6, 2009 and a further 1,084,411 of our units on November 13, 2009;
- "Ontario Transmission" are to Great Lakes Power Transmission L.P. and, for greater certainty, the Ontario transmission operations which it holds;
- "operating entities" are to the entities which directly or indirectly hold our current operations and assets that we may acquire in the future, including any assets held through joint ventures, partnerships and consortium arrangements;
- our "partnership" are to Brookfield Infrastructure Partners L.P.;
- "PD Ports" are to BBI Port Acquisitions (UK) Limited;
- "Powerco" are to Powerco Limited;
- "Prime" are to Prime Infrastructure, known as BBI prior to its recapitalization on November 20, 2009;
- the "Redemption-Exchange Mechanism" are to the mechanism by which Brookfield may request redemption of its limited partnership interests in Brookfield Infrastructure in whole or in part in exchange for cash, subject to the right of our partnership to acquire such interests (in lieu of such redemption) in exchange for limited partnership units of our partnership, as more fully set forth in Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism";
- "Redeemable Partnership Unit" is a unit of Brookfield Infrastructure that has the rights of the Redemption-Exchange Mechanism. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Units";
- "Service Recipients" are to our partnership, Brookfield Infrastructure and the Holding Entities;
- our "social infrastructure operations" are to our interest in the following Public Private Partnership or "PPP" projects: (i) Long Bay Forensic and Prison Hospitals, Australia, in which we hold a 50% interest; (ii) Peterborough Hospital, United Kingdom, in which we hold a 30% interest; and (iii) Royal Melbourne Showgrounds, Australia, in which we hold a 50% interest;
- "spin-off" are to the issuance of the special dividend by Brookfield Asset Management to its shareholders of 23,344,508 of our units on January 31, 2008;
- our "timber operations" are to our interest in Island Timberlands, our Canadian timber operations, and our interest in Longview, our U.S. timber operations, as described in Item 4.B "Business Overview—Current Operations—Timber—Overview";
- "TGN" are to Tasmania Gas Network;
- "Transelec" are to Transelec Chile S.A.;

- our "units" are to the limited partnership units in our partnership and references to our "unitholders" are to the holders of our units;
- our "utilities operations" refer to our interest in DBCT, Transelec, Ontario Transmission, Powerco and IEG Connections, as described in Item 4.B "Business Overview—Current Operations—Utilities—Overview";
- "WestNet Rail" are to WestNet Rail Holdings No. 1 Pty Ltd.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains certain forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" or the negative of those terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward looking statements. The following factors, among others, that could cause our actual results to vary from our forward looking statements:

- our financial statements may not present our financial results in the most meaningful manner;
- completion of the BBI Transaction has significantly increased the size of our operations;
- we do not have a controlling interest in Prime Infrastructure;
- our assets are or may become highly leveraged and we intend to incur indebtedness above the asset level;
- foreign currency risk and risk management activities;
- our partnership is not regulated as an investment company under the U.S. Investment Company Act of 1940, as amended;
- we are exempt from certain requirements of Canadian securities laws and we are not subject to the same disclosure requirements as a U.S. domestic issuer;
- effectiveness of our internal controls over financial reporting could have a material effect;
- adoption of new accounting standards;
- general economic conditions and risks relating to the global economy;
- government policy changes;
- exposure to uninsurable losses and force majeure events;
- infrastructure operations may require substantial capital expenditures;
- labor disruptions and economically unfavorable collective bargaining agreements;
- exposure to health and safety related accidents;
- high levels of regulation upon our operating entities;

- aboriginal claims to land, adverse claims or governmental claims may adversely affect our infrastructure operations;
- the competitive market for acquisition opportunities;
- our ability to renew existing contracts and win additional contracts with existing or potential customers;
- timing and price for the completion of unfinished projects;
- some of our current operations are held in the form of joint ventures or partnerships or through consortium arrangements;
- future acquisitions;
- changes in tolls or regulated rates for utility operations;
- our ability to execute our growth strategy, including completion of acquisitions, and to achieve desired results from acquisitions;
- utility operation clients may default on their obligations;
- increased regulation as a result of heightened concerns regarding national security;
- DBCT is subject to a review of its respective access and pricing arrangements on a periodic basis;
- fee for service operation clients may default on their obligations;
- fee for service operations may be exposed to increased regulation as a result of heightened concerns regarding national security;
- WestNet Rail may not be able to extend track access agreements;
- NGPL's transportation and storage rates are subject to a rate review by the Federal Energy Regulatory Commission;
- PD Ports has defined benefit pensions schemes that may be under funded, and over time we will be required to make cash payments to the plans reducing the cash available for our business;
- timber operations may be affected by economic recessions or downturns;
- weather conditions, industry practice and regulations associated with forestry may adversely affect our timber operations;
- the competitive business environment for our timber operations;
- Canadian export regulations applicable to timber;
- Prime's statutory and proportional leverage ratios will deteriorate if Australian Energy Transmission & Distribution and Cross Sound Cable are no longer classified as assets held for sale;
- Prime may not be able to refinance its debt or may be exposed to changes to interest rates;
- Prime's ownership in Euroports may be increased or diluted based on the future financial performance of Euroports;
- Prime is currently in dispute with the Australian Tax Office;
- Prime has been assessed by the Offices of State Revenue;
- Brookfield's influence over our partnership;

- the lack of an obligation of Brookfield to source acquisition opportunities for us;
- our dependence on Brookfield and its professionals;
- interests in our Managing General Partner may be transferred to a third party without unitholder consent;
- Brookfield may increase its ownership of our partnership;
- Brookfield does not owe our unitholders any fiduciary duties;
- conflicts of interest between our partnership and our unitholders, on the one hand, and Brookfield, on the other hand;
- our arrangements with Brookfield may contain terms that are less favorable than those which otherwise might have been obtained from unrelated parties;
- our Managing General Partner may be unable or unwilling to terminate the Master Services Agreement;
- the limited liability of, and our indemnification of, the Manager;
- our unitholders do not have a right to vote on partnership matters or to take part in the management of our partnership;
- market price of our units may be volatile;
- changes in tax law and practice; and
- other factors described in this Form 20-F, including, but not limited to, those described under Item 3.D "Risk Factors" and elsewhere in this Form 20-F.

Except as required by applicable law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. Please keep this cautionary note in mind as you read this Form 20-F.

# PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

### 3.A SELECTED FINANCIAL DATA

**Actual Basis**

The Partnership's sole material asset is its 59% limited partnership interest in Brookfield Infrastructure, which is accounted for using the equity method. As a result, we believe that the financial statements of Brookfield Infrastructure are more relevant than the Partnership's because they present the financial position and results of our underlying operations in greater detail. Brookfield owns the remaining 41% of Brookfield Infrastructure, including its general partnership interest, which, through a Redemption-Exchange Mechanism, can effectively be converted into an equivalent interest in the Partnership.

The following table presents financial data for Brookfield Infrastructure as of and for the periods indicated:

| MILLIONS, UNAUDITED | For the Year Ended December 31, | | |
|---|---|---|---|
| **Income Statement Key Metrics** | **2009** | 2008 | 2007 |
| Revenue | **$ 29.8** | $ 32.9 | $33.1 |
| Gross margin | **14.8** | 17.9 | 24.8 |
| (Losses) earnings from equity accounted investments | **(10.0)** | 25.2 | (7.8) |
| Dividend income | **3.5** | 14.3 | 0.5 |
| Gain on sale of investment (after-tax) | **68.2** | — | — |
| Selling, general and administrative expenses | **(16.6)** | (14.0) | (4.4) |
| Interest expense—corporate borrowings | **(7.7)** | (5.6) | — |
| Interest expense—non-recourse borrowings | **(6.8)** | (7.3) | (6.9) |
| Net income | **47.8** | 28.0 | 12.0 |
| Per unit net income | **1.00** | 0.72 | 0.31 |
| Adjusted net operating income | **117.4** | 59.7 | 13.3 |
| Per unit adjusted net operating income | **2.46** | 1.54 | 0.34 |

| | As at December | |
|---|---|---|
| **Balance Sheet Key Metrics** | **2009** | 2008 |
| Cash and cash equivalents | **$ 58.3** | $ 9.2 |
| Total assets | **1,962.9** | 1,174.3 |
| Partnership capital | **1,799.5** | 899.9 |
| Corporate borrowings | **—** | 139.5 |
| Non-recourse borrowings | **114.0** | 97.6 |

The following is non-GAAP financial information for Brookfield Infrastructure for the periods indicated:

| MILLIONS, UNAUDITED | For the Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Adjusted net operating income(1) | **$117.4** | $59.7 | $13.3 |

*(1) Adjusted net operating income is defined as net income adding back depreciation and amortization, deferred income taxes and a performance fee accrued, net of minority interest related to those items, which are either directly on the statement of income or are a component of the equity earnings of an underlying investee company. Adjusted net operating income is a measure of operating performance that is not calculated in accordance with U.S. GAAP. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures" for a discussion of adjusted net operating income and its limitations as a measure of our operating performance.*

The following table presents a reconciliation of adjusted net operating income to net income:

| MILLIONS, UNAUDITED | For the Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Net income | **$ 47.8** | $ 28.0 | $12.0 |
| Add back or deduct the following: | | | |
| Depreciation, depletion and amortization | **54.0** | 54.3 | 9.8 |
| Deferred taxes | **(33.2)** | (14.9) | (8.4) |
| Performance fee | **—** | (12.8) | 3.1 |
| Unrealized loss on derivative instruments | **20.7** | 3.9 | — |
| Other non-cash items | **28.1** | 1.2 | (3.2) |
| Adjusted net operating income (ANOI) | **$117.4** | $ 59.7 | $13.3 |

## 3.B CAPITALIZATION AND INDEBTEDNESS

Not applicable.

## 3.C REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

## 3.D RISK FACTORS

*You should carefully consider the following factors in addition to the other information set forth in this Form 20-F. Additional risks and uncertainties that we do not presently know about or that we currently believe are immaterial may also adversely impact our business, financial condition, results of operations or the value of our unitholders' units. If any of the following risks actually occur, our business, financial condition and results of operations and the value of our unitholders' units would likely suffer.*

### Risks Relating to Us and Our Partnership

***Our partnership's and Brookfield Infrastructure's financial statements may not present our partnership's financial results in the most meaningful manner.***

Our partnership's sole material asset is its 59% limited partnership interest in Brookfield Infrastructure, which our partnership accounts for using equity accounting because our partnership does not control Brookfield Infrastructure. Furthermore, as most of our current operations are accounted for using equity or cost accounting, Brookfield Infrastructure's financial statements do not include a detailed breakdown of the components of net income, cash flows or unitholders' equity for all of our current operations except Ontario Transmission, which is currently consolidated into Brookfield Infrastructure's financial statements. Although we provide certain income statement and balance sheet line items for our current operations on a segmented basis in a note to Brookfield Infrastructure's financial statements, such information does not include the level of detail and note discussion that would be provided if such operations were consolidated into our partnership's or Brookfield Infrastructure's financial statements. While separate audited financial statements for most of our current operations are included in this Form 20-F, our obligation to provide similar disclosure in the future will depend on the significance of each of the current operations at each year end relative to our overall assets and income. Accordingly, we may not continue to provide separate audited financial statements for each or any of our operations on an ongoing basis.

***The completion of the BBI Transaction has significantly increased the size of our operations, including operations in new geographic areas and industry segments, and our manager may have difficulty managing these additional operations.***

The BBI Transaction added eight new operations to our current operations. Some of these operations, including DBCT and NGPL, are in segments that are new for us and Brookfield. We depend on the diligence and skill of Brookfield's professionals to manage us, including our new operations. These individuals may have difficulty managing the additional operations and may have other responsibilities within Brookfield's asset management business. In addition, the operations in new geographic areas or new industry segments may introduce unfamiliar challenges or issues for Brookfield. If Brookfield does not effectively manage the additional operations, we may not achieve our expected results for the BBI Transaction and our existing business, financial condition and results of operations will be adversely affected.

***We do not have a controlling interest in Prime Infrastructure, or Prime, and are therefore dependent on Prime's management.***

We do not have a controlling interest in Prime. Prime's operations depend on the abilities, experience and efforts of Prime's management and other key employees. Should any of these people be unable or unwilling to continue in their employment, this could potentially have a material adverse effect on the business, financial condition and results of operations of Prime. We are reliant on Prime's management team to successfully manage the business and operations of Prime, however should Prime's management team fail to perform in accordance with our expectations, it could have a negative effect on our business, financial condition and results of operations.

***Our assets are or may become highly leveraged and we may incur indebtedness in addition to asset-level indebtedness under our credit facility, which contains certain restrictive covenants, or otherwise.***

Our operating entities have a significant degree of leverage on their assets, including acquisition-related leverage, which is not reflected in our historical financial statements. In addition, we may increase the leverage on our assets. Highly leveraged assets are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt. In addition, the use of indebtedness in connection with an acquisition may give rise to negative tax consequences to certain investors.

On a proportionate basis, the debt balance of all of our current operations was $2,942.5 million as of December 31, 2009, with an annual pro-forma debt service obligation of approximately $205.6 million. On a pro forma, proportionate basis, we may also incur indebtedness under one or more credit facilities, in addition to any asset-level indebtedness. On June 16, 2009, our partnership closed a $200 million revolving senior secured credit facility which is comprised of a single tranche that will be available for investments and acquisitions, as well as general corporate purposes.

The terms of our senior secured credit facility subjects us to financial and operating covenants which restrict our ability to engage in certain types of activities and make distributions in respect of equity. For example, the facility contains negative covenants that significantly restrict Brookfield Infrastructure including, among others, limitations on debt, liens, investments, mergers and operating activities, and restrictions from making any distributions on its equity unless immediately prior to, and after giving pro forma effect to, such distribution, no default has occurred and is continuing and Brookfield Infrastructure meets a minimum interest coverage ratio. If we fail to satisfy any debt service obligations under the facility or breach any financial or operating covenants thereunder, we will be prohibited from making any distributions until such breach is cured. Under certain circumstances, the lenders could declare all advances outstanding under the senior secured credit facility to be immediately due and payable and could foreclose on our assets pledged as collateral.

***We are subject to foreign currency risk and our risk management activities may adversely affect the performance of our operations.***

A significant portion of our current operations are in countries where the U.S. dollar is not the functional currency. These operations pay distributions in currencies other than the U.S. dollar which we must convert to U.S. dollars prior to making distributions and certain of our operations have revenues denominated in currencies different than our expense structure, thus exposing us to currency risk. Fluctuations in currency exchange rates could make it more expensive for our customers to purchase our services and consequently reduce the demand for our services. In addition, a significant depreciation in the value of such foreign currencies may have a material adverse effect on our results of operations and financial position.

When managing our exposure to such market risks, we may use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments. The success of any hedging or other derivative transactions that we enter into generally will depend on our ability to structure contracts that appropriately offset our risk position. As a result, while we may enter into such transactions in order to reduce our exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the transaction had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

***Our partnership is not, and does not intend to become, regulated as an investment company under the U.S. Investment Company Act of 1940, as amended, or the U.S. Investment Company Act (and similar legislation in other jurisdictions) and if our partnership was deemed an "investment company" under the U.S. Investment Company Act, applicable restrictions could make it impractical for us to operate as contemplated.***

The U.S. Investment Company Act and the rules thereunder (and similar legislation in other jurisdictions) provide certain protections to investors and impose certain restrictions on companies that are registered as investment companies. Among other things, such rules limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities and impose certain governance requirements. Our partnership has not been and does not intend to become regulated as an investment company and our partnership intends to conduct its activities so it will not be deemed to be an investment company under the U.S. Investment Company Act (and similar legislation in other jurisdictions). In order to ensure that we are not deemed to be an investment company, we may be required to materially restrict or limit the scope of our operations or plans, we will be limited in the types of acquisitions that we may make and we may need to modify our organizational structure or dispose of assets of which we would not otherwise dispose. Moreover, if anything were to happen which would potentially cause our partnership to be deemed an investment company under the U.S. Investment Company Act, it would be impractical for us to operate as intended. Agreements and arrangements between and among us and Brookfield would be impaired, the type and amount of acquisitions that we would be able to make as a principal would be limited and our business, financial condition and results of operations would be materially adversely affected. Accordingly, we would be required to take extraordinary steps to address the situation, such as the amendment or termination of the Master Services Agreement, restructuring our partnership and the Holding Entities, amendment of our limited partnership agreement or the termination of our partnership, any of which could materially adversely affect the value of our units. In addition, if our partnership were deemed to be an investment company under the U.S. Investment Company Act, it would be taxable as a corporation for U.S. federal income tax purposes, and such treatment could materially adversely affect the value of our units.

***Our partnership is an "SEC foreign issuer" under Canadian securities regulations and is exempt from certain requirements of Canadian securities laws and a "foreign private issuer" under U.S. securities laws and as a result is subject to disclosure obligations different from requirements applicable to U.S. domestic registrants listed on the New York Stock Exchange, or NYSE.***

Although our partnership is a reporting issuer in Canada, it is an "SEC foreign issuer" and is exempt from certain Canadian securities laws relating to continuous disclosure obligations and proxy solicitation if our partnership complies with certain reporting requirements applicable in the United States, provided that the relevant documents filed with the U.S. Securities Exchange Commission, or the SEC, are filed in Canada and sent to our partnership's security holders in Canada to the extent and in the manner and within the time required by applicable U.S. requirements. Therefore, there may be less publicly available information in Canada about our partnership than would be available if we were a typical Canadian reporting issuer.

Although our partnership is subject to the periodic reporting requirement of the U.S. Securities Exchange Act, as amended, or the Exchange Act, the periodic disclosure required of foreign private issuers under the Exchange Act is different from periodic disclosure required of U.S. domestic registrants. Therefore, there may be less publicly available information about our partnership than is regularly published by or about other public limited partnerships in the United States and our partnership is exempt from certain other sections of the Exchange Act that U.S. domestic issuers would otherwise be subject to, including the requirement to provide our unitholders with information statements or proxy statements that comply with the Exchange Act. In addition, insiders and large unitholders of our partnership are not obligated to file reports under Section 16 of the Exchange Act and certain of the governance rules imposed by the NYSE are inapplicable to our partnership.

***Our failure to maintain effective internal controls could have a material adverse effect on our business in the future and the price of our units.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, management is required to deliver a report that assesses the effectiveness of our internal controls over financial reporting and our independent registered public accounting firm will be required to deliver an attestation report on management's assessment of, and the operating effectiveness of, our internal controls over financial reporting in conjunction with their opinion on our audited financial statements. Any failure to maintain adequate internal control over financial reporting or to implement required, new or improved controls, or difficulties encountered in their implementation, could cause us to report material weaknesses or other deficiencies in our internal control over financial reporting and could result in a more than remote possibility of errors or misstatements in our consolidated financial statements that would be material. If we or our independent registered public accounting firm were to conclude that our internal control over financial reporting was not effective, investors could lose confidence in our reported financial information and the price of our units could decline. Our failure to achieve and maintain effective internal controls could have a material adverse effect on our business in the future, our access to the capital markets and investors' perception of us. In addition, material weaknesses in our internal controls could require significant expense and management time to remediate.

***We will adopt new accounting standard for the quarter ending March 31, 2010, and this adoption may have a material impact on our consolidated financial statements.***

In 2007, the SEC adopted rules that permit foreign private issuers to prepare financial statements included in their filings with the SEC, in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, without reconciliation to U.S. GAAP. Our partnership plans to prepare its financial statements and the financial statements of Brookfield Infrastructure in accordance with IFRS. This change is being made in light of Brookfield Infrastructure's recent investments in Prime, DBCT and PD Ports which use IFRS as their primary basis of accounting.

IFRS are premised on a framework similar to U.S. GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While our partnership believes that the adoption of IFRS will not have a material impact on its or Brookfield Infrastructure's reported cash flow, it is expected to have a material impact on its and Brookfield Infrastructure's financial position and results of operations. Our partnership is in the process of determining the impact of a transition to IFRS on its financial statements and the financial statements of Brookfield Infrastructure. In conjunction with the transition to IFRS, our partnership has established a comprehensive conversion plan that addresses matters including changes in accounting policy, the restatement of comparative periods, organizational and internal control, the modification of existing systems, in addition to other related business matters. The first financial statements of the Partnership and Brookfield infrastructure to be prepared in accordance with IFRS will be for the financial statements as at and for the quarter ended March 31, 2010.

**Risks Relating to Our Operations and the Infrastructure Industry**

***All of our operating entities are subject to general economic conditions and risks relating to the global economy.***

Many industries, including the industries in which we operate, have been impacted by the substantial declines in global capital markets between the latter half of 2008 and the first quarter of 2009. This is significant because all of our operating entities depend on the financial health of their customers who may be sensitive to the overall performance of the economy. As such, adverse local, regional or worldwide economic trends that affect each respective economy could have a material adverse effect on our financial condition and results of operations. Some of the key impacts of the significant volatility and substantial declines in global capital markets since the latter half of 2008 have included contraction in credit markets resulting in a widening of credit spreads, devaluations and enhanced volatility in global equity, commodity and foreign exchange markets and a general lack of market liquidity. In many regions in which we do business, including the United States and Canada, these and other factors have precipitated a recession. The demand for services provided by the operations are, in part, dependent upon and correlated to economic growth of the regions applicable to the assets and the demand for services sought by the customers of the relevant assets. Lower economic growth in a region or regions may, either directly or indirectly, reduce demand for the services provided by the assets. The substantial decline in the financial markets, and any further declines in financial markets or other key measures of the global economy, including, but not limited to, new home construction, employment rates, business conditions, inflation, fuel and energy costs, lack of available credit, the state of the financial markets, interest rates and tax rates may adversely affect our growth and profitability. Specifically, market conditions could materially impact the cost and availability of our financing and our overall liquidity; the volatility of commodity output prices and currency exchange markets could materially impact our revenues, profits and cash flow; volatile energy, commodity input and consumables prices and currency exchange rates could materially impact our production costs; and the devaluation and volatility of global stock markets could materially impact the valuation of our units. For example, reduced international demand for the commodities exported by our fee for service operations may lead to bankruptcies or liquidations of one or more large customers of our fee for service operations which could reduce our revenues and increase our bad debt expense. Any one of these factors could have a material adverse effect on our condition and results of operations. Volatility and further declines in capital markets could adversely impact our operations and the trading price of our units. Despite some evidence of stabilization and improvement in most major markets, significant risk remains.

***All of our operating entities are subject to government policy changes.***

Our financial condition and results of operations could also be affected by changes in economic or other government policies or other political or economic developments in each country or region, as well as regulatory changes or administrative practices over which we have no control such as: the regulatory environment related to our business operations and concession agreements; interest rates; currency fluctuations; exchange controls and restrictions; inflation; liquidity of domestic financial and capital markets; tax policies; and other political, social and economic developments that may occur in or affect the countries in which our operating entities operate or the countries in which the customers of our operating entities operate or both. In addition, operating costs can be influenced by a wide range of factors, many of which may not be under the control of the owner/operator, including the need to comply with the directives of central and local government authorities. For example, in the case of our fee for service operations we cannot predict the impact of future economic conditions, energy conservation measures, alternative fuel requirements, or governmental regulation all of which could reduce the demand for commodities our fee for service operations rely upon, most notably coal. It is difficult to predict government policies and what form of laws and regulations will be adopted or how they will be construed by the relevant courts, or to the extent which any changes may adversely affect us.

***We may be exposed to uninsurable losses and force majeure events.***

The assets of our infrastructure businesses are exposed to unplanned interruptions caused by significant catastrophic events such as cyclones, landslides, explosions, terrorist attacks, floods, earthquakes, fires, major plant breakdowns, pipeline or electricity line ruptures or other disasters. Operational disruption, as well as supply disruption, could adversely affect the cash flow available from these assets. In addition, the cost of repairing or replacing damaged assets could be considerable and could give rise to third party claims. In some cases, project agreements can be terminated if the force majeure event is so catastrophic as to render it incapable of remedy within a reasonable time period. Repeated or prolonged interruption may result in a permanent loss of customers, substantial litigation or penalties or regulatory or contractual non-compliance. Moreover, any loss from such events may not be recoverable under relevant insurance policies. Business interruption insurance is not always available, or economic, to protect the business from these risks.

Force majeure is the term generally used to refer to an event beyond the control of the party claiming that the event has occurred, including acts of God, fire, flood, earthquakes, war and labor strikes. Some force majeure events may adversely affect a party's ability to perform its obligations until it is able to remedy the force majeure event.

Given the nature of the assets operated by our operating entities, we may be more exposed to risks in the insurance market that lead to limitations on coverage and/or increases in premium. For example, our timber operations are not insured against losses from fires, many components of our Chilean transmission operations are not insured against losses from earthquakes and NGPL, Powerco and IEG self-insure the majority of their line and pipe assets. Therefore, the occurrence of a major or uninsurable event could have a material adverse effect on financial performance. Even if such insurance were available, the cost would be prohibitive. While not a risk borne directly by us, the ability of the operating entities to obtain the required insurance coverage at a competitive price may have an impact on the returns generated by them and accordingly the returns we receive.

***All of our infrastructure operations may require substantial capital expenditures in the future.***

Our utilities, fee for service, timber or social infrastructure operations are capital intensive and require substantial ongoing expenditures for, among other things, additions and improvements, structures and technology and maintenance and repair of equipment related to our operations. Any failure to make necessary capital expenditures to maintain our operations in the future could impair the ability of our operations to serve existing customers or accommodate increased volumes. In addition, we may not be able to recover such investments based upon the rates our operations are able to charge.

In addition, in some of the jurisdictions in which we have utilities, fee for service, timber or social infrastructure operations, such as Chile, certain maintenance capital expenditures may not be covered by the regulatory framework. If our operations in these jurisdictions require significant capital expenditures to maintain our asset base, we may not be able to cover such costs through the regulatory framework. In addition, we may be exposed to disallowance risk in other jurisdictions to the extent that capital expenditures and costs are not fully recovered through the regulatory framework.

***Performance of our operating entities may be harmed by future labor disruptions and economically unfavorable collective bargaining agreements.***

Several of our current operations have workforces that are unionized and, as a result, they are required to negotiate the wages, benefits and other terms with many of their employees collectively. If an operating entity were unable to negotiate acceptable contracts with any of its unions as existing agreements expire, it could experience a significant disruption of its operations, higher ongoing labor costs and restrictions of its ability to maximize the efficiency of its operations, which could have a material adverse effect on its operations and financial results.

***Our operations are exposed to occupational health and safety and accident risks.***

Infrastructure projects and operational assets are exposed to the risk of accidents that may give rise to personal injury, loss of life, damage to property, disruption to service and economic loss as well as the potential loss, forfeit or suspension of operating licenses and potential litigation, material compensation having to be made, claims and fines or other legislative sanction as a result of these accidents, all of which have the potential to impact our cash flow and our ability to make distributions.

Some of the tasks undertaken by employees are inherently dangerous and have the ability to result in serious injury or death. Occupational health and safety legislation and regulations differ in each jurisdiction. If a serious accident were to occur, it could result in material compensation payments having to be made, the loss of a license or permit required to carry on the business, or other legislative sanction, all of which have the potential to impact our cash flow and ability to make distributions.

***Our operating entities may be exposed to higher levels of regulation than in other sectors and breaches of such regulations could expose our operating entities to claims for financial compensation and adverse regulatory consequences.***

In many instances, ownership and operation of infrastructure assets involves an ongoing commitment to a governmental agency. The nature of these commitments exposes the owners of infrastructure assets to a higher level of regulatory control than typically imposed on other businesses. For example, our timber operations are subject to provincial, state and federal government regulations relating to forestry practices and the export of logs and several of our utilities and fee for service operations are subject to government regulation of their rates and revenues. The risk that a governmental agency will repeal, amend, enact or promulgate a new law or regulation or that a governmental authority will issue a new interpretation of the law or regulations, could affect our operating entities substantially.

In addition, our operating entities are subject to laws and regulations relating to pollution and the protection of the environment. National and local environmental laws and regulations affect the operations of infrastructure projects. Standards are set by these laws and regulations regarding certain aspects of health and environmental quality, and they provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to remediate and rehabilitate current and former facilities and locations where operations are, or were, conducted. These laws and regulations may have a detrimental impact on the financial performance of infrastructure projects, through increased compliance costs or otherwise. They are also subject to laws and regulations governing health and safety matters, protecting both the public and their employees. Any breach of these obligations, or even incidents relating to the environment or health and safety that do not amount to a breach, could adversely affect the results of our operating entities and their reputations and expose them to claims for financial compensation or adverse regulatory consequences. There is also the risk that our operating entities do not have, or might not obtain, permits necessary for their operations. Permits or special rulings may be required on taxation, financial and regulatory related issues. Even though most permits and licenses are obtained before the commencement of operations, many of these licenses and permits have to be renewed or maintained over the life of the business. The conditions and costs of these permits, licenses and consents may be changed on any renewal, or, in some cases, may not be renewed due to unforeseen circumstances or a subsequent change in regulations. In any event, the renewal or non-renewal could have a material adverse effect on our financial performance.

***The lands used for our infrastructure assets may be subject to adverse claims or governmental or aboriginal rights.***

Our utilities, fee for service, timber or social infrastructure operations require large areas of land on which to be constructed and operated. The rights to use the land can be obtained through freehold title, leases and other rights of use. Although we believe that we have valid rights to all easements, licenses and rights of way necessary for our infrastructure operations, not all of our easements, licenses and rights of way are registered against the lands to which they relate and may not bind subsequent owners. Additionally, different jurisdictions adopt different systems of land title and in some jurisdictions it may not be possible to ascertain definitively who has the legal right to enter into land tenure arrangements with the asset owner. In some jurisdictions, it is possible to claim indigenous rights to land, for example in Australia the existence or declaration of native title may affect the existing or future activities of our fee for service operations and impact on its operational and financial performance.

In addition, a government, court, regulator, or aboriginal group may make a decision or take action that affects an asset or project's performance or the demand for its services. In particular, a regulator may restrict our access to an asset, or may require us to provide third parties with access, or may affect the pricing structure so as to lower our revenues and earnings. In Australia, native title legislation provides for a series of procedures that may need to be complied with if native title is declared on relevant land. In Canada, courts have recognized that aboriginal peoples may possess rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. In ether case, the claims of an aboriginal group may affect the existing or future activities of our operations and impact on operational and financial performance, or compensation may be required to be paid.

***We operate in a highly competitive market for acquisition opportunities.***

Our acquisition strategy is dependent to a significant extent on the ability of Brookfield to identify acquisition opportunities that are suitable for us. We face competition for acquisitions primarily from investment funds, operating companies acting as strategic buyers, construction companies, commercial and investment banks and commercial finance companies. Many of these competitors are substantially larger and have considerably greater financial, technical and marketing resources than are available to us. Some of these competitors may also have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of acquisitions. Due to the capital intensive nature of infrastructure acquisitions, in order to finance acquisitions we will need to compete for equity capital from institutional investors and other equity providers, including Brookfield, and our ability to consummate acquisitions will be dependent on such capital continuing to be available. Increases in interest rates could also make it more difficult to consummate acquisitions because our competitors may have a lower cost of capital which may enable them to bid higher prices for assets. In addition, because of our affiliation with Brookfield, there is a higher risk that when we participate with Brookfield and others in joint ventures, partnerships and consortiums on acquisitions we may become subject to anti-trust or competition laws that we would not be subject to if we were acting alone. These factors may create competitive disadvantages for us with respect to acquisition opportunities.

We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations or that Brookfield will be able to identify and make acquisitions on our behalf that are consistent with our objectives or that generate attractive returns for our unitholders. We may lose acquisition opportunities in the future if we do not match prices, structures and terms offered by competitors, if we are unable to access sources of equity or obtain indebtedness at attractive rates or if we become subject to anti-trust or competition laws. Alternatively, we may experience decreased rates of return and increased risks of loss if we match prices, structures and terms offered by competitors.

***Infrastructure assets may be subject to competition risk.***

Some assets may be affected by the existence of other competing assets owned and operated by other parties. There can be no assurance that our businesses can renew all their existing contracts or win additional contracts with its existing or potential customers. The ability of our businesses to maintain or improve their revenue is dependent on price, availability and customer service as well as on the availability of access and alternative infrastructure. In the case where the relevant business is unable to retain customers and/or unable to win additional customers to replace those customers it is unable to retain, the revenue from such assets will be reduced.

***Investments in infrastructure projects during the construction phase are likely to retain some residual risk.***

Investments in new infrastructure projects during the construction phase are likely to retain some residual risk that the project will not be completed within budget, within the agreed timeframe and, to the agreed specifications and, where applicable, will not be successfully integrated into the existing assets. During the construction phase, the major risks include: (i) a delay in the projected completion of the project, which can result in an increase in total project construction costs through higher capitalized interest charges and additional labor, material expenses, and a resultant delay in the commencement of cash flow; and (ii) the insolvency of the head contractor, a major subcontractor and/or a key equipment supplier. Construction costs may exceed estimates for various reasons, including inaccurate engineering and planning, labor and building material costs in excess of expectations and unanticipated problems with project start-up. Such unexpected increases may result in increased debt service costs, operations phase debt service costs, operations and maintenance expenses and damage payments for late delivery. This may result in the inability of project owners to meet the higher interest and principal repayments arising from the additional debt required.

***Brookfield has structured some of our current operations as joint ventures, partnerships and consortium arrangements, and we will do so in the future, which will reduce Brookfield's and our control over our operations and may subject us to additional obligations.***

Brookfield has structured some of our current operations as joint ventures, partnerships and consortium arrangements. An integral part of our strategy is to participate with institutional investors in Brookfield sponsored or co-sponsored consortiums for single asset acquisitions and as a partner in or alongside Brookfield sponsored or co-sponsored partnerships that target acquisitions that suit our profile. These arrangements are driven by the magnitude of capital required to complete acquisitions of infrastructure assets and other industry-wide trends that we believe will continue. Such arrangements involve risks not present where a third party is not involved, including the possibility that partners or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, partners or co-venturers might at any time have economic or other business interests or goals different from us and Brookfield.

Joint ventures, partnerships and consortium investments generally provide for a reduced level of control over an acquired company because governance rights are shared with others. Accordingly, decisions relating to the underlying operations, including decisions relating to the management and operation and the timing and nature of any exit, are often made by a majority vote of the investors or by separate agreements that are reached with respect to individual decisions. In addition, such operations may be subject to the risk that the company may make business, financial or management decisions with which we do not agree or the management of the company may take risks or otherwise act in a manner that does not serve our interests. Because we may not have the ability to exercise control over such operations, we may not be able to realize some or all of the benefits that we believe will be created from our and Brookfield's involvement. If any of the foregoing were to occur, our financial condition and results of operations could suffer as a result.

In addition, because some of our current operations are structured as joint ventures, partnerships or consortium arrangements, the sale or transfer of interests in some of our operations are subject to rights of first refusal or first offer, tag along rights or drag along rights and some agreements provide for buy-sell or similar arrangements. For example, our Chilean transmission operations are subject to a shareholder agreement which allows for an en bloc sale of the assets without our consent. Such rights may be triggered at a time when we may not want them to be exercised and such rights may inhibit our ability to sell our interest in an entity within our desired time frame or on any other desired basis.

***Future acquisitions may subject us to additional risks.***

Future acquisitions will likely involve some or all of the following risks, which could materially and adversely affect our business, results of operations or financial condition: the difficulty of integrating the acquired operations and personnel into our current operations; potential disruption of our current operations; diversion of resources, including Brookfield's time and attention; the difficulty of managing the growth of a larger organization; the risk of entering markets in which we have little experience; the risk of becoming involved in labor, commercial or regulatory disputes or litigation related to the new enterprise; and the risk of environmental or other liabilities associated with the acquired business.

## Risks Relating to Our Utilities Operations

***Our utilities operations may be adversely affected by changes in tolls or regulated rates.***

Some of our utilities operations are regulated with respect to revenues and they recover their investment through tolls or regulated rates which are charged to third parties (including generating companies). Current tolls and regulated rates are reviewed by the applicable regulatory agency on a regular basis. In general, our utilities operations are entitled to earn revenue that represents a rate of return on the regulated investment value of assets and to collect provisions for operating, maintenance and administrative costs. If any of the respective regulators in the jurisdictions in which we operate decide to change the tolls or rates we are allowed to charge or the amounts of the provisions we are allowed to collect, we may not be able to earn a rate of return on our businesses that we had planned or we may not be able to recover our initial investment cost. Any significant changes in tolls or rates may result in material changes to the revenue or profitability of the affected operation. Ontario Transmission is currently subject to a rate review, the outcome of the review could adversely affect the return from those operations.

***Clients of our utilities operations may default on their obligations under the relevant contractual arrangements.***

Some of our utilities operations have customer contracts as well as concession agreements in place with public and private sector clients. On the public sector side this may include central government departments, local government bodies and quasi-government agencies. Since it cannot be assumed that a central government will in all cases assume liability for the obligation of quasi-government agencies or those central government departments will themselves not default on their obligations, the possibility of a default remains. Our utilities operations also have contracts with private sector clients. There is an increased risk of default by private sector clients compared with public sector clients. For example, we have a single customer which represented approximately 71% of revenues of our Chilean transmission operations in 2009. As this accounts for a majority of its cash flow, our Chilean transmission operations could be materially adversely affected by any material change in the assets, financial condition or results of operations of that customer.

***Our utilities operations are regulated and may be exposed to increased regulation as a result of heightened concerns regarding national security.***

Our utilities operations involve ongoing commitments to economic regulators, safety regulators and other governmental agencies. This is due to the essential nature of the services provided by our utilities operations and the fact that the services are usually provided on a monopoly or near monopoly basis. The nature of these commitments exposes us to a higher level of regulatory control than typically imposed on other businesses.

The risk that a government will repeal, amend, enact or promulgate a new law or regulation or that a regulator or other government agency will issue a new interpretation of the law or regulations, with a view towards enhancing national security, can affect our utilities operations or a project substantially. This may also be due to court decisions and actions of government agencies that affect our utilities operations or a project's performance or the demand for its services. For example, a government policy decision may result in adverse financial outcomes for us through directions to spend money to improve security, reliability or quality of service. In addition, a decision by a government or regulator to regulate non-regulated assets may significantly change the economics of our utilities operations.

***DBCT is subject to a review of its respective access and pricing arrangements on a periodic basis.***

***Access undertaking for DBCT***

Coal handling services at DBCT are a declared service under the Queensland Competition Authority Act 1997, or the QCA Act. As such, access to DBCT is regulated by the Queensland Competition Authority, or QCA. The current access arrangements under the QCA Act have been extended until December 31, 2010. The terms of access arrangements which will be in effect for five years thereafter are not yet finalized. Any new access arrangements may result in material changes to the revenue or profitability of DBCT.

***Inclusion of Non Expansionary Capital Expenditure Stage 7 expansion costs in regulated asset base, or RAB.***

Phase 1 of Stage 7 expansion of DBCT was commissioned in March 2008. Consequently, DBCT has received revenue since April 2008 on the basis of an Annual Allowance Revenue, or AAR, determined on estimated construction costs accepted by the QCA. Following commissioning of the Phase 1 of Stage 7 expansion, DBCT has been finalizing the calculation of the actual costs of the expansion and submitted this to the QCA on 1 October 2009 as part of a Draft Amending Access Undertaking, or DAAU. The QCA subsequently approved these actual costs on 10 December 2009 at which time they were added to the Regulated Asset Base, or RAB. As a result of the actual expansion costs being greater than the estimated costs, we have been informed that DBCT's management expects a positive retrospective AAR adjustment of A$4.7 million for the period from the commissioning date to the forecast acceptance of the DAAU containing the final costs. Furthermore, DBCT is undertaking a program of Non Expansionary Capital Expenditure works, or NECAP Expenditures, which has been approved by the users of the terminal, the cost of which is also anticipated to be included into the RAB. We have been informed that management of DBCT estimates an increase in RAB for NECAP Expenditures totaling $21 million. There is a risk that the QCA could deny all or some of DBCT's claims for approval of increases in the RAB relating to NECAP Expenditures, which would result in a lower than expected value of the RAB moving forward.

**Risks Relating to Our Fee for Service Operations**

***Clients of our fee for service operations may default on their obligations under the relevant contractual arrangements.***

Our fee for service operations have a broad portfolio of clients, including some of the world's largest mining companies, however should any of our clients experience financial problems it may have a significant impact on their creditworthiness. We cannot provide assurance that one or more of these clients will not default on their obligations to us or that such a default or defaults will not have a material adverse effect on our fee for service operations, financial position, future results of operations, or future cash flows. Furthermore, the bankruptcy of one or more of our clients, or some other similar proceeding or liquidity constraint, might make it unlikely that we would be able to collect all or a significant portion of amounts owed by the distressed entity or entities. In addition, such events might force such customers to reduce or curtail their future use of our products and services, which could have a material adverse effect on our results of operations and financial condition.

***Our fee for service operations are regulated and may be exposed to increased regulation as a result of heightened concerns regarding national security.***

Our fee for service operations involve ongoing commitments to economic regulators, safety regulators and other governmental agencies. This is due to the essential nature of the services provided by our fee for service operations and the fact that the services are usually provided on a monopoly or near monopoly basis. The nature of these commitments exposes us to a higher level of regulatory control than typically imposed on other businesses.

The risk that a government will repeal, amend, enact or promulgate a new law or regulation or that a regulator or other government agency will issue a new interpretation of the law or regulations, with a view towards enhancing national security, can affect our fee for service operations or a project substantially. This may also be due to court decisions and actions of government agencies that affect our fee for service operations or a project's performance or the demand for its services. For example, a government policy decision may result in adverse financial outcomes for us through directions to spend money to improve security, reliability or quality of service. In addition, a decision by a government or regulator to regulate non-regulated assets may significantly change the economics of our fee for service operations.

***WestNet Rail may not be able to extend track access agreements and may be exposed to significant liabilities.***

WestNet Rail owns a network of rail infrastructure which comprises 5,100 km of rail. Approximately 45% of the network (2,200 km), or the Grain Lines, is narrow gauge track, used primarily for the transport of grain. Although it is 45% of the track by length, the Grain Lines only carry about 10% of the total weight transported on WestNet Rail's network (5.7 million tons per annum, of a total of 52.7 million tons). The Western Australia State government is considering the replacement of some of the sleepers on the WestNet Rail Grain Lines and the closure of some uneconomic lines. Based on approvals to date, Prime estimates that it has outstanding obligations to re-sleeper one line in the grain network at a cost of A$16.5 million. In the absence of final State government approval, Prime expects to be in a position where it cannot extend track access agreements for the grain rail network leading to the surrender of the grain rail network to the Western Australian State government. Prime estimates that it has outstanding obligations to re-sleeper one line in the grain network at a cost of between A$10 million and A$20 million. Until this matter is finalized, it may be difficult for WestNet Rail to secure the consent of its lenders to extend the term of the existing debt facilities. If the consent cannot be obtained, a debt maturity of A$619 million for WestNet Rail will occur in June 2011. In addition, in the event of line closures, WestNet Rail may become subject to significant liabilities to third parties.

***NGPL's transportation and storage rates are subject to a rate review by the Federal Energy Regulatory Commission.***

The rates that NGPL charges its customers for the transportation and storage of natural gas in the United States is regulated by the Federal Energy Regulatory Commission, or FERC. FERC provides a regulated framework for shippers and transmission pipeline owners to reach commercial agreement without direct intervention under a maximum rate regime and there is no periodic rate case obligation. A customer of NGPL or FERC itself can initiate a rate review of NGPL's rates if they deem them to be unreasonable. In November 2009, FERC announced a review of rates charged by NGPL and two other natural gas pipeline companies. On April 23, 2010, our partnership announced that a settlement in principle was reached between it and FERC. The settlement in principle is supported or not opposed by all active participants in the proceeding. The settlement terms remain confidential, subject to documentation and, following agreement of documentation, subject to approval of the Administrative Law Judge and the FERC commissioners before the settlement becomes final and binding. The terms of the settlement, if so approved, would resolve all issues set for hearing by the Commission. We believe the FERC proceeding will likely be resolved in the next twelve months, however, at this time we cannot be certain that the settlement will be finalized nor estimate the impact if such event does not occur. Kinder Morgan Inc., or KMI, reported in its March 31, 2010 Form 10Q, that it recognized an impairment charge on the carrying value of its 20% investment in NGPL as a result of the proposed settlement with FERC announced on April 23, 2010. The impairment charge is based on certain assumptions made by KMI, including the expected impact on annual pre-interest, after-tax cash flows at NGPL over the next several years. Based on the staged implementation of the proposed reductions in various service charges, these cash flows were lower than KMI's previous expectations for NGPL by approximately $25 million, increasing to $70 million upon full implementation (on a 100% basis).

Brookfield Infrastructure has an approximate 11% interest in NGPL, through its 40% interest in Prime.

***PD Ports has defined benefit pensions schemes that may be under funded, and PD Ports may have liability associated with the Pilots National Pension Fund which provides benefits for pilots that work at PD Ports on a contract basis.***

PD Ports records a liability associated with its pension plans equal to the excess of the benefit obligation over the fair value of the plan assets. The amount of such contributions will be dependent upon a number of factors, principally the actual earnings and changes in values of plan assets and, changes in interest rates. The Pilot's National Pension Fund, or PNPF, which provides benefits for pilots that work at PD Ports on a contract basis is substantially under-funded. The Trustee of the PNPF Scheme applied to the High Court of the UK, or the Court, in order to seek directions from the Court as to PD Ports' liability under both the rules of the PNPF Scheme and in law to make up the PNPF Scheme's deficit. The matter has been heard but the Court has not yet rendered its decision. As this case is extremely complex, it is not possible to state with certainty what the outcome is likely to be and, therefore, what financial effect, if any, there may be on PD Ports or us.

## Risks Relating to Our Timber Operations

***The financial performance of our timber operations may be affected by economic recessions or downturns.***

The vast majority of the products from our timber operations are sensitive to macro-economic conditions in North America and Japan and are thus susceptible to economic recessions or downturns in these markets. Decreases in the level of residential construction, repair and remodeling activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows for lumber mills who are important customers to our timber operations. Depressed commodity prices in lumber, pulp or paper may also cause mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomic. Moreover, these operators may be required to temporarily suspend operations at one or more of their mills to bring production in line with market demand or in response to market irregularities. Any of these circumstances could significantly reduce the prices that we realize for our timber as well as the volume of our timber that we may be able to sell. In addition to impacting our timber operations' sales, cash flows and earnings, weakness in the market prices of timber products will also have an effect on our ability to attract additional capital, the cost of that capital and the value of our timberland assets. Further, we may reduce near term harvest levels to preserve our inventory for periods of higher pricing, which would negatively impact the near term results and cashflow of our timber operations.

***A variety of factors may limit or prevent harvesting by our timber operations, including weather conditions.***

Weather conditions, industry practices and federal, state and provincial laws and regulations associated with forestry practices, sale of logs and environmental matters, including wildlife and water resources, may limit or prevent harvesting, road building and other activities on the timberlands owned by our timber operations. In the case of restrictions arising from regulatory requirements, the size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors. In addition, if regulations become more restrictive, the amount of the timberlands subject to harvest restrictions could increase. The timberlands owned by our timber operations may also suffer damage by fire, insect infestation, wind, disease, prolonged drought and other natural and man-made disasters. There can be no assurance that our timber operations will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows. There can be no assurance that the forest management planning by our timber operations, including silviculture, will have the intended result of ensuring that their asset base appreciates over time.

***Our timber operations operate in a highly competitive industry, subject to price fluctuations.***

Timberland companies operate in a highly competitive business environment in which companies compete, to a large degree, on the basis of price and also on the basis of service and ability to provide a steady supply of products over the long-term. The prime competitors to our timber operations are governments, other large forestland owners and small private forestland owners. In addition, wood and paper products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products and electronic media. The competitive position of our timber operations and the price realized for our products is also influenced by a number of other factors including: the ability to attract and maintain long-term customer relationships; the quality of our products; the health of the regional converting industry; the costs of timber production; the availability, quality and cost of labor; the cost of fuel; shipping and fee for service costs; changes in global timber supply; technological advances that increase yield in other regions; and the price and availability of substitute wood and non-wood products.

***Our Canadian timber operations are subject to federal restrictions which may require them to decrease their planned export of logs.***

Currently, logs from most private timberlands in Canada are not subject to provincial export regulations, but are subject to federal export regulations. As a result, all export logs must be advertised for local consumption and may be exported only if there is a surplus of domestic supply as indicated by the absence of fair market value offers (based on current domestic prices) from domestic lumber mills. Accordingly, an increase in domestic demand could result in our Canadian timber operations being required to decrease their planned export of logs. The provincial government in British Columbia is currently reviewing its log export policy, and may recommend that the federal government impose a policy that may further restrict the export of logs from private lands in British Columbia. As export market pricing is generally at a premium to the domestic market pricing, any reduction in log exports could have an adverse effect on our Canadian timber operations.

### Risks Relating to Prime

***Prime's statutory and proportional leverage ratios will deteriorate if Australian Energy Transmission & Distribution and Cross Sound Cable are no longer classified as assets held for sale.***

Prime's pro forma financial information presented in the short form prospectus dated October 30, 2009 reflects the classification of Prime Australian Energy Transmission & Distribution, or AET&D, and Cross Sound Cable, or CSC, as assets held for sale under A-IFRS on the basis that it is highly probable (and Prime's directors expressed their intention) that these assets will be disposed of within the next 12 months. In the event that the AET&D and CSC assets cannot be classified as assets held for sale or a disposal does not occur, the assets and liabilities and financial performance of these assets will be required to be included in the statutory financial statements of Prime. A change in classification will result in an increase in Prime's statutory and proportional debt position and a deterioration in Prime's statutory and proportional leverage ratios. Prime's proportionate leverage at June 30, 2009 would increase from 68% to 76% on a pro forma basis if AET&D and CSC were not treated as held for sale.

***Prime may not be able to refinance its debt or may be exposed to interest rate risk.***

The proceeds of Prime's offering of A$1.5 billion of new securities and sale of PD Ports and DBCT in November 2009 was used to repay and restructure its outstanding corporate debt, increase liquidity, remove material near-term debt maturities and assist in establishing a sustainable capital structure. There is a risk that Prime will not be able to refinance its entire corporate debt and its assets when due, and Prime's financial condition and business may be materially and adversely affected as a result. In addition, Prime's future financings may be exposed to interest rate risk. If interest rates increase, an increased proportion of Prime's distributable cash may be required to service its indebtedness.

***Prime's ownership in Euroports may be increased or diluted based on the future financial performance of Euroports.***

As part of the partial sale of Euroports to Antin and Arcus by Prime in 2009, a share equalization scheme has been devised which would potentially see Prime's ownership in Euroports changed. Further ownership of the investors will be determined based on the financial performance of Euroports relative to the original financial projections furnished by Prime to Antin and Arcus. Financial performance will be measured as at June 30, 2012 and June 30, 2013. Prime's ownership in Euroports may, therefore, increase to a maximum of 66% or decrease to a minimum of 35%.

***Prime is currently in dispute with the Australian Tax Office, or the ATO, relating to certain payments made in relation to the long-term lease of DBCT.***

Prime is currently in dispute with the ATO regarding the deductibility of certain payments made in relation to the long-term lease of DBCT. The ATO has issued amended assessments to Prime for the years ended June 30, 2002 through to June 30, 2007. The amended assessments are for primary tax of A$101.9 million plus interest of A$43.4 million (calculated to June 30, 2009). (Prime has deposited 50% of the primary tax and interest in order to mitigate interest accruing on disputed liability). Based on the projected tax loss of Prime's tax consolidated group, no additional primary tax payable would arise in respect of Prime's fiscal 2008 and fiscal 2009 if the ATO's position were upheld. If the ATO's position is upheld, however, there will be an adjustment payable by Prime to Brookfield and us under the terms of the notes through which Brookfield and we hold our interest in DBCT, by reference to: (a) any amount payable to the ATO by a DBCT entity, and (b) the net present value of the net loss in tax benefits otherwise available to DBCT, as a result of the decision. The tax benefits projected to be available to DBCT in the future are A$40.7 million as at July 1, 2009. Prime and DBCT Management Pty Ltd have commenced proceedings in the Federal Court of Australia challenging the amended assessments. The outcome of the above proceedings may also cause a price adjustment in respect of the price paid by Brookfield and by us.

***Prime has been assessed by the Offices of State Revenue, or OSR.***

Prime was issued with assessment notice in the amount of approximately A$71 million in respect of the acquisition in 2006 of the ARG group, which was subsequently restructured into separate "below rail" (WestNet Rail, 100% owned by Prime) and "above rail" (ARG, 100% owned by Queensland Rail) businesses. Prime disagrees with the assessment and intends to vigorously contest it. The duty payable is a factor of subjective market valuations, and Prime has contractual rights to recover a percentage of assessed amounts from other transaction participants. If every transaction that the OSR were reviewing were assessed and Prime were unable to successfully challenge the amendment, Prime has estimated that it would be liable for up to A$91 million (A$51 million after contractual recovery from other transaction participants).

## Risks Relating to Our Relationship with Brookfield

***Brookfield exercises substantial influence over our partnership and we are highly dependent on the Manager.***

Brookfield is the sole shareholder of our Managing General Partner. As a result of its ownership of our Managing General Partner, Brookfield is able to control the appointment and removal of our Managing General Partner's directors and, accordingly, exercise substantial influence over our partnership. In addition, our partnership holds its interest in the operating entities indirectly and will hold any future acquisitions indirectly through Brookfield Infrastructure, the general partner of which is controlled by Brookfield. As our partnership's only substantial asset is the limited partnership interests that it holds in Brookfield Infrastructure, our partnership does not have a right to participate directly in the management or activities of Brookfield Infrastructure or the Holding Entities, including with respect to the making of decisions.

Our partnership and Brookfield Infrastructure do not have any employees and depend on the management and administration services provided by the Manager. Brookfield personnel and support staff that provide services to us are not required to have as their primary responsibility the management and administration of our partnership or Brookfield Infrastructure or to act exclusively for either of us. Any failure to effectively manage our current operations or to implement our strategy could have a material adverse effect on our business, financial condition and results of operations.

***Brookfield has no obligation to source acquisition opportunities for us and we may not have access to all infrastructure acquisitions that Brookfield identifies.***

Our ability to grow depends on Brookfield's ability to identify and present us with acquisition opportunities. Brookfield established our partnership to own and operate certain infrastructure assets on a global basis. However, Brookfield has no obligation to source acquisition opportunities for us. In addition, Brookfield has not agreed to commit to us any minimum level of dedicated resources for the pursuit of infrastructure-related acquisitions. There are a number of factors which could materially and adversely impact the extent to which suitable acquisition opportunities are made available from Brookfield, for example:

- there is no accepted industry standard for what constitutes an infrastructure asset. Brookfield may consider certain assets that have both real-estate related characteristics and infrastructure related characteristics to be real estate and not infrastructure;
- it is an integral part of Brookfield's (and our) strategy to pursue the acquisition of infrastructure assets through consortium arrangements with institutional investors, strategic partners or financial sponsors and to form partnerships to pursue such acquisitions on a specialized or global basis. Although Brookfield has agreed with us that it will not enter any such arrangements that are suitable for us without giving us an opportunity to participate in them, there is no minimum level of participation to which we will be entitled;
- the same professionals within Brookfield's organization that are involved in acquisitions that are suitable for us are responsible for the consortiums and partnerships referred to above, as well as having other responsibilities within Brookfield's broader asset management business. Limits on the availability of such individuals will likewise result in a limitation on the availability of acquisition opportunities for us;
- Brookfield will only recommend acquisition opportunities that it believes are suitable for us. Our focus is on assets where we believe that our operations-oriented approach can be deployed to create value. Accordingly, opportunities where Brookfield cannot play an active role in influencing the underlying operating company or managing the underlying assets may not be suitable for us, even though they may be attractive from a purely financial perspective. Legal, regulatory, tax and other commercial considerations will likewise be an important consideration in determining whether an opportunity is suitable and will limit our ability to participate in these more passive investments and may limit our ability to have more than 50% of our assets concentrated in a single jurisdiction; and
- in addition to structural limitations, the question of whether a particular acquisition is suitable is highly subjective and is dependent on a number of factors including our liquidity position at the time, the risk profile of the opportunity, its fit with the balance of our then current operations and other factors. If Brookfield determines that an opportunity is not suitable for us, it may still pursue such opportunity on its own behalf, or on behalf of a Brookfield sponsored partnership or consortium.

In making these determinations, Brookfield may be influenced by factors that result in a misalignment or conflict of interest. See Item 7.B "Related Party Transactions—Conflicts of Interest and Fiduciary Duties."

***The departure of some or all of Brookfield's professionals could prevent us from achieving our objectives.***

We depend on the diligence, skill and business contacts of Brookfield's professionals and the information and opportunities they generate during the normal course of their activities. Our future success will depend on the continued service of these individuals, who are not obligated to remain employed with Brookfield. Brookfield has experienced departures of key professionals in the past and may do so in the future, and we cannot predict the impact that any such departures will have on our ability to achieve our objectives. The departure of a significant number of Brookfield's professionals for any reason, or the failure to appoint qualified or effective successors in the event of such departures, could have a material adverse effect on our ability to achieve our objectives. Our limited partnership agreement and our Master Services Agreement do not require Brookfield to maintain the employment of any of its professionals or to cause any particular professionals to provide services to us or on our behalf.

***The control of our Managing General Partner may be transferred to a third party without unitholder consent.***

Our Managing General Partner may transfer its general partnership interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without the consent of our unitholders. Furthermore, at any time, the shareholder of our Managing General Partner may sell or transfer all or part of its shares in our Managing General Partner without the approval of our unitholders. If a new owner were to acquire ownership of our Managing General Partner and to appoint new directors or officers of its own choosing, it would be able to exercise substantial influence over our partnership's policies and procedures and exercise substantial influence over our management and the types of acquisitions that we make. Such changes could result in our partnership's capital being used to make acquisitions in which Brookfield has no involvement or in making acquisitions that are substantially different from our targeted acquisitions. Additionally, our partnership cannot predict with any certainty the effect that any transfer in the ownership of our Managing General Partner would have on the trading price of our units or our partnership's ability to raise capital or make investments in the future, because such matters would depend to a large extent on the identity of the new owner and the new owner's intentions with regard to our partnership. As a result, the future of our partnership would be uncertain and our partnership's financial condition and results of operations may suffer.

***Brookfield may increase its ownership of our partnership and Brookfield Infrastructure relative to other unitholders.***

Brookfield holds approximately 41% of the issued and outstanding interests in Brookfield Infrastructure through a 1% general partnership interest and a 40% limited partnership interest. The limited partnership interests held by Brookfield are redeemable for cash or exchangeable for our units in accordance with the Redemption-Exchange Mechanism, which could result in Brookfield eventually owning 40% of our issued and outstanding units. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism." Brookfield also acquired 0.2% of our units in connection with the satisfaction of Canadian federal and U.S. "backup" withholding tax requirements upon the spin-off. Brookfield may also acquire additional units of Brookfield Infrastructure pursuant to an equity commitment provided by Brookfield. See Item 7.B "Related Party Transactions—Equity Commitment and Other Financing." Infrastructure GP LP may also reinvest incentive distributions in exchange for units of Brookfield Infrastructure. See Item 7.B "Related Party Transactions—Incentive Distributions." In addition, Brookfield has advised our partnership that it may from time-to-time reinvest distributions it receives from Brookfield Infrastructure in Brookfield Infrastructure's distribution reinvestment plan, with the result that Brookfield will receive additional units of Brookfield Infrastructure. Additional units of Brookfield Infrastructure acquired, directly or indirectly, by Brookfield are redeemable for cash or exchangeable for our units in accordance with the Redemption-Exchange Mechanism. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism." Brookfield may also purchase additional units of our partnership in the market. Any of these events may result in Brookfield increasing its ownership of our partnership and Brookfield Infrastructure above 50%.

***Brookfield does not owe our unitholders any fiduciary duties under the Master Services Agreement or our other arrangements with Brookfield.***

The obligations of Brookfield under the Master Services Agreement and our other arrangements with them are contractual rather than fiduciary in nature. As a result, our Managing General Partner, which is an affiliate of Brookfield, in its capacity as our partnership's general partner, has sole authority and discretion to enforce the terms of such agreements and to consent to any waiver, modification or amendment of their provisions.

Our limited partnership agreement and Brookfield Infrastructure's limited partnership agreement contain various provisions that modify the fiduciary duties that might otherwise be owed to our partnership and our unitholders, including when such conflicts of interest arise. These modifications may be important to our unitholders because they restrict the remedies available for actions that might otherwise constitute a breach of fiduciary duty and permit our Managing General Partner and the Infrastructure General Partner to take into account the interests of third parties, including Brookfield, when resolving conflicts of interest. See Item 7.B "Related Party Transactions—Conflicts of Interest and Fiduciary Duties." It is possible that conflicts of interest may be resolved in a manner that is not in the best interests of our partnership or the best interests of our unitholders.

***Our organizational and ownership structure may create significant conflicts of interest that may be resolved in a manner that is not in the best interests of our partnership or the best interests of our unitholders.***

Our organizational and ownership structure involves a number of relationships that may give rise to conflicts of interest between our partnership and our unitholders, on the one hand, and Brookfield, on the other hand. In certain instances, the interests of Brookfield may differ from the interests of our partnership and our unitholders, including with respect to the types of acquisitions made, the timing and amount of distributions by our partnership, the reinvestment of returns generated by our operations, the use of leverage when making acquisitions and the appointment of outside advisors and service providers, including as a result of the reasons described under Item 7.B "Related Party Transactions."

***Our arrangements with Brookfield were negotiated in the context of an affiliated relationship and may contain terms that are less favorable than those which otherwise might have been obtained from unrelated parties.***

The terms of our arrangements with Brookfield were effectively determined by Brookfield in the context of the spin-off. While our Managing General Partner's independent directors are aware of the terms of these arrangements and have approved the arrangements on our behalf, they did not negotiate the terms. These terms, including terms relating to compensation, contractual or fiduciary duties, conflicts of interest and Brookfield's ability to engage in outside activities, including activities that compete with us, our activities and limitations on liability and indemnification, may be less favorable than otherwise might have resulted if the negotiations had involved unrelated parties. Under our limited partnership agreement, persons who acquire our units and their transferees will be deemed to have agreed that none of those arrangements constitutes a breach of any duty that may be owed to them under our limited partnership agreement or any duty stated or implied by law or equity.

***Our Managing General Partner may be unable or unwilling to terminate the Master Services Agreement.***

The Master Services Agreement provides that the Service Recipients may terminate the agreement only if the Manager defaults in the performance or observance of any material term, condition or covenant contained in the agreement in a manner that results in material harm to us and the default continues unremedied for a period of 30 days after written notice of the breach is given to the Manager; the Manager engages in any act of fraud, misappropriation of funds or embezzlement against any Service Recipient that results in material harm to us; the Manager is grossly negligent in the performance of its duties under the agreement and such negligence results in material harm to the Service Recipients; or upon the happening of certain events relating to the bankruptcy or insolvency of the Manager. Our Managing General Partner cannot terminate the agreement for any other reason, including if the Manager or Brookfield experiences a change of control, and there is no fixed term to the agreement. In addition, because our Managing General Partner is an affiliate of Brookfield, it may be unwilling to terminate the Master Services Agreement, even in the case of a default. If the Manager's performance does not meet the expectations of investors, and our Managing General Partner is unable or unwilling to terminate the Master Services Agreement, the market price of our units could suffer. Furthermore, the termination of the Master Services Agreement would terminate our partnership's rights under the Relationship Agreement and the licensing agreement. See Item 7.B "Related Party Transactions—Relationship Agreement" and Item 7.B "Related Party Transactions—Licensing Agreement."

***The liability of the Manager is limited under our arrangements with it and we have agreed to indemnify the Manager against claims that it may face in connection with such arrangements, which may lead it to assume greater risks when making decisions relating to us than it otherwise would if acting solely for its own account.***

Under the Master Services Agreement, the Manager has not assumed any responsibility other than to provide or arrange for the provision of the services described in the Master Services Agreement in good faith and will not be responsible for any action that our Managing General Partner takes in following or declining to follow its advice or recommendations. In addition, under our limited partnership agreement, the liability of the Managing General Partner and its affiliates, including the Manager, is limited to the fullest extent permitted by law to conduct involving bad faith, fraud or willful misconduct or, in the case of a criminal matter, action that was known to have been unlawful. The liability of the Manager under the Master Services Agreement is similarly limited, except that the Manager is also liable for liabilities arising from gross negligence. In addition, our partnership has agreed to indemnify the Manager to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs or expenses incurred by an indemnified person or threatened in connection with our operations, investments and activities or in respect of or arising from the Master Services Agreement or the services provided by the Manager, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the conduct in respect of which such persons have liability as described above. These protections may result in the Manager tolerating greater risks when making decisions than otherwise would be the case, including when determining whether to use leverage in connection with acquisitions. The indemnification arrangements to which the Manager is a party may also give rise to legal claims for indemnification that are adverse to our partnership and our unitholders.

**Risks Relating to Our Units**

***Our unitholders do not have a right to vote on partnership matters or to take part in the management of our partnership.***

Under our limited partnership agreement, our unitholders are not entitled to vote on matters relating to our partnership, such as acquisitions, dispositions or financing, or to participate in the management or control of our partnership. In particular, our unitholders do not have the right to remove our Managing General Partner, to cause our Managing General Partner to withdraw from our partnership, to cause a new general partner to be admitted to our partnership, to appoint new directors to our Managing General Partner's board of directors, to remove existing directors from our Managing General Partner's board of directors or to prevent a change of control of our Managing General Partner. In addition, except as prescribed by applicable laws, our unitholders' consent rights apply only with respect to certain amendments to our limited partnership agreement. As a result, unlike holders of common stock of a corporation, our unitholders are not able to influence the direction of our partnership, including its policies and procedures, or to cause a change in its management, even if they are unsatisfied with the performance of our partnership. Consequently, our unitholders may be deprived of an opportunity to receive a premium for their units in the future through a sale of our partnership and the trading price of our units may be adversely affected by the absence or a reduction of a takeover premium in the trading price.

***The market price of our units may be volatile.***

The market price of our units may be highly volatile and could be subject to wide fluctuations. Some of the factors that could negatively affect the price of our units include: general market and economic conditions, including disruptions, downgrades, credit events and perceived problems in the credit markets; actual or anticipated variations in our quarterly operating results or distributions; changes in our investments or asset composition; write-downs or perceived credit or liquidity issues affecting our assets; market perception of our partnership, our business and our assets; our level of indebtedness and/or adverse market reaction to any indebtedness we incur in the future; additions or departures of our or Brookfield's key personnel; changes in market valuations of similar infrastructure companies; speculation in the press or investment community; and changes in U.S. tax laws that make it impractical or impossible for our partnership to continue to be taxable as a partnership for U.S. federal income tax purposes.

## Risks Relating to Taxation

### General

***Changes in tax law and practice may have a material adverse effect on our operations and, as a consequence, the value of our assets and the net amount of distributions payable to our unitholders.***

Our structure, including the structure of the Holding Entities and the operating entities, is based on prevailing taxation law and practice in the local jurisdictions in which we operate. Any change in tax legislation (including in relation to taxation rates) and practice in these jurisdictions could adversely affect such company or entity, as well as the net amount of distributions payable to our unitholders. Taxes and other constraints that would be applicable to us in such jurisdictions may not be applicable to local institutions or other parties and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing such acquisitions.

There is currently proposed legislation in the U.S. Congress (H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010, or the Act), which, if enacted in its current form and determined to be applicable to our partnership could have adverse consequences, including (a) the (i) re-characterization of capital gain income as "ordinary income", (ii) potential for interest income subject to the portfolio interest exception to be reclassified as "ordinary income" and subjected to U.S. withholding tax and (iii) potential for qualified dividend income to be reclassified as "ordinary income" and subjected to a higher rate of U.S. income tax, and (b) significant limitations on the ability of our partnership to meet the "qualifying income" exception for taxation as a partnership for U.S. federal income tax purposes. Based upon the current structure and investments of our partnership, it is not anticipated that issues (a)(i) and (a)(ii), above (to which the Act is generally intended to apply for income recognized after December 31, 2010), would have an immediate or material impact to our unitholders. Further, the provisions relating to issue (b), above, as currently drafted do not apply for ten (10) years. However, at this time it is unclear when or whether such proposed legislation will ultimately become law, and whether the legislation as enacted would be problematic for our partnership. Our Managing General Partner does not believe that the drafters of the proposed legislation intended that it would be applied to our partnership and are hopeful that if the legislation is enacted the legislative history will provide an exception to the application of the legislation to our partnership. See discussion under Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations—Partnership Status of our partnership and Brookfield Infrastructure". **In view of the potential significance of any such U.S. federal income tax law changes and the fact that there are likely to be ongoing developments in this area, you should consult your own tax advisor as to the potential effects the proposed legislation might have on an investment in our partnership.**

Additionally, under recently enacted U.S. legislation, certain payments of U.S. source income made after December 31, 2012, (including payments attributable to dispositions of property which produced (or could produce) certain U.S. source income) made to us or by us to or through non-U.S. financial institutions or non-U.S. entities, could be subject to a 30% withholding tax unless (a) the non-U.S. financial institution enters into an agreement with the IRS to provide to the IRS information concerning its direct and certain indirect U.S. account holders, or (b) in the case of other non-U.S. entities, such entity provides to the withholding agent similar information concerning its substantial U.S. beneficial owners. These rules do not apply with respect to payments from obligations that are outstanding as of March 18, 2012. **You should consult your own tax advisors as to the potential effects the recently enacted legislation might have on an investment in our partnership.**

***Our partnership's ability to make distributions depends on us receiving sufficient cash distributions from our underlying operations and we cannot assure our unitholders that our partnership will be able to make cash distributions to them in amounts that are sufficient to fund their tax liabilities.***

We are subject to local taxes in each of the relevant territories and jurisdictions (such as Canada, the United States, the United Kingdom, Australia and Chile) in which we have operations, including taxes on our income, profits or gains and withholding taxes. As a result, our partnership's cash available for distribution is reduced by such taxes and the post-tax return to investors is similarly reduced by such taxes. We intend that future acquisitions be assessed on a case-by-case basis and, where possible and commercially viable, structured so as to minimize any adverse tax consequences for us as a result of making such acquisitions.

Each of our unitholders will be required to include in their income its allocable share of our partnership's items of income, gain, loss, deduction and credit (including, so long as it is treated as a partnership for tax purposes, our partnership's allocable share of those items of Brookfield Infrastructure) for each of our taxable years ending with or within such unitholder's taxable year. See Item 10.E "Taxation." With respect to each of our unitholders, the cash distributed to a unitholder may not be sufficient to fund the payment of the full amount of such unitholder's tax liability in respect of its investment in our partnership because such unitholder's tax liability is dependent on their particular tax situation and we will make simplifying tax assumptions in determining the amount of the distribution. In addition, the actual amount and timing of distributions will always be subject to the discretion of our Managing General Partner's board of directors and we cannot assure our unitholders that our partnership will in fact make cash distributions as intended. See Item 8.A "Consolidated Statements and Other Financial Information." Even if our partnership is unable to distribute cash in an amount that is sufficient to fund our unitholders tax liabilities, each of our unitholders will still be required to pay income taxes on their share of our partnership's taxable income.

***Our unitholders may be subject to taxes and tax filing obligations in jurisdictions in which they are not resident for tax purposes or are not otherwise subject to tax.***

Because of our unitholders' holdings in our partnership, our unitholders may be subject to taxes and tax return filing obligations in jurisdictions other than the jurisdiction in which they are a resident for tax purposes or are not otherwise subject to tax. Although we will attempt, to the extent reasonably practicable, to structure our operations and investments so as to minimize income tax filing obligations by our unitholders in such jurisdictions, there may be circumstances in which we are unable to do so. Income or gains from our holdings may be subject to withholding or other taxes in jurisdictions outside our unitholders' jurisdiction of residence for tax purposes or in which they are not otherwise subject to tax. If any of our unitholders wish to claim the benefit of an applicable income tax treaty, such unitholders may be required to submit information to our partnership and/or the tax authorities in such jurisdictions.

***Our unitholders may be exposed to transfer pricing risks.***

To the extent that our partnership, Brookfield Infrastructure, the Holding Entities or the operating entities enter into transactions or arrangements with parties with whom they do not deal at arm's length, including Brookfield, the relevant tax authorities may seek to adjust the quantum or nature of the amounts received or paid by such entities if they consider that the terms and conditions of such transactions or arrangements differ from those that would have been made between persons dealing at arm's length. This could result in more tax being paid by such entities and therefore the return to investors could be reduced.

Our Managing General Partner and the Infrastructure General Partner believe that the base management fee and any other amount that is paid to the Manager will be commensurate with the value of the services being provided by the Manager and are comparable to the fees or other amounts that would be agreed to in an arm's length arrangement. Our Managing General Partner and the Infrastructure General Partner therefore do not anticipate that the amounts of income (or loss) allocated to our unitholders will be adjusted. However, no assurance can be given in this regard.

If the relevant tax authority were to assert that an adjustment should be made under the transfer pricing rules to an amount (most likely, an expense) that is relevant to the computation of the income of Brookfield Infrastructure or our partnership, such assertion could result in adjustments to amounts of income (or loss) allocated to our unitholders by our partnership for tax purposes. In addition, we may also be liable for transfer pricing penalties in respect of transfer pricing adjustments unless reasonable efforts were made to determine, and use, arm's length transfer prices. Generally, reasonable efforts in this regard are only considered to be made if contemporaneous documentation has been prepared in respect of such transactions or arrangements that support the transfer pricing methodology. Our Managing General Partner and the Infrastructure General Partner advise that satisfactory contemporaneous documentation for these purposes has been and will be prepared in respect of all transactions or arrangements with Brookfield, and in particular with respect to the Master Services Agreement. Accordingly, our Managing General Partner and the Infrastructure General Partner do not anticipate that the amounts of income (or loss) allocated to our unitholders for tax purposes will be required to be adjusted or that our unitholders, our partnership, or Brookfield Infrastructure will be subject to transfer pricing penalties described above. However, no assurance can be given in this regard.

***A non-U.S. person who holds more than 5% of our units may be subject to special rules under the U.S. Foreign Investment in Real Property Tax Act of 1980, which may have a material adverse effect on the return to such person from an investment in our units.***

A non-U.S. person who holds more than 5% of our units may be subject to special rules under the U.S. Foreign Investment in Real Property Tax Act of 1980, or FIRPTA. For purposes of determining whether a non-U.S. person holds more than 5% of our units, special attribution rules apply. Where a non-U.S. person who holds (or is deemed to hold) more than 5% of our units disposes of units at a time when our partnership is a U.S. Real Property Holding Corporation, or USRPHC, (which determination includes a five year look back period) any gain will be subject to U.S. taxation at 35%, and such non-U.S. person will have a U.S. tax return filing obligation. Our Managing General Partner does not believe that our partnership is currently, or has been, a USRPHC. Our partnership is not under any obligation to avoid becoming a USRPHC or to notify unitholders in the event that our Managing General Partner determines it becomes a USRPHC. If any unitholder is a non-U.S. person and owns or anticipates owning more than 5% of our units, such person should consult their tax advisors. The application of the FIRPTA rules to a non-U.S. person who holds (or is deemed to hold) more than 5% of our units would result in such non-U.S. person being liable for FIRPTA tax if such non-U.S. person disposes of our units at a time when we are a USRPHC or have at any time been a USRPHC within the shorter of such non-U.S. person's holding period or five years preceding the disposition.

*United States*

***If either our partnership or Brookfield Infrastructure were to be treated as a corporation for U.S. federal income tax purposes, the value of our units may be adversely affected.***

The value of our units to unitholders will depend in part on our partnership and Brookfield Infrastructure being treated as partnerships for U.S. federal income tax purposes. However, in order for our partnership to be considered a partnership for U.S. federal income tax purposes, under present law, 90% or more of our partnership's gross income for every taxable year must consist of qualifying income, as defined in Section 7704 of the U.S. Internal Revenue Code of 1986, as amended, or the U.S. Internal Revenue Code, and the partnership must not be required to register, if it were a U.S. corporation, as an investment company under the U.S. Investment Company Act and related rules. Although our Managing General Partner and the Infrastructure General Partner intend to manage our affairs so that our partnership would not need to be registered as an investment company if it were a U.S. corporation and so that it will meet the 90% test described above in each taxable year, our partnership may not meet these requirements or current law may change so as to cause, in either event, our partnership to be treated as a corporation for U.S. federal income tax purposes. (See, for example, the discussion of pending legislation, H.R. 4213, under Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations—Partnership Status of our partnership and Brookfield Infrastructure" below). If our partnership were treated as a corporation for U.S. federal income tax purposes, (i) the deemed conversion to corporate status would generally result in recognition of gain (but not loss) to U.S. Holders (as such term is defined in Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations"); (ii) our partnership would likely be subject to U.S. corporate income tax and branch profits tax with respect to income, if any, that is effectively connected to a U.S. trade or business; (iii) distributions to our U.S. Holders would be taxable as dividends to the extent of our partnership's earnings and profits; (iv) dividends, interest, and certain other passive income our partnership receives from U.S. entities would, in most instances, be subject to U.S. withholding tax at a rate of 30% (although certain non-U.S. Holders (as such term is defined in Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations") nevertheless may be entitled to certain treaty benefits in respect of their allocable share of such income), and U.S. Holders would not be allowed a tax credit with respect to any such tax withheld; (v) the "portfolio interest" exemption would not apply to interest income of our partnership derived from entities bearing certain relationships to our partnership (although certain non-U.S. Holders nevertheless may be entitled to certain treaty benefits in respect of their allocable share of such income); and (vi) our partnership could be classified as a "passive foreign investment company" (as defined in the U.S. Internal Revenue Code), and such classification would have adverse tax consequences to U.S. Holders with respect to distributions and gain recognized on the sale of our units. In addition to the foregoing consequences, if our partnership were treated as a corporation for U.S. federal income tax purposes, and, as of the time of conversion from partnership status to corporate status, the value of our partnership's U.S. assets equaled or exceeded 60% of the value of our partnership's total assets, some or all of the net income recognized by our partnership subsequent to such conversion would be subject to U.S. corporate income tax. Our Managing General Partner and Infrastructure General Partner do not expect that our partnership's U.S. assets will at any time equal or exceed such thresholds. If Brookfield Infrastructure were to be treated as a corporation for U.S. federal income tax purposes, consequences similar to those described above would apply.

Neither our partnership nor Brookfield Infrastructure has requested, nor do they plan to request, a ruling from the Internal Revenue Service, or IRS, on their tax status for U.S. federal income tax purposes or as to any other matter affecting us.

***We may be subject to U.S. "backup" withholding tax or other U.S. withholding taxes if any unitholder fails to comply with U.S. tax reporting rules or if the IRS or other applicable state and local taxing authorities do not accept our withholding methodology, and such excess withholding tax cost will be an expense borne by our partnership, and, therefore, all of our unitholders on a pro rata basis.***

We may become subject to U.S. "backup" withholding tax at the applicable rate (currently 28%) or other U.S. withholding taxes (potentially as high as 30%) with respect to any U.S. or non-U.S. Holder who fails to timely provide our partnership (or the clearing agent or other intermediary) with an IRS Form W-9 or IRS Form W-8, as the case may be, or if the withholding methodology we use is not accepted by the IRS or applicable state and local taxing authorities. See "Certain Material U.S. Federal Income Tax Considerations—Administrative Matters—Backup and Other Administrative Withholding Issues". Accordingly, it is important that each of our unitholders timely provides our partnership (or the clearing agent or other intermediary) with an IRS Form W-9 or IRS Form W-8, as applicable. To the extent that any unitholder fails to timely provide the applicable forms (or such form is not properly completed), or should the IRS or other applicable state and local taxing authorities not accept our withholding methodology, our partnership may treat such U.S. "backup" withholding taxes or other U.S. withholding taxes as an expense, which will be borne by all unitholders on a pro rata basis. As a result, our unitholders that fully comply with their U.S. tax reporting obligations may bear a share of such burden created by other unitholders that do not comply with the U.S. tax reporting rules.

***Tax-exempt entities may face certain adverse U.S. tax consequences from owning our units.***

Our Managing General Partner and the Infrastructure General Partner intend to use commercially reasonable efforts to structure the activities of our partnership and Brookfield Infrastructure to avoid generating income connected with the conduct of a trade or business (which income would constitute "unrelated business taxable income" to the extent allocated to a tax-exempt entity). Our partnership and Brookfield Infrastructure are not prohibited from incurring indebtedness, and at times either or both may do so. If any such indebtedness were used to acquire property by our partnership or by Brookfield Infrastructure, such property generally would constitute "debt-financed property," and any income or gain realized on such debt-financed property and allocated to a tax-exempt entity generally would constitute "unrelated business taxable income" to such tax-exempt entity. In addition, even if such indebtedness were not used either by our partnership or by Brookfield Infrastructure to acquire property but were instead used to fund distributions to our unitholders, if a tax-exempt entity subject to taxation in the U.S. used such proceeds to make an investment outside our partnership, the IRS could assert that such investment constitutes debt-financed property to such unitholder with the consequences noted above. Our Managing General Partner and the Infrastructure General Partner expect our partnership and Brookfield Infrastructure to realize some income from debt-financed property.

A non-U.S. tax-exempt entity generally could be subject to taxation in the U.S. on its U.S. source unrelated business taxable income and on certain trade or business income that is effectively connected with the conduct of any trade or business of our partnership or Brookfield Infrastructure in the United States. Our Managing General Partner and the Infrastructure General Partner intend to use commercially reasonable efforts to structure the activities of our partnership and Brookfield Infrastructure to avoid generating income treated as effectively connected with the conduct of a U.S. trade or business, but do expect our partnership and Brookfield Infrastructure to realize some U.S. source investment income, which, if debt-financed, would constitute unrelated business taxable income.

The potential for having income characterized as unrelated business taxable income could make our units an unsuitable investment for a tax-exempt entity. A tax-exempt entity should consult its own tax advisor to determine the U.S. federal income tax consequences with respect to an investment in our units.

***There may be limitations on the deductibility of our partnership's interest expense.***

For so long as our partnership is treated as a partnership for U.S. federal income tax purposes, each of our unitholders that is a U.S. person (or otherwise taxable in the United States) generally will be taxed on their share of our partnership's net taxable income. However, U.S. federal income tax law may limit the deductibility of such a unitholder's share of our partnership's interest expense. In addition, deductions for such a unitholder's share of our partnership's interest expense may be limited or disallowed for U.S. state and local tax purposes. Therefore, any such unitholders may be taxed on amounts in excess of such unitholder's share of the net income of our partnership. This could adversely impact the value of our units if our partnership was to incur (either directly or indirectly) a significant amount of indebtedness. See Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations—Consequences to U.S. Holders—Holding of Our Units."

***If our partnership were engaged in a U.S. trade or business, non-U.S. persons would face certain adverse U.S. tax consequences from owning our units.***

Our Managing General Partner believes that our partnership is not engaged in a U.S. trade or business for U.S. federal income tax purposes, and intends to use commercially reasonable efforts to structure its activities to avoid generating income treated as effectively connected with a U.S. trade or business, including effectively connected income attributable to the sale of a "United States Real Property Interest", as defined in the U.S. Internal Revenue Code. Accordingly our partnership's non-U.S. Holders will generally not be subject to U.S. federal income tax on interest, dividends and gains derived from non-U.S. sources. It is possible, however, that the IRS could disagree or that the U.S. federal tax laws and Treasury regulations could change and our partnership could be deemed to be engaged in a U.S. trade or business, which would have a material adverse effect on non-U.S. Holders. If, contrary to our Managing General Partner's expectations, our partnership is considered to be engaged in a U.S. trade or business or realizes gain from the sale or other disposition of a United States Real Property Interest, non-U.S. Holders would be required to file U.S. federal income tax returns and would be subject to U.S. federal income tax at the regular graduated rates, which our partnership may be required to withhold.

***To meet U.S. federal income tax and other objectives, our partnership and Brookfield Infrastructure will invest through foreign and domestic Holding Entities that are treated as corporations for U.S. federal income tax purposes, and such Holding Entities may be subject to corporate income tax.***

To meet U.S. federal income tax and other objectives, our partnership and Brookfield Infrastructure will invest through foreign and domestic Holding Entities that are treated as corporations for U.S. federal income tax purposes, and such Holding Entities may be subject to corporate income tax. Consequently, items of income, gain, loss, deduction and credit realized in the first instance by our operating entities will not flow, for U.S. federal income tax purposes, directly to Brookfield Infrastructure, our partnership, or our unitholders, and any such items may be subject to a corporate income tax, in the United States and other jurisdictions, at the level of the Holding Entities. Any such additional taxes may adversely affect our ability to operate solely to maximize our cash flow.

***Certain of our Holding Entities or operating entities may be, or may be acquired through, an entity classified as a "passive foreign investment company" for U.S. federal income tax purposes.***

U.S. Holders face unique U.S. tax issues from indirectly owning interests in a "passive foreign investment company", or PFIC, that may result in adverse U.S. tax consequences to them. Certain of the existing entities are "passive foreign investment companies" based on the analysis of the existing operating entities and Holding Entities. Furthermore, we may in the future acquire certain investments or operating entities through one or more Holding Entities which may be treated as corporations for U.S. federal income tax purposes, and such future Holding Entities or other companies in which we acquire an interest may be or become treated as PFICs. Provided a "QEF election" (as discussed in the section "Certain Material U.S. Federal Income Tax Considerations—Consequences to U.S. Holders—Passive Foreign Investment Companies" below) is made and a QEF information return is filed annually by the U.S. Holder, the PFIC status is not expected to have a material adverse effect on such U.S. Holder. Recently enacted U.S. legislation requires each U.S. person who directly or indirectly owns an interest in a PFIC to file an annual report with the IRS and failure to file such report could result in the imposition of penalties on such U.S. person. You should consult your own tax advisors as to the potential effects that this legislation might have on your filing requirements.

***Tax gain or loss on disposition of our units could be more or less than expected.***

If our unitholders sell their units and are taxable in the United States, they will recognize a gain or loss for U.S. federal income tax purposes equal to the difference between the amount realized and the adjusted tax basis in those units. Prior distributions to our unitholders in excess of the total net taxable income allocated to them, which decreased the tax basis in their units, will in effect become taxable income to them for U.S. federal income tax purposes if our units are sold at a price greater than their tax basis in those units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to our unitholders.

***Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of our unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our unitholders should be aware that the U.S. federal income tax rules, particularly those applicable to partnerships, are constantly under review (including currently) by the Congressional tax-writing committees and other persons involved in the legislative process, the IRS, the U.S. Treasury Department and the courts, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations, any of which could adversely affect the value of our units and be effective on a retroactive basis. For example, changes to the U.S. federal tax laws and interpretations thereof could adversely affect the U.S. federal income tax treatment of publicly traded partnerships, including changes that make it more difficult or impossible for our partnership (and Brookfield Infrastructure) to meet the "qualifying income" exception to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation and changes that reduce the net amount of distributions available to our unitholders. (See, for example, the discussion of pending legislation, H.R. 4213, under Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations—Partnership Status of our partnership and Brookfield Infrastructure" below). Such changes could also affect or cause us to change the way we conduct our activities, affect the tax considerations of an investment in our partnership, change the character or treatment of portions of our partnership's income (including changes that recharacterize certain allocations as potentially non-deductible fees) and adversely affect an investment in our units.

Our partnership's organizational documents and agreements permit our Managing General Partner to modify our limited partnership agreement from time-to-time, without the consent of our unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of our unitholders.

***The IRS may not agree with certain assumptions and conventions that we use in attempting to comply with applicable U.S. federal income tax laws or that we use to report income, gain, loss, deduction and credit to our unitholders.***

Our partnership will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to our unitholders in a manner that reflects such unitholders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. Because our partnership cannot match transferors and transferees of our units, our partnership will adopt depreciation, amortization and other tax accounting conventions that may not conform to all aspects of existing Treasury regulations. In order to maintain the fungibility of all of our units at all times, we seek to achieve the uniformity of U.S. tax treatment for all purchasers of our units which are acquired at the same time and price (irrespective of the identity of the particular seller of our units or the time when our units are issued by our partnership) through the application of certain accounting principles that we believe are reasonable for our partnership. A successful IRS challenge to any of the foregoing assumptions or conventions could adversely affect the amount of tax benefits available to our unitholders and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of our units and could have a negative impact on the value of our units or result in audits of and adjustments to our unitholders' tax returns.

***Our unitholders may be subject to state, local and non-U.S. taxes and return filing requirements as a result of holding our units.***

Our unitholders may be subject to state, local and non-U.S. taxes, including unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which either our partnership or Brookfield Infrastructure does business or owns property now or in the future, even if our unitholders do not reside in any of those jurisdictions. Our unitholders may be required to file income tax returns and pay income taxes in some or all of these jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each of our unitholders to file all U.S. federal, state, local and non-U.S. tax returns that may be required of such unitholder.

***Our partnership may not be able to furnish to each of our unitholders specific tax information within 90 days after the close of each calendar year, in which case our unitholders who are U.S. taxpayers would want to anticipate the need to file annually a request for an extension of the due date of their income tax return.***

We expect that we will be providing Schedule K-1s to our unitholders no later than 90 days after the end of our partnership's fiscal year. If for some reason we are unable to do so, our unitholders who are U.S. taxpayers would want to anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. See Item 10.E "Taxation—Certain Material U.S. Federal Income Tax Considerations—Administrative Matters—Information Returns".

***The sale or exchange of 50% or more of our units will result in the termination of our partnership for U.S. federal income tax purposes.***

Our partnership will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of our units within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for U.S. federal income tax purposes for all our unitholders and could result in possible acceleration of income to certain of our unitholders and certain other consequences that may adversely affect the value of our units. However, the Managing General Partner does not expect a termination, should it occur, to have a material impact on the computation of the future taxable income generated by our partnership for U.S. income tax purposes. See Item "10.E Taxation—Certain Material U.S. Federal Income Tax Considerations—Administrative Matters—Constructive Termination."

***Canada***

***Tax proposals may deny the deductibility of losses arising from our unitholders' units in our partnership in computing their income for Canadian federal income tax purposes.***

On October 31, 2003, the Department of Finance released for public comment tax proposals, or the REOP Proposals, regarding the deductibility of interest and other expenses for purposes of the Income Tax Act (Canada), or the Tax Act. Under the REOP Proposals, a taxpayer would be considered to have a loss from a source that is a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit (excluding capital gains or losses) from the business or property during the period that the business is carried on or that the property is held. In general, these proposals may deny the deduction of losses arising from our unitholders' units in our partnership in computing their income for Canadian federal income tax purposes in a particular taxation year, if, in the year the loss is claimed, it is not reasonable to expect that an overall cumulative profit would be earned from the investment in our partnership for the period in which our unitholders held and can reasonably be expected to hold the investment. Our Managing General Partner and the Infrastructure General Partner do not anticipate that the activities of our partnership and Brookfield Infrastructure will, in and of themselves, generate losses. However, investors may incur expenses in connection with an acquisition of units in our partnership that could result in a loss that would be affected by the REOP Proposals. The REOP Proposals have been the subject of a number of submissions to the Minister of Finance (Canada). As part of the 2005 federal budget, the Minister of Finance (Canada) announced that an alternative proposal to reflect the REOP Proposals would be released for comment at an early opportunity. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect our unitholders or that it may not differ significantly from the REOP Proposals described above and in Item 10.E "Taxation—Certain Material Canadian Federal Income Tax Considerations."

***If the non-Canadian subsidiaries in which Brookfield Infrastructure directly invests earn income that is foreign accrual property income our unitholders may be required to include amounts allocated from our partnership in computing their income for Canadian federal income tax purposes even though there may be no corresponding cash distribution.***

Certain of the non-Canadian subsidiaries in which Brookfield Infrastructure will directly invest are expected to be "controlled foreign affiliates", as defined in the Tax Act, of Brookfield Infrastructure. If any of such non-Canadian subsidiaries earns income that is "foreign accrual property income", or FAPI, as defined in the Tax Act, in a taxation year, Brookfield Infrastructure's proportionate share of such FAPI must be included in computing the income of Brookfield Infrastructure for Canadian federal income tax purposes for the fiscal period of Brookfield Infrastructure in which the taxation year of such controlled foreign affiliate that earned the FAPI ends, whether or not Brookfield Infrastructure actually receives a distribution of such income. Our partnership will include its share of such FAPI of

Brookfield Infrastructure in computing its income for Canadian federal income tax purposes and our unitholders will be required to include their proportionate share of such FAPI allocated from our partnership in computing their income for Canadian federal income tax purposes. As a result, our unitholders may be required to include amounts in their income even though they have not and may not receive an actual cash distribution of such amount.

***Unitholders may be required to include imputed amounts in their income in accordance with existing section 94.1 of the Tax Act as proposed to be amended under tax proposals announced on March 4, 2010, if, having regard to all the circumstances, it is reasonable to conclude that one of the main reasons for the unitholder acquiring or holding units of our partnership is to derive a benefit from portfolio investments in such a manner that taxes under the Tax Act on income, profits and gains for any year are significantly less than they would have been if such income, profits and gains had been earned directly the unitholder.***

On March 4, 2010, the Minister of Finance (Canada) announced as part of the 2010 Canadian Federal Budget that the outstanding tax proposals regarding investments in "foreign investment entities" would be replaced with revised tax proposals under which the existing rules in section 94.1 of the Tax Act relating to investments in "offshore investment fund property" would remain in place subject to certain limited enhancements. The Minister of Finance (Canada) also indicated that legislation to implement the revised tax proposals will be released for public consultation. Existing section 94.1 of the Tax Act contains rules relating to investments in non-resident entities that could in certain circumstances cause income to be imputed to unitholders, either directly or by way of allocation of such income imputed to our partnership or to Brookfield Infrastructure. These rules would apply if it is reasonable to conclude, having regard to all the circumstances, that one of the main reasons for the unitholder, our partnership or Brookfield Infrastructure acquiring or holding an investment in a non-resident entity is to derive a benefit from portfolio investments in such a manner that taxes under the Tax Act on income, profits and gains for any year are significantly less than they would have been if such income, profits and gains had been earned directly. In determining whether this is the case, the Tax Act provides that consideration must be given to, among other factors, the extent to which the income, profits and gains for any fiscal period are distributed in that or the immediately following fiscal period. If, having regard to the particular circumstances, it is reasonable to conclude that one of the main reasons for the acquisition or holding of our units by the unitholder, of units of Brookfield Infrastructure by our partnership, or of interests in non-resident entities (other than a controlled foreign affiliate) by Brookfield Infrastructure, is as stated above, income will be imputed directly to the unitholder or to our partnership or Brookfield Infrastructure and allocated to the unitholder in accordance with the rules in the Tax Act. However, the precise nature of the revised tax proposals is uncertain as proposed legislation to implement them is not yet available. There can be no assurance that the revised tax proposals will be enacted as proposed or at all. The rules in section 94.1 of the Tax Act are complex and unitholders should consult their own tax advisors regarding the application these rules, including the revised tax proposals, to them in their particular circumstances.

***Unitholders who are not resident in Canada may be subject to Canadian federal income tax with respect to any Canadian source business income earned by our partnership or Brookfield Infrastructure if our partnership or Brookfield Infrastructure were considered to carry on business in Canada.***

If our partnership or Brookfield Infrastructure were considered to carry on a business in Canada for purposes of the Tax Act, unitholders who are not resident in Canada or deemed to be resident in Canada for purposes of the Tax Act, or non-Canadian limited partners, would be subject to Canadian federal income tax on their proportionate share of any Canadian source business income earned or considered to be earned by our partnership, subject to the potential application of the safe harbour rule in section 115.2 of the Tax Act and any relief that may be provided by any relevant income tax treaty or convention.

Our Managing General Partner and the Infrastructure General Partner intend to manage the affairs of our partnership and Brookfield Infrastructure, to the extent possible, so that they do not carry on business in Canada and are not considered or deemed to carry on business in Canada for purposes of the Tax Act. Nevertheless, because the determination of whether our partnership or Brookfield Infrastructure is carrying on business and, if so, whether that business is carried on in Canada, is a question of fact that is dependent upon the surrounding circumstances, the Canada Revenue Agency, or CRA, might contend successfully that either or both of our partnership and Brookfield Infrastructure carries on business in Canada for purposes of the Tax Act.

If our partnership or Brookfield Infrastructure is considered to carry on business in Canada or is deemed to carry on business in Canada for the purposes of the Tax Act, non-Canadian limited partners that are corporations would be required to file a Canadian federal income tax return for each of the taxation years in which they were a non-Canadian limited partner regardless of whether relief from Canadian taxation is available under an applicable income tax treaty or convention. Non-Canadian limited partners who are individuals would be required to file a Canadian federal income tax return for any taxation year in which they are allocated income from our partnership from carrying on business in Canada that is not exempt from Canadian taxation under the terms of an applicable income tax treaty or convention.

***Non-Canadian limited partners may be subject to Canadian federal income tax on capital gains realized by our partnership or Brookfield Infrastructure on dispositions of "taxable Canadian property".***

A non-Canadian limited partner will be subject to Canadian federal income tax on its proportionate share of capital gains realized by our partnership or Brookfield Infrastructure on the disposition of "taxable Canadian property" as defined in the Tax Act (which, subject to the proposed amendments to the definition of "taxable Canadian property" announced in the 2010 Canadian Federal Budget and contained in Bill C-9 which received second reading in the House of Commons on April 19, 2010, includes, but is not limited to, property that is used or held in a business carried on in Canada, shares of corporations resident in Canada that are not listed on a designated stock exchange, and listed shares where the number of shares owned exceeds prescribed amounts) other than "treaty protected property" as defined in the Tax Act. Property of our partnership and Brookfield Infrastructure generally will be treaty-protected property to a non-Canadian limited partner if the gain from the disposition of the property would, because of an applicable income tax treaty or convention, be exempt from tax under the Tax Act. Our Managing General Partner and the Infrastructure General Partner advise that our partnership and Brookfield Infrastructure are not expected to realize capital gains or losses from dispositions of taxable Canadian property. However, no assurance can be given in this regard. Non-Canadian limited partners will be required to file a Canadian federal income tax return in respect of a disposition of taxable Canadian property by our partnership or Brookfield Infrastructure unless the disposition is an "excluded disposition" for the purposes of the Tax Act. However, non-Canadian limited partners that are corporations will still be required to file a Canadian federal income tax return in respect of a disposition that is an "excluded disposition" if tax would otherwise be payable under Part I of the Tax Act by the non-Canadian limited partners in respect of the disposition but is not because of a tax treaty. In general, an "excluded disposition" is a disposition of property by a taxpayer in a taxation year where (a) the taxpayer is a non-resident of Canada at the time of the disposition; (b) no tax is payable by the taxpayer under Part I of the Tax Act for the taxation year; (c) the taxpayer is not liable to pay any amounts under the Tax Act in respect of any previous taxation year (other than certain amounts for which the CRA holds adequate security); and (d) each taxable Canadian property disposed of by the taxpayer in the taxation year is either (i) "excluded property" as defined in subsection 116(6) of the Tax Act or (ii) is property in respect of the disposition of which a certificate under subsection 116(2), (4) or (5.2) has been issued by the CRA. Non-Canadian limited partners should consult their own tax advisors with respect to the requirements to file a Canadian federal income tax return in respect of a disposition of taxable Canadian property by our partnership or Brookfield Infrastructure.

***Non-Canadian limited partners may be subject to Canadian federal income tax on capital gains realized on the disposition of our units if our units are taxable Canadian property.***

Any capital gain arising from the disposition or deemed disposition of our units by a non-Canadian limited partner will be subject to taxation in Canada, if, at the time of the disposition or deemed disposition, the units are taxable Canadian property, unless the units are treaty-protected property to such non-Canadian limited partner. In general, subject to the proposed amendments to the definition of "taxable Canadian property" announced in the 2010 Canadian Federal Budget, our units will be taxable Canadian property at the time of disposition or deemed disposition if, at any time within the 60-month period ending at the time of disposition or deemed disposition, the fair market value of all of the properties of our partnership that were taxable Canadian property, certain types of resource properties, income interests in trusts resident in Canada or interests in or options in respect thereof, was greater than 50% of the fair market value of all of its properties. Since our partnership's assets will consist principally of units of Brookfield Infrastructure, our units would generally be taxable Canadian property if the units of Brookfield Infrastructure held by us were considered to be used or held by us in a business carried on in Canada or if applying the greater than 50% test to Brookfield Infrastructure, its units were taxable Canadian property at any time during the relevant 60-month period. Under the tax proposals announced by the Minister of Finance (Canada) on March 4, 2010 as part of the 2010 Canadian Federal Budget, the definition of "taxable Canadian property" will be amended such that our units will not be taxable Canadian property at the time of a disposition or deemed disposition unless, at any time during the 60-month period preceding the disposition, more than 50% of the fair market value of our units was derived, directly or indirectly, from one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of or interests or civil law rights in such property. Similarly, under these proposed amendment, units of Brookfield Infrastructure will not be taxable Canadian property at any time unless, at any time during the 60-month period preceding that time, more than 50% of the fair market value of its units was derived, directly or indirectly, from property described in (i) to (iv). Legislation to implement these proposed amendments is contained in Bill C-9 which received second reading in the House of Commons on April 19, 2010. Units of our partnership will be treaty protected property if the gain on the disposition of the units is exempt from tax under the Tax Act under the terms of an applicable income tax treaty or convention. Our Managing General Partner advises that our units are not expected to be taxable Canadian property but no assurance can be given in this regard. See Item 10.E "Taxation—Certain Material Canadian Federal Income Tax Considerations—Taxation of Non-Canadian Limited Partners." If our units constitute taxable Canadian property, non-Canadian limited partners will be required to file a Canadian federal income tax return in respect of a disposition of our units unless the disposition is an excluded disposition (as discussed above). If our units constitute taxable Canadian property, non-Canadian limited partners should consult their own tax advisors with respect to the requirement to file a Canadian federal income tax return in respect of a disposition of our units.

***Non-Canadian limited partners may be subject to Canadian federal reporting and withholding tax requirements on the disposition of taxable Canadian property.***

Non-Canadian limited partners who dispose of taxable Canadian property, other than "excluded property" as defined in subsection 116(6) of the Tax Act and certain other property described in subsection 116(5.2) of the Tax Act, (or who are considered to have disposed of such property on the disposition of such property by our partnership or Brookfield Infrastructure), are obligated to comply with the procedures set out in section 116 of the Tax Act and obtain a certificate thereunder. In order to obtain such certificate, the non-Canadian limited partner is required to report certain particulars relating to the transaction to the CRA not later than 10 days after the disposition occurs. Our

Managing General Partner advises that our units are not expected to be taxable Canadian property and our Managing General Partner and the Infrastructure General Partner advise that our partnership and Brookfield Infrastructure are not expected to dispose of property that is taxable Canadian property but no assurance can be given in these regards.

***Payments of dividends or interest (other than interest exempt from Canadian federal withholding tax) by residents of Canada to Brookfield Infrastructure will be subject to Canadian federal withholding tax and we may be unable to apply a reduced rate taking into account the residency or entitlement to relief under an applicable income tax treaty or convention of our unitholders.***

Our partnership and Brookfield Infrastructure will be deemed to be a non-resident person in respect of certain amounts paid or credited to them by a person resident or deemed to be resident in Canada, including dividends or interest. Dividends or interest (other than interest exempt from Canadian federal withholding tax) paid by a person resident or deemed to be resident in Canada to Brookfield Infrastructure will be subject to withholding tax under Part XIII of the Tax Act at the rate of 25%. However, the CRA's administrative practice in similar circumstances is to permit the rate of Canadian federal withholding tax applicable to such payments to be computed by looking through the partnership and taking into account the residency of the partners (including partners who are resident in Canada) and any reduced rates of Canadian federal withholding tax that any non-Canadian limited partners may be entitled to under an applicable income tax treaty or convention provided that the residency status and entitlement to treaty benefits can be established. In determining the rate of Canadian federal withholding tax applicable to amounts paid by the Holding Entities to Brookfield Infrastructure, we expect the Holding Entities to look-through Brookfield Infrastructure and our partnership to the residency of the partners of our partnership (including partners who are residents of Canada) and to take into account any reduced rates of Canadian federal withholding tax that non-Canadian limited partners may be entitled to under an applicable income tax treaty or convention in order to determine the appropriate amount of Canadian federal withholding tax to withhold from dividends or interest paid to Brookfield Infrastructure. However, there can be no assurance that the CRA would apply its administrative practice in this context. If the CRA's administrative practice is not applied and the Holding Entities withhold Canadian federal withholding tax from applicable payments on a look-through basis, the Holding Entities may be liable for additional amounts of Canadian federal withholding tax plus any associated interest and penalties. Under the Canadian-United States Tax Convention (1980), or the Canada-U.S. Tax Treaty, a Canadian resident payer may be required to look-through fiscally transparent partnerships such as our partnership and Brookfield Infrastructure to the residency of limited partners of our partnership who are entitled to relief under that treaty and take into account reduced rates of Canadian federal withholding tax that such limited partners may be entitled to under that treaty.

While we expect the Holding Entities to look-through our partnership and Brookfield Infrastructure in determining the rate of Canadian federal withholding tax applicable to amounts paid by the Holding Entities to Brookfield Infrastructure, we may be unable to accurately or timely determine the residency of our unitholders for purposes of establishing the extent to which Canadian federal withholding taxes apply or whether reduced rates of withholding apply to some or all of our unitholders. In such a case, the Holding Entities will withhold Canadian federal withholding tax from all payments made to Brookfield Infrastructure that are subject to Canadian federal withholding tax at the rate of 25%. Canadian resident unitholders will be entitled to claim a credit for such taxes against their Canadian federal income tax liability but non-Canadian limited partners will need to take certain steps to receive a refund or credit in respect of any such Canadian federal withholding taxes withheld equal to the difference between the withholding tax at a rate of 25% and the withholding tax at the reduced rate they are entitled to under an applicable income tax treaty or convention. See Item 10.E "Taxation—Certain Material Canadian Federal Income Tax Considerations" for further detail. Investors should consult their own tax advisors concerning all aspects of Canadian federal withholding taxes.

***Our units may not continue to be "qualified investments" under the Tax Act for registered plans.***

Provided that our units are listed on a designated stock exchange under the Tax Act (which includes the TSX and the NYSE), our units will be "qualified investments" under the Tax Act for a trust governed by a registered retirement saving plan, deferred profit sharing plan, registered retirement income fund, registered education saving plan, registered disability saving plan, and a tax-free savings account. There can also be no assurance that tax laws relating to qualified investments will not be changed. Taxes may be imposed in respect of the acquisition or holding of non-qualified investments by registered plans and certain other taxpayers and with respect to the acquisition or holding of prohibited investments by a tax-free savings account.

Our units will not be a "prohibited investment" (within the meaning of the Tax Act) for a tax-free savings account, provided that the holder of such account deals at arm's length with our partnership for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in our partnership or in a corporation, partnership or trust with which our partnership does not deal at arm's length for purposes of the Tax Act.

***The Canadian federal income tax consequences to our unitholders could be materially different in certain respects from those described in this Form 20-F if our partnership or Brookfield Infrastructure is a "specified investment flow-through" partnership.***

Under the rules in the Tax Act, or the SIFT Rules, that apply to "specified Investment flow-through" partnership, or SIFT Partnership, certain income and gains earned by a SIFT Partnership, will be subject to income tax at a rate similar to a corporation and allocations of such income and gains to its partners will be taxed as a dividend from a taxable Canadian corporation. In particular, a SIFT Partnership will be required to pay a tax on the total of its income from businesses carried on in Canada, income from "non-portfolio properties" as defined in the SIFT Rules (other than taxable dividends), and taxable capital gains from dispositions of non-portfolio properties. "Non-portfolio properties" include, among other things, equity interests or debt of corporations, trusts or partnerships that are resident in Canada, and of non-resident persons or partnerships the principal source of income of which is one or any combination of sources in Canada (other than an "excluded subsidiary entity" as defined in the SIFT Rules), that are held by the SIFT Partnership and have a fair market value that is greater than 10% of the equity value of such entity, or that have, together with debt or equity that the SIFT Partnership holds of entities affiliated with such entity, an aggregate fair market value that is greater than 50% of the equity value of the SIFT Partnership. The tax rate applied to the above mentioned sources of income and gains is set at a rate equal to the "net federal corporate tax rate", plus an amount on account of provincial tax.

Under the SIFT Rules, our partnership and Brookfield Infrastructure could each be a SIFT Partnership if it is a "Canadian resident partnership". However, Brookfield Infrastructure would not be a SIFT Partnership if our partnership is a SIFT Partnership regardless of whether Brookfield Infrastructure is a Canadian resident partnership. Our partnership and Brookfield Infrastructure will be a "Canadian resident partnership" if the central management and control of these partnerships is located in Canada. This determination is a question of fact and is expected to depend on where our Managing General Partner and the Infrastructure General Partner are located and exercise central management and control of the respective partnerships. Our Managing General Partner and the Infrastructure General Partner advise that they will each take appropriate steps so that the central management and control of these entities is not located in Canada such that the SIFT Rules should not apply to our partnership and Brookfield Infrastructure at any relevant time. However, no assurance can be given in this regard. If our partnership or Brookfield Infrastructure are SIFT Partnerships under the SIFT Rules, the Canadian income tax consequences to our unitholders could be materially different in certain respects from those described in Item 10.E "Taxation—Certain Material Canadian Federal Income Tax Considerations." In addition, even if the SIFT Rules do not apply to our partnership or to Brookfield Infrastructure at any relevant time, there can be no assurance that the SIFT Rules will not be revised or amended in the future such that the SIFT Rules will apply.

## ITEM 4. INFORMATION ON THE COMPANY

### 4.A HISTORY AND DEVELOPMENT OF OUR PARTNERSHIP

Our partnership, Brookfield Infrastructure Partners L.P., is a Bermuda exempted limited partnership that was established on May 21, 2007 under the provisions of the Exempted Partnership Act, 1992 of Bermuda and the Limited Partnership Act, 1883 of Bermuda. Our registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. Our head office is 7 Reid Street, 4th Floor, Hamilton HM 11, Bermuda and our telephone number at that address is +1 441 296-4480. Our partnership and its related entities were established by Brookfield Asset Management to own and operate certain infrastructure assets on a global basis. We focus on high quality, long-life assets that generate stable cash flows, require relatively minimal maintenance capital expenditures and, by virtue of barriers to entry or other characteristics, tend to appreciate in value over time. Our current operations consists of the ownership and operation of utilities businesses, fee for service businesses and timber assets in North and South America, Australasia and Europe. Our vision is to be a leading owner and operator of high quality infrastructure assets that produce an attractive risk-adjusted total return for our unitholders. To accomplish this objective, we will seek to leverage Brookfield's best-in-class operating platforms to invest in targeted assets and actively mange them to extract additional value following our initial investment. An integral part of our strategy is to participate with institutional investors in Brookfield sponsored partnerships that target acquisitions that suit our profile. We will focus on consortiums and partnerships where Brookfield has sufficient influence or control to deploy our operations oriented approach. Brookfield has a strong track record of leading such transactions and actively managing underlying assets to improve performance. Our Manager is an affiliate of Brookfield. Our sole material asset is a 59% limited partnership interest in Brookfield Infrastructure, a limited partnership through which we indirectly hold all of our current operations. Brookfield holds the remaining 41% interest in Brookfield Infrastructure through a 1% general partnership interest and a 40% limited partnership interest. Brookfield's 1% general partnership interest in Brookfield Infrastructure also entitles it to receive incentive distributions from Brookfield Infrastructure. The economic interests in Brookfield Infrastructure noted above do not reflect the exercise of the equity commitment referred to in this Form 20-F or interests to be acquired under Brookfield Infrastructure's distribution reinvestment plan.

Brookfield acquired the following interests in our utilities and timber operations prior to the spin-off: (i) a 100% interest in Great Lakes Power Transmission L.P., or Ontario Transmission, our Ontario transmission operations, in 1982; (ii) a 50% interest in Island Timberlands, our Canadian timber operations, in May 2005; (iii) a 27.8% interest in Transelec Chile S.A., or Transelec, our Chilean transmission operations, in June 2006; (iv) 7%-18% interests in Transmissoras Brasileiras de Energia, referred to as TBE, a group of five related transmission investments in Brazil, in 2006; and (v) a 100% interest in Longview, our U.S. timber operations, on April 20, 2007. Upon completion of the spin-off and certain follow-on transactions, Brookfield transferred to us certain interests in these assets. Brookfield retained an interest in each of Transelec, Island Timberlands and Longview, and therefore our ownership interests in these operations is different than Brookfield's ownership interests.

Our Chilean transmission operations were acquired by Brookfield on June 30, 2006 from Hydro Quebec International Inc. and International Finance Corporation by a consortium of buyers led by Brookfield. As part of the stock purchase agreement between the parties, the buyers agreed to pay a purchase price adjustment of $160 million that was determined on April 4, 2008 following the final resolution of the 2006 transmission rate proceeding. In conjunction with our disproportionate funding of this purchase price adjustment, our ownership in Transelec increased to 17.8% from 10.7% at the time of the spin-off.

On November 4, 2008, we invested $102.8 million directly and indirectly (through the Brookfield Global Timber Fund) into Longview to maintain our interest at the 30% level. The proceeds were used to partially fund the add-on acquisition of a 67,661 acre tree farm in Washington State for $163 million and repay Longview's outstanding bridge loan whose principal amount was approximately $250 million.

On December 5, 2008, we completed the acquisition of Brookfield Multiplex's interest in two social infrastructure Public Private Partnerships, or PPP, the Peterborough Hospital in the United Kingdom and the Long Bay Forensic and Prison Hospitals in Australia for a total investment of approximately $12.3 million. On February 3, 2009, we completed the acquisition of Brookfield Multiplex's interest in an additional PPP Project, the Royal Melbourne Showgrounds in Australia for an investment of approximately $3.0 million.

In January 2009, Brookfield and its partner Isolux, through their joint venture company Wind Energy Texas Transmission, or WETT, were awarded the right to build $500 million of transmissions lines in Texas to facilitate the delivery of wind power to population centers as part of the Texas Competitive Renewable Energy Zones, or CREZ, program. We anticipate commercial operation of the project in the beginning of 2013, at which time WETT will be a licensed transmission utility in the state. In the third quarter of 2009, Brookfield contributed its interest in WETT to a Brookfield sponsored infrastructure partnership in which we own an interest. We anticipate that our ownership will ultimately be approximately 15% of this project.

On June 30, 2009, we completed the sale of our minority interest in TBE for after-tax proceeds of $275 million, including proceeds from foreign exchange currency hedges. The sale resulted in the recognition of a $68.2 million after-tax gain over book value. A portion of the proceeds was used to repay corporate borrowings in full, with the balance available to fund growth capital investments and acquisitions, as well as for general working capital purposes.

On November 20, 2009, we invested $941.0 million to acquire a 40% interest in Prime Infrastructure (formerly Babcock & Brown Infrastructure), or the BBI Transaction, and direct interests in two assets from Prime. The first direct investment is in UK-based BBI Port Acquisitions (UK) Limited, or PD Ports, a "landlord" port which is the third-largest by tonnage in the UK. The second direct investment is in Australia-based Dalrymple Bay Coal Terminal, or DBCT, the largest coal export terminal in the world. Our interests in Natural Gas Pipeline Company of America, or NGPL, Powerco Limited, or Powerco, International Energy Group, or IEG, Tasmanian Gas Network, or TGN, WestNet Rail Holdings No. 1 Pty Ltd., or WestNet Rail, and Euroports Holdings S.à.r.l., or Euroports, are held through Prime. In total, our investment in Prime was part of a comprehensive recapitalization in which Prime raised over $1.6 billion from our partnership, Brookfield and other investors to repay debt. Our partnership invested approximately $940 million of the total investment to acquire a 40% interest in Prime and 60% interest in two direct investments acquired from BBI, while Brookfield and other co-investors have acquired the remaining 40% interest in the two direct investments. Following the recapitalization, Prime's proportional debt leverage decreased from 98% to approximately 68%.

Our participation in the BBI Transaction was financed in part by a public offering of 40,669,411 of our units at a price of C$15.55 per unit that closed in November, 2009. The net proceeds of the public offering, inclusive of the exercise of the underwriters' over-allotment option, were approximately C$601 million. We funded the balance of our $940 million investment in the BBI Transaction through the issuance of Redeemable Partnership Units and general partner units of Brookfield Infrastructure to Brookfield at a price of approximately $13.71 per unit, representing the price of our units issued under the public offering net of underwriting commissions payable by the Partnership, or the Brookfield Investment. Our unitholders, other than Brookfield, were asked to consider the Brookfield Investment at a special meeting of our unitholders on November 16, 2009. Upon receipt of minority unitholder approval Brookfield Infrastructure issued Redeemable Partnership Units and general partner units of Brookfield Infrastructure to Brookfield which allowed it to maintain its 41% interest in Brookfield Infrastructure.

On December 31, 2009, the Brookfield sponsored infrastructure partnership, through which a portion of our interest in PD Ports is held, admitted a new limited partner resulting in the reduction of our ownership interest in this asset. In conjunction with the transaction, we received $9.5 million, representing the original cost of the investment plus a notional interest charge.

On January 28, 2010, the Brookfield sponsored infrastructure partnership, through which a portion of our interests in DBCT and PD Ports is held, admitted a new limited partner resulting in the reduction in our ownership interest in these assets. In addition, we sold a 1.4% interest in DBCT to the new limited partner. In conjunction with the transaction, we received proceeds of $21.5 million, representing the original cost of these investments plus a notional interest charge. As a result, our interests in DBCT and PD Ports were reduced to 46% and 51%, respectively. If the Brookfield sponsored infrastructure partnership is successful in reaching its funding target range, we would receive additional proceeds of approximately $14.6 million and our interests in DBCT and PD Ports would be reduced to approximately 44% and 48%, respectively.

## 4.B BUSINESS OVERVIEW

### Our Partnership

Our partnership and its related entities own and operate certain infrastructure assets on a global basis. We focus on high quality, long-life assets that generate stable cash flows, require relatively minimal maintenance capital expenditures and, by virtue of barriers to entry or other characteristics, tend to appreciate in value over time. Our current operations consist principally of the ownership and operation of utilities, fee for service, timber and social infrastructure operations, but we intend to seek acquisition opportunities in other sectors with similar attributes and in which we can deploy our operations oriented approach to create value. Our Manager is an affiliate of Brookfield.

Our partnership's sole material asset is its 59% limited partnership interest in Brookfield Infrastructure. Brookfield owns the remaining 41% of Brookfield Infrastructure, which through the Redemption-Exchange Mechanism can be converted into an equivalent interest in our partnership.

Our operating platforms are summarized below:

| Operating Platform | Asset Type | Location |
|---|---|---|
| **Utilities** | | |
| *Regulated and contractual return on capital employed* | | |
| Energy | Gas and electricity transmission | North & South America, Australasia and Europe |
| Transportation | Coal terminal | Australasia |
| **Fee for service** | | |
| *Access fees for the transportation, storage and handling of energy, freight and bulk commodities* | | |
| Energy | Natural gas pipelines | North America and Australasia |
| Transportation | Sea ports and railroads | Australasia and Europe |
| **Timber** | | |
| *Provide essential products on a sustainable basis* | | |
| Timber | Timberlands | North America |

**Current Operations**

*Utilities*

*Overview*

Our utilities operations are comprised of regulated businesses which earn a regulated return as well as businesses with long term contracts designed to generate a return over the life of the contract. In this segment of our business, we own and operate assets that earn an allowed return on a regulated or notionally stipulated asset base. The return that we earn is typically determined by a regulator or contract for prescribed periods of time. Thereafter, it may be subject to customary reviews based upon established criteria. Due to the regulatory diversity we have within our utilities operations, we mitigate exposure to any single regulatory regime. Accordingly, we expect this segment to produce consistent revenue and margins that should increase with investment of additional capital and inflation. Virtually 100% of our utility operations' EBITDA is supported by regulated or contractual revenues.

Our objectives for this segment are to operate open access systems that provide safe and reliable service for our customers and to invest capital in expansions of our systems in order to meet our customers' growth requirements. If we do so, we will put ourselves in a position to earn an appropriate return.

Our current utilities assets located in Australia, Chile, New Zealand, Europe, and Canada, are held directly, through consortiums and through our interest in Prime. Our interests in Powerco and IEG Connections, as well as a portion of our interest in DBCT, are held directly by Prime.

*Operations*

*Dalrymple Bay Coal Terminal ("DBCT"), Australia*

DBCT is a port facility which exports metallurgical and thermal coal mined in the Bowen Basin region of Queensland, Australia which is one of the lowest cost sources of coal in the world. DBCT is one of the world's largest coal terminals, accounting for 8% of the total global seaborne coal exports and 20% of global metallurgical seaborne coal exports. The following table sets forth the significant characteristics of DBCT:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 46.0%, owned through our partnership's interest in Prime and direct ownership of convertible notes. |
| Strategic Position: | The Bowen Basin is one of the lowest cost and most prolific series of coal deposits in the world; there are few options to access export markets for this coal other than through DBCT. With completion of its recent Stage 7 expansion, DBCT has a capacity of 85 million tons per annum, or Mtpa. |
| Regulatory Environment: | DBCT is regulated by the Queensland Competition Authority, or QCA. The current rate agreement expires on December 31, 2010 and DBCT is applying for a five year extension. |
| Customer Base: | DBCT has long term take-or-pay contracts with some of the world's largest mining companies that operate in the Bowen Basin. |

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| Cash Flow Profile: | DBCT's revenues under its long term take-or-pay contracts are made up of two components: a capacity charge that is allocated to users based on the percentage of total DBCT capacity for which they contract and a fixed and variable handling charge associated with operating and maintaining the port. The capacity charge is determined every five years by the QCA utilizing a return on regulated asset base methodology, and the handling charge (both fixed and variable) is structured to be a complete pass through of the costs charged for operating and maintaining DBCT. Capacity is currently 100% contracted through 2014. |
| Growth Opportunities: | Already one of the world's largest coal export terminals, DBCT's capacity has recently been expanded to 85 Mtpa to meet ongoing customer demand. Potential exists to expand DBCT's operations to facilitate future expansions by mining companies in the Bowen Basin, which is one of the lowest cost sources of coal in the world. |

*Transelec Chile S.A. ("Transelec"), Chile*

Transelec is the largest electricity transmission system in Chile, with approximately 8,200 km of transmission lines that serve 98% of the population of the country. Transelec's system includes 100% of Chile's 500 kV transmission lines, the highest voltage lines in the country, and approximately 45% and 95% of the 220 kV and 154 kV lines in Chile, respectively. The following table sets forth the significant characteristics of Transelec:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 17.8%. |
| Strategic Position: | Transelec is the backbone transmission system in Chile that serves 98% of the population of the country. Electricity transmission assets provide the critical link for transmission of electricity from generators to consumers of electricity. As the reliable supply of electricity is integral to economic growth, Transelec is an important element to Chile's continued economic growth. |
| Regulatory Environment: | Chile has a long tradition of transparent, stable regulatory frameworks. Regulated revenues are determined every four years based on a 10% annuity return on replacement cost of the existing transmission system plus annual payments that provide for recovery of operational, maintenance and administrative costs. Between rate reviews, both revenue components are adjusted by a multi-component inflation factor. Since the regulated assets earn a 10% annuity return on replacement cost, we effectively earn a real pre-tax 10% return on our regulated asset base. For the transmission sector, the 10% return is imbedded in Chilean law and is not subject to periodic regulatory review. |
| Customer Base: | Approximately 60% of Transelec's revenues are derived from a number of long-term transmission contracts, primarily with power generators. These contracts have a pricing framework that is similar to the regulatory framework. The largest of these contracts expires in 2016. Following the expiration of these contracts, a majority of this contracted revenue will convert to the regulatory framework. |

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| Cash Flow Profile: | Due to the regulatory framework and contracts, combined with the essential nature of the service, Transelec has a very secure competitive position. Transelec generates stable revenue with no material volume risk, and in most instances, has many automatic inflation escalators. Since the Chilean regulatory and contractual frameworks are based on replacement cost, Transelec is not required to invest at its level of depreciation to prevent a decline in revenue. Since the system is in very good physical condition, maintenance capital expenditures are at relatively low levels. As a result of high profit margins combined with low maintenance capital expenditures, Transelec generates strong cash flow. |
| Growth Opportunities: | Chile has economic generation that is many miles away from customers. Upgrades and expansions of the electricity transmission system will be required to connect this economic generation to load centers to satisfy increased electricity demand resulting from economic growth. Transelec is in the second year of a five year plan to invest approximately $1 billion in growth capital expenditures. As at December 31, 2009, Transelec's capital expenditure backlog (projects that have been awarded to Transelec for which expenditures have not yet been made) was approximately $215 million. |

*Great Lakes Power Transmission L.P. ("Ontario Transmission"), Canada*

Ontario Transmission's assets consist of approximately 550 km of 44 kV to 230 kV transmission lines in the province of Ontario. The following table sets forth the significant characteristics of Ontario Transmission:

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|---|---|
| Ownership: | Our partnership's effective ownership is 100.0%. |
| Strategic Position: | Ontario Transmission's lines comprise an important component of Ontario's transmission system that connects generators in Northern Ontario to electricity demand in Southern Ontario. |
| Regulatory Environment: | Ontario Transmission's revenues are 100% regulated under a historical cost of service regime. Transmission revenues are based on periodic rate cases in which the Ontario Energy Board, or the OEB, determines allowed revenue that provides for recovery of operations maintenance, and financing costs plus an after-tax return on equity. |
| Customer Base: | Ontario Transmission has a broad customer base. Furthermore, transmission revenues in Ontario are assessed and collected on a province-wide basis, mitigating volume and credit risk. |

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| Cash Flow Profile: | Based on the 2005 rate review under the previous regulatory framework, Ontario Transmission was allowed to earn a 8.61% return on the equity, which is deemed to be 45% of our rate base. In Ontario, regulated rate base is equal to the historic cost of the system assets plus any capital expenditures less depreciation and other deductibles. Our operating revenues do not fluctuate with usage of our system but do fluctuate based on provincial electric loads which are measured by the Independent Electricity System Operator. Due to the regulatory framework combined with the essential nature of the service, Ontario Transmission has a secure competitive position and generates a stable cash flow. Ontario Transmission is currently in the 2010 rate review process with the OEB. |
| Growth Opportunities: | Ontario has adopted a very aggressive Renewable Portfolio Standard through the passage of the Green Energy Act. A cornerstone of the Act requires the decommissioning of existing coal plants and replacement with renewable and clean sources of power. The majority of the new generation that will be developed is in remote locations far from the existing transmission grid. Ontario has economic generation that is many miles away from customers. Upgrades and expansions of the electricity transmission system will be required to connect this economic generation to load centers to satisfy increased electricity demand resulting from economic growth. As an incumbent utility, Ontario Transmission has an advantage in competing for these projects. As an incumbent utility, Ontario Transmission has identified projects where, due to their geographic location and size, there are definitive and unique advantages for building and owning these new lines. |

*Powerco Limited ("Powerco"), New Zealand*

Powerco is New Zealand's second largest provider of regulated electricity and gas distribution services, with over 410,000 connections across a service area of 39,000 km$^2$ on the North Island of New Zealand. Powerco's business represents approximately 40% of the gas connections and approximately 16% of the electricity connections throughout New Zealand. The following table sets forth the significant characteristics of Powerco:

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|---|---|
| Ownership: | Our partnership's effective ownership is 16.8%. |
| Strategic Position: | Powerco owns and operates New Zealand's second largest electricity and gas distribution company with connections to over 410,000 users. It accounts for approximately 40% of the gas and approximately 16% of the electricity connections throughout New Zealand. |

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| Regulatory Environment: | Powerco's electricity and gas distribution businesses are subject to regulation in New Zealand. Electricity businesses operate under a price and quality threshold (CPI-X) regime set by the New Zealand Commerce Commission with the next reset due in April 2010, when X will improve from 2% to 0%. The gas distribution business also operates under price control (CPI-X, where X=0%) with its next reset due in July 2012. Recently enacted legislation has introduced a purpose statement recognizing the need to provide incentives for service providers to invest in utilities. |
| Customer Base: | Electricity and gas customers are largely residential, generally contracted via retail energy companies. |
| Cash Flow Profile: | Revenue is mainly based on regulated tariffs, with a significant portion being from state owned enterprises. Electricity, which represents 80% of revenue, has grown at a 1.2% compound annual growth rate over the past five years. |
| Growth Opportunities: | Opportunities for growth are driven by increased energy demand and consumption levels, new connections as a result of new housing developments and regional economic and population growth. |

*International Energy Group ("IEG Connections"), Europe*

IEG Connections is the second largest independent "last mile" natural gas and electricity connections provider in the UK. IEG Connections' UK business is a natural gas and electricity connections business servicing approximately 394,000 customers. The following table sets forth the significant characteristics of IEG Connections:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 39.9% in the International Energy Group. |
| Strategic Position: | IEG Connections is the second largest independent connections business in the UK. |
| Regulatory Environment: | IEG Connections' UK connections business competes with other connections providers to secure contracts to construct new natural gas and electricity connections. Then, once connections are established, IEG charges the customer a regulated tariff. |
| Customer Base: | IEG Connections' businesses each have a broad, diverse customer base that underpins its cash flow. Customers for the last mile electricity and gas connections business consists mainly the big six UK energy retailers who serve residential and business users. |
| Cash Flow Profile: | In the UK, installed "last mile" connections businesses charge connection rates that are established based upon the tariff of the distribution utility with which the independent connection provider is interconnected. During the first 20 years after establishment of a connection, the connection rate is subject to a cap and floor. Thereafter, it fluctuates based upon the applicable distribution company tariff. Due to the average age of its asset base, IEG Connections' UK business requires minimal maintenance capital expenditures. |

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| Growth Opportunities: | New connections in gas and electricity as the electricity market opens for independent connections providers and the housing market recovers. |

*Fee for Service*

*Overview*

Our fee for service businesses are open access systems that provide transportation, storage and handling of energy, freight and bulk commodities. This segment is comprised of businesses with price floors and ceilings as a result of regulation, such as NGPL and WestNet Rail, as well as unregulated businesses, such as PD Ports and Euroports. Fee for service businesses typically have high barriers to entry and in many instances have very few substitutes in their local markets. While this segment has greater sensitivity to market prices and volume than our utilities operations, revenues are generally stable and, in many cases, are supported by long-term contracts or customer relationships. Our fee for service operations are expected to benefit from increases in demand for commodities as well as increases in the global movement of goods. Furthermore, the diversification within our fee for service operations mitigates the impact of fluctuations in demand from any particular sector, commodity or customer. Approximately 70% of our fee for service operations' EBITDA is supported by regulated or contractual revenues.

Our objectives for this segment are to provide safe and reliable service and meet our customers expansion needs in a capital efficient manner. If we do, we will be able to charge a fair price for our services and we will be able to earn an attractive return on the capital we invest to increase the capacity of our operations.

Our current fee for service assets located in the United States, Australia, Europe and China, are held directly, through consortiums and through our interest in Prime. NGPL, WestNet Rail, Euroports, TGN and IEG Distribution are directly held by Prime.

*Operations*

*Natural Gas Pipeline Company of America ("NGPL"), U.S.*

NGPL is one of the largest natural gas transmission pipeline and storage systems in the United States. NGPL's transportation system extends over 15,500 km and delivers approximately 2.2 trillion cubic feet of natural gas per annum. NGPL also has seven major storage facilities with a combined working gas capacity of 275 billion cubic feet, or BCF. The following table sets forth the significant characteristics of NGPL:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 10.5%. |
| Strategic Position: | NGPL is the largest provider of gas transmission and storage services to the Chicago and Northern Indiana market and has significant interconnectivity with local distribution companies, industrial users and gas fired power plants. NGPL is also well connected to other pipelines accessing additional downstream markets, which increase demand for NGPL's services. NGPL provides transportation and storage to approximately 60% of the Chicago and Northern Indiana markets, and its storage facilities represent approximately 7% of total U.S. natural gas storage capacity. |

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|---|---|
| | The large geographical footprint of NGPL's pipeline system is in close proximity to several of the prolific natural gas supply basins in the U.S. and also provides access to major growing basins including the Rockies, East Texas, Woodford, Fayetteville, Haynesville as well as LNG supply from the Gulf Coast. |
| Regulatory Environment: | Regulated by the Federal Energy Regulatory Commission, or FERC, under the Natural Gas Act. FERC provides a regulated framework for shippers and transmission pipeline owners to reach commercial agreement without direct intervention under a maximum rate regime, and there is no periodic rate case obligation. On November 19, 2009, FERC notified NGPL that it has commenced a proceeding pursuant to section 5 of the Natural Gas Act to review NGPL's rates and determine whether they are just and reasonable. |
| Customer Base: | NGPL has a diverse group of high creditworthy customers composed primarily of investment grade local distribution companies, producers and marketers. Its top ten customers account for over 60% of the transmission and storage revenues with average contract terms of 3.3 years for transport and 4.1 years for storage customers. |
| Cash Flow Profile: | U.S. gas market fundamentals and the competitive position of NGPL are underpinned by continued demand for NGPL's transmission and storage services. Demand for NGPL's combination of transportation and storage services has resulted in a strong history of contract renewals. |
| Growth Opportunities: | Geographic proximity to large, emerging natural gas basins provides opportunity to continue extending the pipeline system. |

*WestNet Rail Holdings No. 1 Pty Ltd. ("WestNet Rail"), Australia*

WestNet Rail is a rail infrastructure operator and rail access provider in Western Australia, or WA, with a long-term arrangement to lease track from the WA government. WestNet Rail leases and operates approximately 5,100 km of track and related infrastructure in Southwestern Australia which serves as a crucial transport link in the region. The following table sets forth the significant characteristics of WestNet Rail:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 39.9%. |
| Strategic Position: | WestNet Rail is the only rail network in the southwest region of WA providing access to markets for minerals and grain through to the region's six government owned ports. |
| Regulatory Environment: | The Economic Regulatory Authority has established an access regime which governs track segment revenue ceilings, train management, train paths and confidentiality. However, all of WestNet Rail's customers have negotiated their below-rail access agreements outside of the access regime. |

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| Customer Base: | WestNet Rail has access agreements with strong blue-chip customers, including a long-term agreement with Queensland Rail. WestNet Rail's top nine customers contribute 90% of its revenue with contract expiration dates ranging from 2009 to 2016. The majority of customers are leading commodity companies whose WA mining operations are among the lowest cost in the world. |
| Cash Flow Profile: | WestNet Rail's revenue is derived from access charges paid by rail operators or directly by underlying customers. Stability of revenue is underpinned by rail transport being a small yet essential component of the overall cost of the commodities transported, the critical nature of the minerals and grain industries to the WA economy and long-term contracts with customers to ensure adequate access to the rail network including some take-or-pay arrangements. |
| Growth Opportunities: | The WestNet Rail system is well positioned to benefit from general increased economic activity in WA. It will also benefit from a number of mine expansions and new projects under development, which will require access to the system in order to transport these commodities to export markets. |

*BBI Port Acquisitions (UK) Limited ("PD Ports"), UK*

PD Ports is the third largest port operator in the UK by volume, with over 2,000 acres of land, mainly operating as the statutory harbour authority, or SHA, out of Teesport and Hartlepool in the north of the UK. PD Ports also operates a number of other ports and logistics businesses elsewhere in the UK. PD Ports' asset base also includes an extensive property base. The following table sets forth the significant characteristics of PD Ports:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 51.0%. |
| Strategic Position: | Teesport is a large deep-water port strategically located in a well developed industrial area. PD Ports' landlord or SHA status and good rail and road access provide barriers to entry. |
| Regulatory Environment: | PD Ports' operations are unregulated with SHA status for the Tees River, which gives the statutory right to collect conservancy tariffs (toll-like dues) payable by ships using the Tees River. |
| Customer Base: | PD Ports has a number of long term contracts with strong, established counterparties, including large multinational corporations. The majority of its revenues are derived from customers with significant investment at or within close proximity to Teesport. |
| Cash Flow Profile: | Over 50% of PD Ports' income is earned from conservancy tariffs related to the movement of cargo by established customers using the Tees River. Teesport's freehold land base of 1,558 acres is strategically located in the vicinity of its port locations which provide additional stability to cash flow through income from long-term property leases. |

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|---|---|
| Growth Opportunities: | PD Ports is well positioned for container business growth given significant recent and planned investment by large UK retailers to establish regional distribution centers at Teesport and the significant amount of strategic land available to develop revenues from new tenants. |

*Euroports Holdings s.à.r.l. ("Euroports"), Europe and China*

Euroports owns a portfolio of seven port concession businesses in key strategic locations throughout Europe and in China. Euroports is a diversified port operator, handling heavy dry bulk, specialty dry bulk, liquid bulk, general cargo and containers. Euroports is one of the largest port operators in Europe and handles over 50 Mtpa of cargo. The following table sets forth the significant characteristics of Euroports:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 23.9%. |
| Strategic Position: | Port operations are positioned in 16 locations across continental Europe and consist of 485 hectares of long term port concessions and over 31 km of quay length. Euroports has extensive infrastructure in place including cranes, berths, warehouses, inloading and outloading equipment and provides extensive logistics services to its customers, creating barriers to entry. |
| Regulatory Environment: | Euroports operates in an unregulated economic environment. |
| Customer Base: | Euroports mainly serves industrial customers in the immediate vicinity of the ports under varied contract terms. Key customers have been long-term customers of the respective port businesses continuously for between 10 and 30 years. |
| Cash Flow Profile: | Income is earned from diversified operations with over 50 different types of products handled at 18 terminals located throughout seven countries in Europe. Several of these locations face limited competition for key products handled, which provides additional stability to cash flow. |
| Growth Opportunities: | Growth opportunities exist in the form of volume growth from increasing demand for bulk and general commodities as well as cross-selling opportunities to develop additional commercial activities with existing customers. |

*Tasmania Gas Network ("TGN"), Australia*

TGN is the natural gas distributor in Tasmania, supplying gas to residential, commercial and industrial customers via its distribution networks. With approximately 730 km of distribution pipeline, it delivers around 2 billion cubic feet of gas per annum to approximately 6,500 connections across Tasmania. The following table sets forth the significant characteristics of TGN:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 39.9%. |
| Strategic Position: | TGN's distribution network is the sole provider of gas distribution services in Tasmania. Sizeable capital expenditures of approximately A$200 million have been incurred to establish this network, which creates a significant barrier to new entrants due to the limited market opportunity for customers to support a competing business. |

| | |
|---|---|
| Regulatory Environment: | There is no economic regulation in Tasmania. |
| Customer Base: | TGN receives revenue from natural gas retailers who supply gas to approximately 6,500 residential, commercial and industrial customers connected to the network. |
| Cash Flow Profile: | TGN's cash flow stream is supported by the low cost of gas compared to electricity for residential customers while the investment made by industrial consumers to connect to natural gas creates a disincentive to switch. |
| Growth Opportunities: | The natural gas market in Tasmania is relatively new. The network currently fronts approximately 43,000 households with approximately 6,500 connections to date. Commercial and industrial growth is linked to the Tasmanian economy and alternate energy options including cogeneration opportunities. |

*International Energy Group ("IEG Distribution"), Europe*

IEG Distribution is the sole gas distributor of liquid petroleum gas, or LPG, and natural gas in the Channel Islands and Isle of Man, or the Offshore Islands. IEG Distribution's business on the Offshore Islands consist of an unregulated natural gas and LPG distribution and supply business. The following table sets forth the significant characteristics of IEG Distribution:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 39.9% in the International Energy Group. |
| Strategic Position: | IEG Distribution is the sole provider of gas distribution services on the Offshore Islands. |
| Regulatory Environment: | IEG Distribution's assets in the Offshore Islands are not regulated but are subject to government oversight. |
| Customer Base: | The natural gas and LPG distribution customer base on the Offshore Islands is comprised of a large number of commercial and residential end users. |
| Cash Flow Profile: | IEG Distribution's broad customer base and position as sole provider of natural gas and LPG service ensure a consistent cash flow stream in a market that requires these services to meet heating demands. |
| Growth Opportunities: | Increased energy demand consumption combined with the ability to set prices competitively provides the opportunity for growth in revenues for the business. |

*Timber*

*Overview*

Our timber operations currently consist of high quality timberlands located in the coastal region of British Columbia, Canada and the Pacific Northwest region of the United States. These operations are predominantly comprised of premium species and are expected to provide attractive risk adjusted returns on capital employed over the long-term.

*Operations*

*Longview Timber Holdings, Corp. ("Longview"), U.S.*

Longview owns approximately 651,000 acres of freehold timberlands in Oregon and Washington with an estimated merchantable inventory of 23.7 million $m^3$ of timber, primarily comprised of high value Douglas-fir and hemlock with a long-run sustainable yield of 2.6 million $m^3$. The following table sets forth the significant characteristics of Longview:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 30.0%. |
| Strategic Position: | Timber is a vital component of the global economy. Longview's timberlands are primarily comprised of softwood such as Douglas-fir and hemlock that are generally preferred over hardwood for construction lumber and plywood because of its strength and flexibility. Due to its product mix as well as coastal access, its timberlands have significant flexibility to optimize the products that it harvests against market opportunities to enhance profitability. |
| Regulatory Environment: | Longview operates in an unregulated economic environment. |
| Customer Base: | Longview has a broad customer base. |
| Cash Flow Profile: | Timber can either be harvested and sold in attractive price environments or "warehoused" for later harvest if and when prices recover. This ability to preserve the value of the timber allows timberland owners to maximize the long-term value of timberlands by matching harvest opportunities to market conditions. Furthermore, this ability to warehouse timber has historically moderated timber supply and pricing, resulting in the volatility of timber prices being less than the volatility of prices for finished forest products such as oriented strand board, framing lumber, pulp, newsprint and fine papers. |
| Growth Opportunities: | We believe operating results will meaningfully improve following recovery in new home construction in the U.S. Although it is difficult to predict the timing and magnitude, we believe that we will achieve increased earnings due to improved pricing and increased harvest levels. As a result of a substantial surplus of merchantable inventory, we expect to increase harvest levels by approximately 85% (relative to 2009 levels) and sustain this level for a 10-year period before returning to the long-run sustainable yield level. |

*Island Timberlands Limited Partnership ("Island Timberlands"), Canada*

Island Timberlands owns approximately 634,000 acres of freehold timberlands located principally on Vancouver Island with an estimated merchantable inventory of 58.0 million $m^3$ of timber, that is primarily comprised of high value Douglas-fir, hemlock and cedar and with a long-run sustainable yield of 1.8 million $m^3$. Island Timberlands also owns approximately 33,000 acres of "higher and better use", or HBU, lands, which are properties that we believe will have greater value if used for a purpose other than as timberlands, such as real estate development or conservation. The following table sets forth the significant characteristics of Island Timberlands:

| | |
|---|---|
| Ownership: | Our partnership's effective ownership is 37.5%. |

| | |
|---|---|
| Strategic Position: | Timber is a vital component of the global economy. Island Timberlands' trees are primarily comprised of high-value softwood species such as Douglas-fir and hemlock that are generally preferred over hardwood for appearance grade products and construction lumber and plywood because of their strength and flexibility. Due to its product mix as well as coastal access, its timberlands have significant flexibility to optimize the products that it harvests against market opportunities to enhance profitability. |
| Regulatory Environment: | Island Timberlands operates in an unregulated economic environment. |
| Customer Base: | Island Timberlands has a broad base of domestic and international customers. |
| Cash Flow Profile: | Timber's unique operating framework provides it with the flexibility to match its harvest levels to market conditions at that time. Thus, during periods of high prices, harvest levels are increased and, conversely, during weak pricing environments, timber harvests are curtailed. This ability to preserve the value of the timber allows timberland owners to maximize the long-term value of timberlands by matching harvest opportunities to market conditions. Furthermore, this ability to warehouse timber has historically moderated timber supply and pricing, resulting in the volatility of timber prices being less than the volatility of prices for finished forest products such as oriented strand board, framing lumber, pulp, newsprint and fine papers. |
| Growth Opportunities: | We believe operating results will meaningfully improve following a recovery in new home construction in the U.S. Although it is difficult to predict the timing and magnitude, we believe that we will achieve increased earnings due to improved pricing and increased harvest levels. As a result of a substantial surplus of merchantable inventory, we expect to increase harvest levels by approximately 65% (relative to 2009 levels) and sustain this level for a 10-year period before returning to the long-run sustainable yield level. |

*Social Infrastructure*

We have an interest in three social infrastructure assets which are PPPs, namely a 50% interest in Long Bay Forensic and Prison Hospitals located in Sydney, Australia comprised of a 135-bed forensic hospital, 85-bed prison hospital and administration building; a 30% interest in Peterborough Hospital located in Peterborough, United Kingdom comprised of a 612-bed acute hospital, 102-bed mental health unit and an integrated care center; and a 50% interest in Royal Melbourne Showgrounds located in Melbourne, Australia consisting of a special purpose exhibition facility on a 19-hectare site comprising office complexes, open air arenas and large scale tension structures.

**Brookfield's Operations-Oriented Approach**

To execute our vision, we will seek to leverage our relationship with Brookfield. In each of its core sectors, Brookfield's strategy is to develop best-in-class operating platforms in order to acquire targeted assets and actively manage them to achieve superior returns on a long-term basis. Brookfield's operations-oriented approach is comprised of the following attributes:

- strong business development capabilities, which benefit from deep relationships within, and in-depth knowledge of, its markets;
- operational expertise, with considerable experience optimizing sales of its products and structuring and executing contracts with end users to enhance the value of its assets;
- technical knowledge and industry insight used in the evaluation, execution, risk management and financing of development projects and acquisitions; and
- development and retention of the highest quality people in its operations.

**Acquisition Strategy**

As we grow our asset base, we will target acquisitions in the following infrastructure sectors:

- Utilities: electric transmission, electric and gas distribution, and contracted power generation assets;
- Fee For Service: pipelines, railroads, ports, toll roads and airports;
- Timber: high quality species of timber in attractive locations; and
- Other: social and industrial infrastructure.

We will seek to leverage Brookfield's best-in-class operating platforms to invest in targeted assets and actively manage them to extract additional value following acquisition close. An integral part of our acquisition strategy is to participate with institutional investors in Brookfield sponsored consortiums for single asset acquisitions and as a partner in or alongside Brookfield sponsored partnerships that target acquisitions that suit our profile. We will focus on consortiums and partnerships where Brookfield has sufficient influence or control to deploy our operations oriented approach. Brookfield has a strong track record of leading such transactions.

Brookfield has agreed that it will not sponsor arrangements that are suitable for us in the infrastructure sector unless we are given an opportunity to participate. See Item 7.B "Related Party Transactions—Relationship Agreement". Since Brookfield has large, well established operations in real estate and renewable power that are separate from us, Brookfield will not be obligated to provide us with any opportunities in these sectors. In addition, since Brookfield has granted an affiliate the right to act as the exclusive vehicle for Brookfield's timberland acquisitions in Eastern Canada and the Northeastern U.S., we will not be entitled to participate in timberland acquisitions in those geographic regions. Brookfield also recently appointed an affiliate as its exclusive vehicle for the acquisition of contracted hydro and wind power generation facilities located in Canada.

**About Brookfield**

Brookfield is a global asset management company focused on property, power and other infrastructure assets with approximately $100 billion of assets under management and approximately 15,000 employees, including approximately 400 investment professionals, worldwide. Brookfield's strategy, which is part of our strategy as well, is to combine best-in-class operating platforms and best-in-class transaction execution capabilities to acquire and invest in targeted assets and actively manage them in order to achieve superior returns.

### Employees

Our partnership does not employ any of the individuals who carry out the management and activities of our partnership. The personnel that carry out these activities are employees of Brookfield, and their services are provided to our partnership or for our benefit under our Master Services Agreement. For a discussion of the individuals from Brookfield's management team that are expected to be involved in our infrastructure business, see Item 6.A "Directors and Senior Management—Our Management".

### Intellectual Property

Our partnership, as licensee, has entered into a licensing agreement with Brookfield pursuant to which Brookfield has granted us a non-exclusive, royalty-free license to use the name "Brookfield" and the Brookfield logo in connection with marketing activities. Other than under this limited license, we do not have a legal right to the "Brookfield" name and the Brookfield logo. Brookfield may terminate the licensing agreement immediately upon termination of our Master Services Agreement and it may be terminated in the circumstances described under Item 7.B "Related Party Transactions—Licensing Agreement".

### Properties

Our partnership's principal office is at 7 Reid Street, 4th Floor, Hamilton HM 11, Bermuda and its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Our partnership does not directly own any real property.

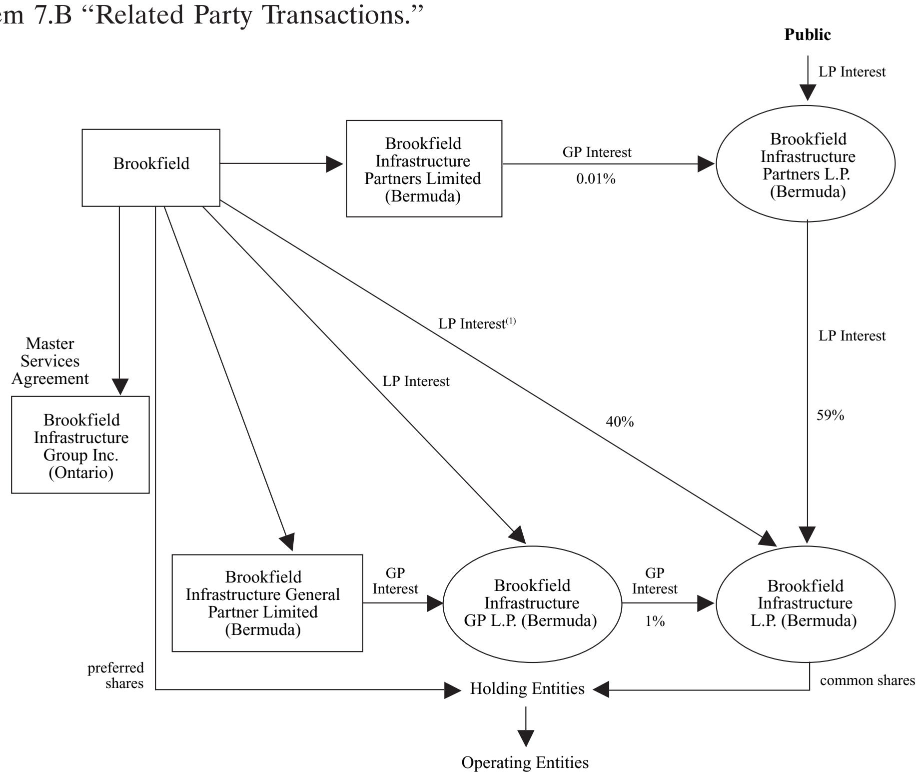
### Governmental, Legal and Arbitration Proceedings

Our partnership may be named as a party in various claims and legal proceedings which arise in the ordinary course of business. Our partnership has not been in the previous 12 months and is not currently subject to any material governmental, legal or arbitration proceedings which may have or have had a significant impact on our partnership's financial position or profitability nor is our partnership aware of such proceedings that are pending or threatened.

## 4.C ORGANIZATIONAL STRUCTURE

### Organizational Charts

The chart below presents a simplified summary of our ownership and organizational structure. Please note that on this chart all interests are 100% unless otherwise indicated and "GP Interest" denotes a general partnership interest and "LP Interest" denotes a limited partnership interest. These charts should be read in conjunction with the explanation of our ownership and organizational structure below and the information included under Item 4.B "Business Overview," Item 6.C "Board Practices" and Item 7.B "Related Party Transactions."




| Utilities | Fee for Service | Timber | Social Infrastructure |
|---|---|---|---|
| DBCT……………………...46%[(4)] | NGPL………………......... 11%[(2)] | Longview……………….. 30% | Peterborough Hospital..…...30% |
| Transelec…………......... 18% | WestNet Rail……....….. 40%[(2)] | Island Timberlands…….. 38% | Long Bay Forensic and Prison Hospitals………... 50% |
| Ontario Transmission….100% | PD Ports……………......... 51%[(3)] | | Royal Melbourne Showgrounds…………... 50% |
| Powerco…………………... 17%[(2)] | Euroports………….......... 24%[(2)] | | |
| IEG Connections……..... 40%[(2)] | IEG Distribution............. 40%[(2)] | | |
| | TGN…........................... 40%[(2)] | | |

(1) *Brookfield's limited partnership interest in Brookfield Infrastructure is redeemable for cash or exchangeable for our units in accordance with the Redemption-Exchange Mechanism, which could result in Brookfield Asset Management eventually owning approximately 41% of our issued and outstanding units. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism."*

(2) *Owned through our approximate 40% interest in Prime.*

(3) *Acquired from BBI in the BBI Transaction.*

(4) *Owned through: (i) our approximate 40% interest in Prime, and (ii) our direct investment in DBCT acquired from BBI in the BBI Transaction. Our direct investment in DBCT is held through the purchase of convertible notes of DBCT.*

### Our Partnership

Our partnership, Brookfield Infrastructure Partners L.P., is a Bermuda exempted limited partnership that was established on May 21, 2007. Our partnership's head office is 7 Reid Street, 4th Floor, Hamilton HM 11, Bermuda, and our registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. Our partnership and its related entities own and operate certain infrastructure assets on a global basis.

Our partnership's sole material asset is its approximate 59% limited partnership interest in Brookfield Infrastructure. Our partnership anticipates that the only distributions that it will receive in respect of our partnership's limited partnership interests in Brookfield Infrastructure will consist of amounts that are intended to assist our partnership in making distributions to our unitholders in accordance with our partnership's distribution policy and to allow our partnership to pay expenses as they become due. The declaration and payment of cash distributions by our partnership is at the discretion of our Managing General Partner which is not required to make such distributions and our partnership cannot assure you that it will make such distributions as intended.

### Our Manager and Brookfield

The Service Recipients have engaged the Manager, an affiliate of Brookfield, to provide them with management and administration services pursuant to the Master Services Agreement.

### Our Managing General Partner

Our Managing General Partner serves as our partnership's general partner and has sole authority for the management and control of our partnership which is exercised exclusively by its board of directors in Bermuda. Because our partnership's only interest in Brookfield Infrastructure consists of limited partnership interests in Brookfield Infrastructure, which by law do not entitle the holders thereof to participate in partnership decisions, our Managing General Partner's directors are not entitled to participate in the management or activities of Brookfield Infrastructure or the Holding Entities, including with respect to any acquisition decisions that they may make.

### Brookfield Infrastructure and Holding Entities

Our partnership indirectly holds its interests in operating entities through the Holding Entities. Brookfield Infrastructure owns all of the common shares of the Holding Entities. Brookfield has provided an aggregate of $20 million of working capital to the Holding Entities through a subscription for preferred shares of such Holding Entities. These preferred shares are entitled to receive a cumulative preferential dividend equal to 6% of their redemption value as and when declared by the board of directors of the applicable Holding Entity and are redeemable at the option of the Holding Entity, subject to certain limitations, at any time after the tenth anniversary of their issuance. The preferred shares are not entitled to vote, except as required by law.

### Infrastructure GP LP and Infrastructure General Partner

The Infrastructure GP LP serves as the general partner of Brookfield Infrastructure and has sole authority for the management and control of Brookfield Infrastructure. The general partner of Infrastructure GP LP is the Infrastructure General Partner, a corporation owned indirectly by Brookfield Asset Management. Infrastructure GP LP is entitled to receive incentive distributions from Brookfield Infrastructure as a result of its ownership of the general partnership interests of Brookfield Infrastructure. See Item 7.B "Related Party Transactions—Incentive Distributions."

See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risk Relating to Us and Our Partnership," Item 3.D "Risk Factors—Risk Relating to our Relationship with Brookfield," Item 6.A "Directors and Senior Management," Item 7.B "Related Party Transactions," Item 10.B "Memorandum and Articles of Association—Description of Our Units and Our Limited Partnership," Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement" and Item 7.A "Major Shareholders."

### 4.D PROPERTY, PLANTS AND EQUIPMENT

Our partnership's principal office is at 7 Reid Street, 4th Floor, Hamilton HM 11, Bermuda and its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Our partnership does not directly own any real property.

See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risks Relating to Our Operations and the Infrastructure Industry", "—Risks Relating to Our Utilities Operations—Our utilities operations may require substantial capital expenditures in the future," "—Our utilities operations may engage in development projects which may expose us to various risks associated with construction," "—Risk Relating to Our Fee for Service operations—Changes in government regulation could adversely affect economic returns and cash flows," "—WestNet Rail may not be able to extend track access agreement," "—Risks Relating to Our Timber Operations—A variety of factors may limit or prevent harvesting by our timber operations," and Item 5 "Operating and Financial Review and Prospects."

## ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

This management's discussion and analysis, or MD&A should be read in conjunction with the remainder of the information contained in this Form 20-F. Additional information is available on the Partnership's website at www.brookfieldinfrastructure.com, on the website of the Securities and Exchange Commission at www.sec.gov and through our SEDAR profile at www.sedar.com

#### Business Overview

Brookfield Infrastructure Partners L.P., or our Partnership, through its related entities, owns and operates high quality, long-life assets that generate stable cash flows, require relatively minimal maintenance capital expenditures and, by virtue of barriers to entry and other characteristics, tend to appreciate in value over time. Our current operations consist of utility businesses, fee for service businesses and timber assets in North and South America, Australasia, and Europe. Our vision is to be a leading owner and operator of high quality infrastructure assets that produce an attractive risk-adjusted total return for our unitholders. To accomplish this objective, we will seek to leverage Brookfield Asset Management Inc's, or Brookfield, best-in-class operating platforms to acquire targeted assets and actively manage them to extract additional value following our initial investment. An integral part of our strategy is to participate with institutional investors in Brookfield-sponsored partnerships that target acquisitions that suit our profile. We will focus on consortiums and partnerships where Brookfield has sufficient influence or control to deploy an operations-oriented approach.

**Performance Targets and Key Measures**

Our objective is to earn a total return of 12% to 15% per annum on the infrastructure assets that we acquire, including our current operations, when measured over the long-term. This return will be generated from the in-place cash flows of our current operations plus growth. We endeavor to manage our operations to generate increasing adjusted net operating income, or ANOI, per unit over time. If we are successful in doing so, we will be able to increase distributions to unitholders. Additionally, the increase in our ANOI per unit should result in capital appreciation. We also measure the growth of ANOI per unit. We have performance measures for each of our operating platforms that track the key value drivers of each one of these segments. See "—Operating Platforms" for more detail.

With respect to our distribution policy, our objective is to pay a distribution that is sustainable on a long-term basis while retaining within our operations sufficient liquidity for growth capital expenditures and general purposes. We currently believe that a payout of 60% to 70% of our ANOI is appropriate. In light of the per unit ANOI growth that we foresee in our operations, we are targeting 3% to 7% annual distribution growth.

**Basis of Presentation**

Our Partnership's sole material asset is its 59% limited partnership interest in Brookfield Infrastructure L.P., or Brookfield Infrastructure, which is accounted for using the equity method. As a result, we believe the financial statements of Brookfield Infrastructure are more relevant than our Partnership's because they present the financial position and results of our underlying operations in greater detail. Brookfield and its affiliates own the remaining 41% of Brookfield Infrastructure, which, through the Redemption-Exchange Mechanism can be converted into an equivalent interest in the Partnership. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism" for more information.

The results presented in this MD&A reflect the financial position and results of Brookfield Infrastructure's operations for the three years ended December 31, 2009.

For each of its operations—utilities, fee for service and timber—this MD&A discusses Brookfield Infrastructure's proportionate share of results for its consolidated operations and equity accounted investments in order to demonstrate the impact of key value drivers of each of these segments on Brookfield Infrastructure's overall performance.

All figures are provided in U.S. dollars, unless otherwise noted.

**OUR OPERATIONS**

Our business is comprised of high quality, long-life assets that provide essential products and services for the global economy. We have a stable cash flow profile with approximately three quarters of our EBITDA supported by regulated or contractual revenues. While each of our businesses have high barriers to entry and strong competitive positions, we generate cashflows under a number of different revenue frameworks. As a result, we group these businesses into operating platforms based on the similarities in their underlying economic drivers to assist our unitholders in evaluating their performance and assessing their value.

Our operating platforms are summarized below:

| Operating Platform | Asset Type | Location |
|---|---|---|
| **Utilities** | | |
| *Regulated and contractual return on capital employed* | | |
| Energy | Gas and electricity transmission | North & South America, Australasia and Europe |
| Transportation | Coal terminal | Australasia |
| **Fee for service** | | |
| *Access fees for the transportation, storage and handling of energy, freight and bulk commodities* | | |
| Energy | Natural gas pipelines | North America and Australasia |
| Transportation | Sea ports and railroads | Australasia and Europe |
| **Timber** | | |
| *Provide essential products on a sustainable basis* | | |
| Timber | Timberlands | North America |

Our utilities operations are comprised of regulated businesses which earn a return on their asset base as well as businesses with long-term contracts designed to generate a return on capital over the life of the contract. Our fee for service operations provides transportation, storage and handling services for energy, freight and bulk commodities for which we are paid an access fee. Profitability is based on the price and volume achieved for the provision of these services. Our timber operations are comprised of timberlands that provide essential products for the global economy on a sustainable basis.

## ACQUISITIONS AND DIVESTITURES

On November 20, 2009, we invested $941.0 million to acquire a 40% interest in Prime Infrastructure, or Prime, and direct interests in two assets from Prime: DBCT and PD Ports. The acquisition was funded with the proceeds from an approximate $940 million issuance of partnership units and redeemable partnership units. See "—Partnership Capital" for further information regarding the issuance of units.

Our investment in Prime was part of a comprehensive recapitalization in which Prime raised over $1.6 billion from Brookfield Infrastructure, Brookfield, and other investors to repay debt. Following the recapitalization, Prime's proportional debt leverage decreased from 98% to approximately 68%.

The following table outlines sources and uses of cash for our participation in the recapitalization of Prime:

| | As at November 20 2009 |
|---|---|
| Cash | **$ 941.0** |
| Comprised of: | |
| Investment in Prime | **$ 666.4**(1) |
| Investment in PD Ports | **102.9**(2) |
| Investment in DBCT | **165.7**(2) |
| Transaction costs | **6.0** |
| Total | **$ 941.0** |

*(1) See Our Operations section of this MD&A for a summary of the businesses Prime owns following its recapitalization.*

*(2) A portion of our direct investment is held through a Brookfield sponsored infrastructure fund.*

On December 31, 2009, the Brookfield sponsored infrastructure partnership, through which a portion of our interest in PD Ports is held, admitted a new limited partner resulting in the reduction of our ownership interest in this asset. In conjunction with the transaction, we received $9.5 million, representing the original cost of the investment plus a notional interest charge.

On June 30, 2009, we completed the sale of our minority interest in TBE for after-tax proceeds of $275 million, including proceeds from foreign exchange currency hedges. The sale resulted in the recognition of a $68.2 million after-tax gain over book value. A portion of the proceeds was used to repay corporate borrowings in full, with the balance available to fund growth capital investments and acquisitions, as well as for general corporate working capital purposes.

On February 3, 2009, we completed the acquisition from Brookfield of a 50% interest in the Royal Melbourne Showgrounds PPP project for a purchase price of $3.0 million.

On December 5, 2008, we acquired from Brookfield a 30% interest in the Peterborough Hospital and a 50% interest in the Long Bay Forensic and Prison Hospitals PPP projects for a purchase price of $12.3 million.

On November 4, 2008, we invested $102.8 million directly and indirectly (through the Brookfield Global Timber Fund) into Longview to maintain our interest at the 30% level. The proceeds were used to partially fund the add-on acquisition of a 67,661 acre tree farm in Washington State for $163 million and repay Longview's outstanding bridge loan whose principal amount was approximately $250 million.

On April 4, 2008, we acquired an additional 7.1% interest in Transelec for $134.9 million, increasing our total ownership interest to 17.8%.

**Subsequent Events**

On January 28, 2010, subsequent to period end, the Brookfield sponsored infrastructure partnership, through which a portion of our interests in DBCT and PD Ports is held, admitted a new limited partner resulting in the reduction in our ownership interest in these assets. In addition, we sold a 1.4% interest in DBCT to the new limited partner. In conjunction with the transaction, we received proceeds of $21.5 million, representing the original cost of these investments plus a notional interest charge. As a result, our interests in DBCT and PD Ports were reduced to 46% and 51%, respectively. If the Brookfield sponsored infrastructure partnership is successful in reaching its fund raising target, we would receive additional proceeds of approximately $14.6 million and our interests in DBCT and PD Ports would be reduced to approximately 44% and 48%, respectively.

## OVERVIEW OF PERFORMANCE

To measure performance, we focus on net income as well as ANOI. We define ANOI as net income excluding the impact of depreciation, depletion and amortization, deferred taxes and other items as detailed in "—Reconciliation Of Non-GAAP Financial Measures" of this MD&A. ANOI is a measure of operating performance that is not calculated in accordance with, and does not have any standardized meaning prescribed by U.S. GAAP. ANOI is therefore unlikely to be comparable to similar measures presented by other issuers. ANOI has limitations as an analytical tool. See "—Reconciliation Of Non-GAAP Financial Measures" for a more fulsome discussion, including a reconciliation to the most directly comparable U.S. GAAP measure.

### Results of Operations

The following table summarizes the financial results of Brookfield Infrastructure.

| MILLIONS, EXCEPT PER UNIT INFORMATION | For the Years Ended December 31 | | |
|---|---|---|---|
| **Income Statement Key Metrics** | **2009** | 2008 | 2007 |
| Revenues | **$ 29.8** | $ 32.9 | $33.1 |
| Gross margin | **14.8** | 17.9 | 20.4 |
| (Losses) earnings from equity accounted investments | **(10.0)** | 25.2 | (7.8) |
| Dividend income | **3.5** | 14.3 | 0.5 |
| Gain on sale of investment (after tax) | **68.2** | — | — |
| Selling, general and administrative expenses | **(16.6)** | (14.0) | (4.4) |
| Interest expense—corporate borrowings | **(7.7)** | (5.6) | — |
| Interest expense—non-recourse borrowings | **(6.8)** | (7.3) | (6.9) |
| Net income(1) | **47.8** | 28.0 | 12.0 |
| Per unit net income(1),(2) | **1.00** | 0.72 | 0.31 |
| ANOI(1) | **117.4** | 59.7 | 13.3 |
| Per unit ANOI(1),(2) | **2.46** | 1.54 | 0.34 |

| MILLIONS | As at December 31 | |
|---|---|---|
| **Balance Sheet Key Metrics** | **2009** | 2008 |
| Cash and cash equivalents | **$ 58.3** | $ 9.2 |
| Total assets | **1,962.9** | 1,174.3 |
| Partnership capital(3) | **1,799.5** | 899.9 |
| Corporate borrowings | **—** | 139.5 |
| Non-recourse borrowings | **$ 114.0** | $ 97.6 |

(1) *Includes a $68.2 million after-tax gain recognized on sale of TBE ($1.43 per unit).*

(2) *Per unit net income for Brookfield Infrastructure is equivalent to per unit net income for the Partnership as Brookfield Infrastructure units are exchangeable into Partnership units on a one-for-one basis.*

(3) *Includes redeemable partnership units as they can be converted to an equivalent interest in partnership units through a redemption exchange mechanism.*

Due to our levels of ownership and control, Brookfield Infrastructure's financial statements reflect a mix of: consolidation accounting (Ontario Transmission); equity accounting (Transelec, DBCT, PD Ports, Island Timberlands, Longview, PPP assets and Prime, which includes NGPL, Powerco, IEG, TGN, DBCT, WestNet Rail and Euroports); and cost accounting (TBE).

For the year ended December 31, 2009, we recorded net income of $47.8 million, compared to $28.0 million in the comparable period of 2008. This increase in net income is attributable mainly to the $68.2 million after-tax gain recognized on the sale of TBE and $17.6 million from six weeks of contribution from our newly acquired assets. These increases were partially offset by the following:

- A decrease in earnings from equity accounted investments of $52.8 million (excluding earnings from newly acquired assets), primarily as a result of further deterioration of log prices due to the weak U.S. housing market and lower net income from Transelec as several non-cash items more than offset the higher ANOI recorded in the business, primarily mark-to-market losses on derivative contracts and to a lesser extent increased depreciation expense;
- A decrease in dividend income of $10.8 million due to the sale of TBE in June 2009;

- An increase of $2.6 million in selling, general and administrative expenses as a result of costs associated with the acquisition of Prime and the direct interest in DBCT and PD Ports;
- A decrease in gross margin of $3.1 million from Ontario Transmission, primarily due to the impact of foreign exchange as well as lower system loads which resulted in lower revenue levels; and
- An increase in interest expense of $1.7 million due to increased borrowings under our corporate credit facility.

Our partnership was formed on November 27, 2007, accordingly, results for 2007 reflect only one month of Brookfield Infrastructure activity. In addition, since it remained under common control by Brookfield following its transfer to Brookfield Infrastructure, results reflect the historical results of Ontario Transmission for the full year in 2007. Under GAAP, the historical results transfer to Brookfield Infrastructure as a result of this continuity of interest. In addition, 2008 results reflect Brookfield Infrastructure's increased 17.8% ownership of Transelec beginning on April 4, 2008.

As at December 31, 2009, Brookfield Infrastructure had $1,962.9 million in assets and $1,799.5 million in partnership capital. The increase in assets and partnership capital is primarily a result of the November 20, 2009 investment in Prime and the direct interests in DBCT and PD Ports which were funded with an equity issuance. There were no corporate borrowings at period end. The corporate credit facility was repaid in full on July 3, 2009 with proceeds from the TBE sale. In addition, our consolidated and combined balance sheet at December 31, 2009 reflects $114.0 million in non-recourse borrowings of Ontario Transmission. Please refer to "—Acquisitions and Divestitures" further information regarding the investment in Prime and the TBE sale.

The following table presents select income statement and balance sheet metrics by segment on a proportionate basis:

| | Years Ended December 31 | | |
|---|---|---|---|
| **MILLIONS** | **2009** | 2008 | 2007 |
| Net income by segment | | | |
| Utilities[1] | **$ 70.4** | $ 39.9 | $ 9.8 |
| Fee for service | **(0.1)** | — | — |
| Timber | **(26.0)** | 6.7 | (6.2) |
| Corporate and other | **3.5** | (18.6) | 8.4 |
| Net (loss) income | **$ 47.8** | $ 28.0 | $12.0 |
| ANOI by segment | | | |
| Utilities[1] | **$128.7** | $ 64.0 | $17.4 |
| Fee for service | **12.6** | — | — |
| Timber | **(2.6)** | 12.8 | (4.1) |
| Corporate and other | **(21.3)** | (17.1) | — |
| ANOI | **$117.4** | $ 59.7 | $13.3 |

*(1) Includes a $68.2 million after-tax gain recognized on the sale of TBE.*

| MILLIONS | As of December 31 2009 | 2008 |
|---|---|---|
| Total assets by segment | | |
| Utilities | **$2,266.1** | $ 836.6 |
| Fee for service | **1,406.4** | — |
| Timber | **937.1** | 956.2 |
| Corporate and other | **132.4** | 65.9 |
| Total assets | **$4,742.0** | $1,858.7 |
| Net debt by segment | | |
| Utilities | **$1,445.0** | $ 344.5 |
| Fee for service | **969.7** | — |
| Timber | **474.8** | 474.8 |
| Corporate and other | **53.0** | 139.5 |
| Total debt | **$2,942.5** | $ 958.8 |
| Partnership capital by segment | | |
| Utilities | **$ 821.1** | $ 492.1 |
| Fee for service | **436.7** | — |
| Timber | **462.3** | 481.4 |
| Corporate and other | **79.4** | (73.6) |
| Total partnership capital | **$1,799.5** | $ 899.9 |

Changes in net income and ANOI for each segment, as presented above, are discussed in "—Operating Platforms" below.

## OPERATING PLATFORMS

In this section, we review the operating results of our principal operating platforms; utilities, fee for service and timber.

### Utilities Operations

Our utilities operations are comprised of businesses which earn a regulated return as well as businesses with long term contracts designed to generate a return on capital over the life of the contract. In this segment of our business, we own and operate assets that earn an allowed return on a regulated or notionally stipulated asset base. The asset base increases in accordance with capital that we invest to upgrade and expand our systems. Depending on the jurisdiction, our asset base may also increase by inflation and maintenance capital expenditures and decrease by regulatory depreciation. The return that we earn is typically determined by a regulator or contract for prescribed periods of time. Thereafter, it may be subject to customary reviews based upon established criteria. Due to the regulatory diversity we have within our utilities operations, we mitigate exposure to any single regulatory regime. In addition, due to the economies of scale of our utilities businesses, we often have significant competitive advantages in competing for projects to expand our asset base. This competitive advantage often enables us to invest capital at attractive returns. Accordingly, we expect this segment to produce consistent revenue and margins that should increase with investment of additional capital and inflation. Virtually 100% of our utility operations' EBITDA is supported by regulated or contractual revenues.

Our objectives for our utilities operations are to operate open access systems that provide safe and reliable service for our customers and to invest capital in expansions in order to meet our customers' growth requirements. If we do so, we will put ourselves in a position to earn an appropriate return on our assets.

Our utilities operations are comprised of the following transportation and energy businesses:

*DBCT:* One of the world's largest coal terminals, accounting for 8% of global seaborne coal exports and 20% of global seaborne metallurgical coal exports. DBCT provides access to the export market for the Bowen Basin in Queensland, Australia, which is one of the lowest cost sources of coal in the world.

*Transelec:* The largest electricity transmission system in Chile with approximately 8,200 km of transmission lines. Transelec owns 100% of the highest voltage transmission lines in the country and is responsible for transmitting electricity to 98% of the population.

*Ontario Transmission:* An electricity transmission provider in the province of Ontario. Ontario Transmission has approximately 550 km of transmission lines that connect generators located in Northern Ontario to regions of high electricity demand in Southern Ontario.

*Powerco:* New Zealand's second largest provider of regulated electricity and gas distribution services, with over 410,000 connections. Powerco accounts for approximately 40% of the gas and approximately 16% of the electricity connections in New Zealand.

*IEG Connections:* The second largest independent provider of "last-mile" gas and electricity connection services in the UK.

The following table presents our utilities segment's proportionate share of financial results. As it is accounted for on a cost basis, TBE's results prior to its sale in June 2009 are reflected as dividend income.

| | Years Ended December 31 | | |
|---|---|---|---|
| **MILLIONS** | **2009** | 2008 | 2007 |
| Revenue | **$116.7** | $ 86.4 | $35.5 |
| Costs attributed to revenues | **(31.0)** | (15.8) | (6.4) |
| Dividend income | **3.5** | 14.3 | 0.5 |
| Net operating income | **89.2** | 84.9 | 29.6 |
| Other income | **1.9** | 1.6 | 0.3 |
| Gain on sale of investment (after-tax)[(1)] | **68.2** | — | — |
| Interest expense[(2)] | **(29.6)** | (21.1) | (8.0) |
| Cash taxes | **(1.0)** | (1.4) | (4.5) |
| Adjusted net operating income (ANOI) | **128.7** | 64.0 | 17.4 |
| Depreciation and amortization | **(23.3)** | (17.6) | (8.0) |
| Premium on refinancing | **(2.8)** | — | — |
| Unrealized losses on derivative instruments | **(23.1)** | (2.9) | — |
| Deferred taxes and other items | **(9.1)** | (3.6) | 0.4 |
| Net income | **$ 70.4** | $ 39.9 | $ 9.8 |

(1) *Gain on sale of TBE, net of cash taxes paid—please refer to "—Acquisitions and Divestitures" for more details.*

(2) *Excludes non-cash components of interest expense which are included in the line item unrealized losses on derivative instruments and other.*

For the year ended December 31, 2009, Transelec's net operating income and ANOI were $48.1 million and $35.6 million, respectively, compared with $45.0 million and $32.9 million for the prior year. Transelec's results in 2008 reflected non-recurring revenues of $8.5 million as a result of retroactive application of the 2006 trunk transmission study, and our increased ownership interest from 10.7% to 17.8% in the first quarter of 2008. Adjusting for non-recurring revenue and the change in ownership, Transelec's net operating income and ANOI increased by 32% and 46% respectively, relative to the prior year, primarily as a result of the rate increases provided for in the 2006 trunk transmission study, indexation of revenues resulting from inflation and foreign exchange movements and the benefit of growth capital expenditures. After adjusting for non-recurring revenues in the prior year, operating margins at Transelec were 81% compared to 82% in the prior year.

For the year ended December 31, 2009, Ontario Transmission's net operating income and ANOI were $22.2 million and $14.8 million, respectively, compared with $25.6 million and $16.8 million in the prior year. The decline in net operating income, or NOI, was largely due to a weakening of the Canadian dollar, and to a lesser extent, a decline in revenues as a result of lower demand in Ontario.

Our newly acquired utilities assets generated NOI and ANOI of $15.4 million and $6.6 million, respectively, for the six weeks following the acquisition.

Dividends received from our TBE investment in 2009 were $3.5 million for the year compared to $14.3 million in 2008. Dividends from TBE were lower as a result of the sale of TBE in the second quarter of 2009, which resulted in a $68.2 million after-tax gain.

Non-cash expenses are primarily comprised of depreciation and amortization, non-cash inflation indexations on Transelec's Chilean peso denominated debt, unrealized mark-to-market losses on derivative contracts, which are part of our currency hedging program, as well as a premium on the refinancing of a portion of Transelec debt. Depreciation and amortization totalled to $23.3 million in 2009, an increase from $17.6 million in 2008, as a result of incremental depreciation booked in conjunction with the expansion of our regulated asset base. Our mark-to-market losses on derivative contracts were $23.1 million for the year compared to $2.9 million in 2008. Non-cash inflation indexation was $1.0 million in 2009 compared to $12.9 million in 2008, due to a decline in Chilean inflation.

Results for 2007 reflect only one month of Brookfield Infrastructure activity as the partnership was formed on November 27, 2007, in addition to results of Ontario Transmission for the full year.

Our utility operations have a combination of regulatory and contractual frameworks, some of which are indexed. For our utility operations with revenue indexation, increases in revenue are primarily a result of inflation, changes in foreign exchange rates and growth capital expenditures. For our remaining operations, revenue increases are primarily attributable to growth capital expenditures. Growth and maintenance capital expenditures are discussed in "—Capital Expenditures".

**Business Development and Outlook**

In our Ontario Transmission and Powerco businesses, we have regular rate reviews pending that we believe will be resolved in 2010 or 2011. In Ontario, the regulator has acknowledged that the current ROE formula does not provide a reasonable rate of return for regulated utilities and is supportive of changing the ROE formula. We anticipate that this will result in an increase in our ROE by 150 bps to 175 bps in our pending rate case. For Powerco, the regulator establishes a rate by which revenues are escalated equal to CPI less an X-factor. In a preliminary ruling, the regulator has indicated an X-factor of 0%, resulting in a rate equal to CPI. We expect that within the next 12 to 18 months, the regulator will also decide on other elements of the allowed revenue.

Within our utility operations, we have numerous opportunities to upgrade and expand our asset base. While we are required to make certain capital expenditures to maintain safety and reliability, we will direct discretionary capital to those businesses that provide the highest risk-adjusted returns. In our utility operations, we expect to earn a return on the equity that we invest which is consistent with our existing return.

Transelec and IEG Connections have notable opportunities to expand their asset base. As the backbone transmission system in Chile, Transelec is uniquely positioned to participate in the substantial build-out of the transmission grid required to support expansion of the Chilean economy. IEG Connections competes with local distribution companies as well as other independent connection companies to win contracts to install natural gas and electric connections to new residential housing projects in the UK. Following installation, IEG Connections owns and operates the connections and receives payments for use of its system from retail providers that sell energy to the homeowner. IEG has experienced significant growth in its order book due to recovery of the UK housing market combined with market share gains.

In January 2009, Brookfield and its partner Isolux, through their joint venture company Wind Energy Texas Transmission, or WETT, were awarded the right to build $500 million of transmission lines in Texas to facilitate delivery of wind power to population centers as part of the Texas Competitive Renewable Energy Zones, or CREZ, program. We anticipate commercial operation of the project in the beginning of 2013, at which time WETT will be a licensed transmission utility in the state. Brookfield contributed its interest in WETT to a Brookfield-sponsored infrastructure partnership in which we own an interest. We anticipate that our ownership will be approximately 15% of this project.

In addition, we have the potential opportunity to invest in several large scale development projects that are in early stages. We are particularly excited about prospects at DBCT, one of the world's largest coal export facilities. Situated on the northeast coast of Australia, this terminal serves as the critical link in the export of metallurgical coal from the Bowen Basin, one of the most prolific, low-cost metallurgical coal basins in the world. With capacity of 85 million tonnes per annum, or Mtpa, DBCT handles approximately 20% of the seaborne metallurgical coal in the world. For context of size, this terminal ships approximately $13 billion of coal annually, most of which is shipped to steel companies in Japan, Korea, India and China. Due to global demand for metallurgical coal, the queue to receive coal from DBCT is over 25 days. As a result, there is considerable customer demand to expand the facility. As a first step, we will conduct a feasibility study, which will be paid for by our customers. DBCT's existing facility can be expanded by up to 5%. Any expansion of greater than 5% will require building a facility at an adjacent location with capital expenditures in excess of $2 billion.

**Fee For Service**

Our fee for service operations is comprised of open access systems that provide transportation, storage and handling of energy, freight and bulk commodities. This operating platform is comprised of businesses with price floors and ceilings as a result of regulation, such as NGPL and WestNet Rail, as well as unregulated businesses, such as PD Ports and Euroports. Fee for service businesses typically have high barriers to entry and in many instances have very few substitutes in their local markets. While these businesses have greater sensitivity to market prices and volume than our utilities operations, revenues are generally stable and, in many cases, are supported by long-term contracts or customer relationships. Our fee for service operations are expected to benefit from increases in demand for commodities as well as increases in the global movement of goods. Furthermore, the diversification within our fee for services operations mitigates the impact of fluctuations in demand from any particular sector, commodity or customer. Approximately 70% of our fee for service operations' EBITDA is supported by regulated or contractual revenues.

Our objectives for our fee for service operations are to provide safe and reliable service to our customers and to meet their expansion needs in a capital efficient manner. If we do so we will be able to charge a fair price for our services, and we will be able to earn an attractive return on the capital that we invest to increase the capacity of our operations.

Our fee for service operations are comprised of the following businesses:

*NGPL:* One of the largest natural gas transmission pipeline and storage systems in the United States, with over 15,500 km of pipeline and approximately 275 billion cubic feet of storage capacity. NGPL provides transportation and storage to approximately 60% of the Chicago and the Northern Indiana natural gas markets.

*WestNet Rail:* Leases and operates a network of approximately 5,100 km of track and related infrastructure in Southwestern Australia. WestNet Rail provides exclusive rail access to market for minerals and grain businesses that underpin Western Australia's economy.

*PD Ports:* One of the largest port operators in the UK by volume. PD Ports is a landlord port with over 2,000 acres of land, and operates as the statutory harbour authority out of the Port of Tees and Hartlepool in northern UK.

*Euroports:* Owns a portfolio of seven port concession businesses in key strategic locations throughout Europe and in China, handling over 50 Mtpa.

*TGN:* The natural gas distributor in Tasmania, supplying gas to residential, commercial and industrial customers via its distribution networks.

*IEG Distribution:* The sole provider of natural gas and liquid propane gas in the Channel Islands and the Isle of Man.

The following table presents our fee for service operations' proportionate share of financial results.

| | Years Ended December 31 | | |
|---|---|---|---|
| **MILLIONS** | **2009** | 2008 | 2007 |
| Revenues | **$ 56.9** | $ — | $ — |
| Cost attributed to revenues | **(32.5)** | — | — |
| Net operating income | **24.4** | — | — |
| Other expense | **(3.0)** | — | — |
| Interest expense | **(8.8)** | — | — |
| Adjusted net operating income (ANOI) | **12.6** | — | — |
| Depreciation, depletion and amortization | **(4.0)** | — | — |
| Foreign exchange translation losses | **—** | — | — |
| Deferred taxes and other items | **(8.7)** | — | — |
| Net income | **$ (0.1)** | $ — | $ — |

The results of our fee for service operations, which represent six weeks of operations following the completion of the acquisition of our interests in Prime, and PD Ports on November 20, 2009, were in line with expectations.

**Business Development and Outlook**

Following our investment in Prime, the United States Energy Regulatory Commission, or FERC, announced in November of 2009 a review of rates charged by NGPL and two other natural gas pipeline companies. In its complaint, FERC alleges that NGPL is earning a return on equity that is in excess of a reasonable level and that it is over recovering on fuel gas. On April 23, 2010, our partnership announced that a settlement in principle was reached between it and FERC. The settlement in principle is supported or not opposed by all active participants in the proceeding. The settlement terms remain confidential, subject to documentation and, following agreement of documentation, subject to approval of the Administrative Law Judge and the FERC commissioners before the settlement becomes final and binding. The terms of the settlement, if so approved, would resolve all issues set for hearing by the Commission. We believe the FERC proceeding will likely be resolved in the next twelve months, however, at this time we cannot be certain that the settlement will be finalized nor estimate the impact if such event does not occur. Kinder Morgan Inc., or KMI, reported in its March 31, 2010 Form 10Q, that it recognized an impairment charge on the carrying value of its 20% investment in NGPL as a result of the proposed settlement with FERC announced on April 23, 2010. The impairment charge is based on certain assumptions made by KMI, including the expected impact on annual pre-interest, after-tax cash flows at NGPL over the next several years. Based on the staged implementation of the proposed reductions in various service charges, these cash flows were lower than KMI's previous expectations for NGPL by approximately $25 million, increasing to $70 million upon full implementation (on a 100% basis). Brookfield Infrastructure has an approximate 11% interest in NGPL, through its 40% interest in Prime.

In January 2010, WestNet Rail received a notice for stamp duty assessed in respect of the 2006 acquisition of the ARG Group. Our partnership's share of the assessment is A$18.5 million (Prime's A$46.4 million). We believe that the assessment is incorrect at law and Prime intends to vigorously challenge it. Prime has funded the assessment from its cash resources while the matter is pending

Within our fee for service operations, we strive to increase the throughput of our system in a capital efficient manner to meet out customers' growth requirements. Due to the economies of scale of our networks or our location, we are often able to earn very attractive returns when we make investments. In this segment, growth investments are discretionary, and we target an after-tax return on equity of 15% to 20% depending on the risk profile of the project.

We are very excited about the growth potential of WestNet Rail, a 5,100 km rail network in Western Australia. WestNet Rail provides access to its rail network to companies that ship primarily bulk commodities (iron ore, alumina, coal, minerals, grain) to ports along the west coast of Australia. Due to the high costs and inefficiency of road transportation, our rail network often provides the sole economic access route to the export market for our customers. In 2009, WestNet Rail shipped over 50 million tonnes of freight across its network. With the recovery in the capital markets and the renewed demand for commodities, particularly from China, several large-scale iron ore mining developments in close proximity to our rail network have progressed rapidly and are proposed to be brought into production in 2011. In 2010, we began evaluating the numerous upgrades to WestNet Rails' network to increase thoughput in order to accommodate these customer initiated projects. Based on our preliminary analysis, these upgrade projects should require capital expenditure in excess of $400 million.

Our European and UK ports businesses should continue to grow with the increased movements of goods to and from our terminal locations. In general, volumes of our bulk and general cargo have been increasing as the economy strengthens; our volumes for containerized goods have also increased as our customers seek to maximize the seaborne movement of their cargo for delivery to distribution centers near large population areas. Seaborne transportation is increasingly viewed as more efficient and cost effective than other modes of transportation in Europe given poor rail access, heavily congested roads and the increasing cost of fuel. In addition, through the reduction of road miles traveled to deliver goods, our customers have been able to reduce their carbon footprint, an area receiving increasing attention from local and federal governments. Our portfolio of ports are strategically located near large population catchment areas and/or distribution centers which allow our customers to maximize these supply chain objectives.

PD Ports has been successful over the past few years in attracting leading UK retailers to locate their primary distribution facilities on land adjacent to the port. By locating portside, our customers were able to improve their logistics supply management chain and reduce the number of road miles that their goods travel to reach their customers in Northern England. Going forward, we will focus our efforts on attracting other retailers and supply management firms to locate in close proximity to the port, which will drive conservancy revenue as their ships pass through our waterway, port handling revenue and potentially rent if they locate their facilities on our significant land base at the port.

**Timber**

Our timber operations consists of high quality timberlands located in the coastal region of British Columbia, Canada and the Pacific Northwest region of the U.S. These operations are predominantly comprised of premium species and are expected to provide attractive risk adjusted returns on capital employed over the long-term.

Our timber operations are comprised of the following businesses:

*Longview:* Owns approximately 651,000 acres of freehold timberlands in Oregon and Washington. Longview has an estimated merchantable inventory of 23.7 million $m^3$ of timber, which is primarily comprised of high value Douglas-fir and hemlock trees.

*Island Timberlands:* Owns approximately 634,000 acres of freehold timberlands located principally on Vancouver Island, British Columbia. Island Timberlands has an estimated merchantable inventory of 58.0 million $m^3$ of timber, which is primarily comprised of high value Douglas-fir, hemlock and cedar trees. Island Timberlands' land holdings include approximately 33,000 acres of "higher and better use", or HBU, lands, which may have greater value if used for real estate development or conservation.

The following table presents our timber operations' proportionate share of financial results.

| | Years Ended December 31 | | |
|---|---|---|---|
| **MILLIONS** | **2009** | 2008 | 2007 |
| Revenue | **$ 77.4** | $124.8 | $ 6.1 |
| Cost attributed to revenues | **(56.2)** | (81.8) | (5.6) |
| Net operating income | **21.2** | 43.0 | 0.5 |
| Other income (expense) | **1.7** | (0.5) | (1.9) |
| Interest expense | **(25.7)** | (29.0) | (2.7) |
| Cash taxes | **0.2** | (0.7) | — |
| Adjusted net operating income (ANOI) | **(2.6)** | 12.8 | (4.1) |
| Depreciation, depletion and amortization | **(26.3)** | (36.7) | (1.8) |
| Performance fee | **5.4** | 12.8 | (3.1) |
| Unrealized loss on investment | **(11.9)** | — | — |
| Deferred taxes and other items | **9.4** | 17.8 | 2.8 |
| Net (loss) income | **$(26.0)** | $ 6.7 | $(6.2) |

For the year ended December 31, 2009, our timber operations' net operating income and ANOI totaled $21.2 million and negative $2.6 million, respectively, compared to $43.0 million and $12.8 million, for the same period in the prior year.

While timber market conditions continue to be poor, prices have improved steadily since the second quarter of 2009. Seasonally adjusted, annualized U.S. housing starts fell 5% from the third quarter to 554,000. While an improvement from the lows of the first quarter, this level is approximately one third of long-term trend levels. The inventory of new homes in the U.S. declined to 234,000 units while existing home inventories declined to 3.29 million units or a 7.2 month supply, both these statistics suggest an increasingly balanced market. Despite these seemingly positive statistics, recovery of U.S. housing starts is expected to remain weak through 2010 and into 2011 as a result of the significant amount of vacant and foreclosed homes which we anticipate will continue to add to the inventory of existing homes for sale. Despite this difficult outlook, strong supply-side management has resulted in very low inventories of sawlogs and finished wood products across North America. Prices for most products have increased over 20% from their second quarter lows. Log prices in the Japanese market were stable through the quarter, and demand for whitewood in the Korean market remained strong, with realized pricing, net of transportation, at levels close to five-year averages.

Consistent with our focus on optimizing the long-term value of our business, we continued to harvest at sharply curtailed levels. We continue to adapt our plan as necessary to pursue market opportunities that arise.

The following table summarizes our proportionate share of operating metrics for our timber operations:

| | **Year Ended December 31, 2009** | | | | Year Ended December 31, 2008 | | | | Year Ended December 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Harvest (000's m³)** | **Sales (000's m³)** | **Revenue/ m³** | **Revenue ($ millions)** | Harvest (000's m³) | Sales (000's m³) | Revenue/ m³ | Revenue ($ millions) | Harvest (000's m³) | Sales (000's m³) | Revenue/ m³ | Revenue ($ millions) |
| Douglas-fir | **502** | **538** | **$78** | **$42.0** | 773 | 793 | $88 | $ 70.0 | 828 | 841 | $ 91.6 | $ 77.1 |
| Whitewood | **237** | **258** | **61** | **15.7** | 403 | 419 | 60 | 25.0 | 463 | 489 | 65.4 | 32.0 |
| Other species | **235** | **261** | **70** | **18.3** | 246 | 233 | 109 | 25.5 | 150 | 149 | 130.9 | 19.5 |
| | **974** | **1,057** | **$72** | **$76.0** | 1,422 | 1,445 | $83 | $120.5 | 1,441 | 1,479 | $ 86.9 | $128.6 |
| HBU and other sales | | | | **1.4** | | | | 4.3 | | | | 2.8 |
| Total | | | | **$77.4** | | | | $124.8 | | | | $131.4 |

In 2009, sales volumes of Douglas-fir and whitewood declined by 32% and 38%, respectively, versus 2008 due to difficult market conditions in the North American structural lumber market. Sales volumes of other species increased 12% year-over-year, as a result of better relative market conditions for pulp logs and cedar through the first nine months of the year. To mitigate the impact of weak North American markets, we continued to increase our proportion of export quality timber from our harvest to take advantage of significantly better prices, net of transportation costs, available in the off-shore markets. Export volumes represented 42% of shipments in 2009, compared to 35% in 2008. Harvest volumes in our timber operations decreased 32% over 2008 as a result of our decision to reduce near-term harvest levels to preserve value.

Our operating margins declined to 28% for the year versus 34% in the prior year due to lower prices offset partially by lower costs per unit. The average realized price for Douglas-fir decreased by 11% compared to the prior year as declines in prices of products sold to the domestic market were partially offset by a significant percentage of high value appearance and export grade products sold to offshore markets in our product mix. This compares favorably to the 15% decline in prices of indicative Douglas-fir logs during the same time period. The average selling price of whitewood increased modestly verus 2008, reflecting strong pricing realized on shipments to the Korean market. The significant change in the average realized price for other species is mostly attributable to a change in the mix of products included in that category.

Harvest and delivery costs per unit decreased 6% compared to 2008 primarily due to aggressive efforts to manage fixed costs and an increase in the proportion of harvesting rates determined through bid processes. This was partially offset by the impact of foreign exchange on Canadian dollar denominated costs in our Canadian timber operations.

Our share of revenue from HBU land and other sales totalled $1.4 million for the year compared to $4.3 million for 2008.

For the years ended December 31, 2009 and 2008, depreciation, depletion and amortization was $26.3 million and $36.7 million, respectively. The decrease is due to reduced harvest levels.

The unrealized loss on investment relates to our 7% indirect interest in our U.S. timber operations that is held through a private fund and is carried at fair value with changes to the carrying value recorded in income. Also, during the year, our Canadian timber operations recorded a reversal of a performance fee payable in 2011 as a result of a decline in the valuation of their HBU lands. We record this accrual below ANOI as it is a non-cash accrual that is subject to a claw-back prior to the determination of the payment amount in 2011.

Results for 2007 reflect only one month of Brookfield Infrastructure activity as the partnership was formed on November 27, 2007.

**Business Development and Outlook**

One of the key attributes of our timber operations is operating flexibility that allows us to adapt our harvest levels to market conditions to maximize the value of our business. Until we believe that sustainable demand will support meaningfully higher prices, we plan to harvest at minimum levels required to service our key customers and protect key distribution channels while capitalizing on market opportunities that do arise. Based on current conditions, we expect harvest levels at our Canadian and U.S. timber operations in 2010 to be similar to 2009 levels. Prices need to increase at least 20% from current levels before we would expect to return to target harvest levels. We currently do not expect this magnitude of price increases before late 2010 or early 2011.

We believe operating results for our timber operations will improve following recovery in U.S. new home construction. Although it is difficult to predict the timing and amount, we believe that we will achieve increases in ANOI and net income from this segment of our business for the following reasons:

- Improved pricing upon market recovery;
- Increased harvest levels; and
  - The estimated long-run sustainable yield of our Canadian timber operations is approximately 0.7 million $m^3$ on a proportionate basis. Due to a surplus of merchantable inventory, we expect to achieve an elevated harvest level of approximately 0.9 million $m^3$ of timber on a proportionate basis for a period of 10 years before returning to the long-run sustainable yield level.
  - As a result of a substantial surplus of merchantable inventory at our U.S. timber operations, we expect to increase harvest levels to approximately 0.9 million $m^3$ of timber on a proportionate basis and sustain this higher level for a period of 10 years before returning to a long-run sustainable yield of approximately 0.8 million $m^3$ of timber.
- Increased margins.
  - As the product mix in our Canadian timber operations evolves to a greater percentage of second growth harvest relative to primary growth harvest, we expect our margins to increase due to the lower harvesting costs of this product.

In addition, over the mid-to-long term, we expect that our timber operations will be positively impacted by a number of fundamental factors affecting the supply of timber in the markets that we serve:

- The mountain pine beetle infestation, which is having a significant impact on the supply of timber from the interior of British Columbia, Alberta and the U.S. Inland;
- Increasing demand from both Asian markets and the rapidly expanding bio-fuel industry; and
- Continuing withdrawals of timberlands for conservation and alternate uses.

## CORPORATE AND OTHER

The following table presents the components of Corporate and other for the years ended December 31, 2009, 2008 and 2007:

| | Years Ended December 31 | | |
|---|---|---|---|
| MILLIONS | **2009** | 2008 | 2007 |
| General and administrative costs | **$ (7.8)** | $ (7.0) | $ — |
| Base management fee | **(10.2)** | (7.0) | — |
| Financing costs | **(5.0)** | (3.1) | — |
| Corporate expenses | **(23.0)** | (17.1) | — |
| Contribution from social infrastructure investments | **1.7** | — | — |
| Corporate and other | **$(21.3)** | $(17.1) | $ — |

General and administrative costs were higher in 2009 compared to the prior year as a result of transaction costs that were incurred in conjunction with our investment in Prime, DBCT and PD Ports.

Pursuant to the Master Services Agreement, we pay a base management fee to the Manager on a quarterly basis, based on our market value. The fee increased over the prior year due to the approximately $940 million equity offering that was completed in November of 2009.

Financing costs include dividends paid on our preferred shares, interest expense and standby fees on our committed credit facility, less ancillary interest earned on cash balances. The amounts above exclude non-cash amortization of financing costs of $2.8 million and $1.3 million for the years December 31, 2009 and 2008, respectively. Financing costs in 2009 were higher than 2008 as a result of increased borrowing under our corporate facility and inclusion of six weeks of interest expense on Prime's corporate debt offset by a reduction in standby fees, as we reduced our credit facility from $450 million to $200 million in June 2009. In addition, we recognized $1.2 million of interest income in 2008 as a result of higher levels of cash balances, compared to $0.2 million in the current period.

### Social Infrastructure

In December 2008, we completed the acquisition of equity interests in two PPP projects—Long Bay Forensic and Prison Hospitals in Australia and Peterborough Hospital in the United Kingdom—for $12.3 million. We completed the acquisition of an equity interest in a third PPP asset—Royal Melbourne Showgrounds in Australia—in February 2009 for an additional purchase price of $3.0 million. Royal Melbourne Showgrounds and Long Bay Hospitals achieved commercial operation in August 2006 and February 2009, respectively. It is anticipated that Peterborough Hospital will be operational in late 2011. These projects are expected to generate stable cash flows from long-term contracts with long-term financing arrangements.

Social infrastructure operations differ from our utilities, fee for service and timber operations, as social infrastructure concessions have finite lives of between 25-30 years, and cash generated from these projects must fully retire project debt over the term of the concession. Thus, net operating income and ANOI for our social infrastructure operations include U.S. GAAP net income plus depreciation less debt amortization payments, which approximates the distributions to us from these operations.

On a proportionate basis, our social infrastructure operations earned $1.7 million of ANOI for the year ended December 31, 2009, compared to nil in 2008 and 2007.

We have a commitment to fund our share of the additional equity investment in the Peterborough Hospital project totaling approximately £8.0 million. We have entered into foreign currency contracts to hedge this amount to the equivalent of approximately $11.8 million.

## CAPITAL EXPENDITURES

| | Years Ended December 31 | | |
|---|---|---|---|
| MILLIONS | **2009** | 2008 | 2007 |
| Maintenance capital expenditures by segment | | | |
| Utilities | **$11.9** | $ 7.5 | $ 7.5 |
| Fee for service | **—** | — | — |
| Timber | **6.1** | 5.2 | 4.0 |
| | **$18.0** | $12.7 | $11.5 |
| Growth capital expenditures by segment | | | |
| Utilities | **$24.8** | $14.6 | $20.6 |
| Fee for service | **—** | — | — |
| Timber | **—** | — | — |
| | **$24.8** | $14.6 | $20.6 |

Maintenance capital expenditures are expenditures that are required to maintain the current revenue generating capability of our asset base; these expenditures do not increase our revenues. Growth capital investments are investments on which we expect to earn additional revenues. As these investments are typically discretionary, we invest this capital if we believe we can earn attractive risk-adjusted returns.

The growth capital expenditures for the utilities operations for 2009 totalled $24.8 million (2008—$14.6 million), which primarily represents our share of growth capital investments at Transelec.

## CAPITAL RESOURCES AND LIQUIDITY

The nature of our asset base and the quality of associated cash flows enable us to maintain a stable and low cost capitalization. We attempt to maintain sufficient financial liquidity at all times so that we are able to participate in attractive opportunities as they arise, better withstand sudden adverse changes in economic circumstances and maintain a relatively high distribution of our ANOI to unitholders.

Our principal sources of liquidity are cash flow from our operations, undrawn credit and equity facilities and access to public and private capital markets. We also structure the ownership of our assets to enhance our ability to monetize them to provide additional liquidity if necessary.

Our total estimated liquidity as at December 31, 2009 was as follows:

| MILLIONS | As at December 31, 2009 |
|---|---|
| Cash[(1)] | $ 57.9 |
| Availability under committed credit facility | 200.0 |
| Total estimated liquidity | $257.9 |

*(1) Brookfield Infrastructure cash only.*

Our $200 million senior secured revolving credit facility is available for investments and acquisitions, as well as general corporate purposes. Prior to drawing on the facility, we must satisfy a number of conditions including compliance with certain financial ratios. At December 31, 2009, $nil was drawn on this facility, and $200 million was available. Commitments under the facility will be available on a revolving basis until June 2010. All amounts outstanding at that time will be repayable in full in June 2011. The facility is intended to be a bridge to equity financing rather than a permanent source of capital. We expect to renew the credit facility prior to its maturity.

The senior secured revolving credit facility restricts Brookfield Infrastructure from making any distributions on its equity unless immediately prior to, and after giving pro forma effect to, such distribution, no default has occurred and is continuing and (1) Brookfield Infrastructure meets a minimum interest coverage ratio of 2.75 to 1 in the first fiscal year or 3 to 1 thereafter; a maximum debt to cash flow ratio of 5.5 to 1 in the first year or 5 to 1 thereafter; and maintains minimum liquidity of $25 million or (2) the distribution is funded with proceeds of certain permitted capital raising or sales of assets.

In June 2009, we completed the sale of our minority interest in TBE. Proceeds from the sale were $275 million including $70 million of previously realized hedge gains. Further details regarding the TBE sale are provided under "—Acquisitions and Divestitures".

In addition, Brookfield has provided us with an equity commitment of $200 million. The equity commitment may be called by our partnership and/or Brookfield Infrastructure in exchange for the issuance of a number of units of our partnership or Brookfield Infrastructure, as the case may be, to Brookfield, corresponding to the amount of the equity commitment called divided by the five-day, volume-weighted average trading price for our units and expires January 31, 2011.

We finance our assets principally at the operating entity level with debt which generally has long-term maturities, few restrictive covenants and no recourse to either our partnership or our operations. At the operating company level, we endeavour to maintain investment grade or crossover ratings.

We also strive to ladder our principal repayments over a number of years. On a proportionate basis, scheduled principal repayments as at December 31, 2009 for our borrowings over the next five years are as follows:

| MILLIONS | Average Term (years) | 2010 | 2011 | 2012 | 2013 | 2014 | Beyond | Total |
|---|---|---|---|---|---|---|---|---|
| Recourse borrowings | | | | | | | | |
| Corporate borrowings | 2.9 | $ — | $ — | $ 53.0 | $ — | $ — | $ — | **$ 53.0** |
| Total recourse borrowings | 2.9 | — | — | 53.0 | — | — | — | **53.0** |
| Non-recourse borrowings(1)(2) | | | | | | | | |
| Utilities | 7.2 | — | 341.6 | — | 299.7 | 28.4 | 775.3 | **1,445.0** |
| Fee for service | 7.5 | 97.6 | 264.7 | 143.3 | 92.1 | — | 372.0 | **969.7** |
| Timber | 7.8 | — | — | — | 136.0 | — | 338.8 | **474.8** |
| Total non-recourse borrowings(1)(2) | 7.3 | 97.6 | 606.3 | 143.3 | 527.8 | 28.4 | 1,486.1 | **2,889.5** |
| Total(1)(2) | 7.2 | $97.6 | $606.3 | $196.3 | $527.8 | $28.4 | $1,486.1 | **$2,942.5** |

(1) *Represents non-recourse debt to Brookfield Infrastructure as the holders have recourse only to the underlying operations.*

(2) *Non-recourse project debt from our social infrastructure operations has been excluded from the above tables as this is long-term debt which is fully amortized during the term of our concession contracts.*

Our proportionate share of debt has an average term of 7.2 years. Including non-recourse borrowings, on a proportionate consolidated basis, our debt-to-capitalization ratio as at December 31, 2009 was 62%.

The following table summarizes our proportionate share of debt on a segment basis:

| | **Year Ended December 31, 2009** | | | Year Ended December 31, 2008 | | | Year Ended December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| MILLIONS | **Proportionate Average Debt** | **Average Cash Interest Rate** | **Cash Interest** | Proportionate Average Debt | Average Cash Interest Rate | Cash Interest | Proportionate Average Debt | Average Cash Interest Rate | Cash Interest |
| Utilities | **$ 512.7** | **5.8%** | **$29.6** | $366.6 | 6.2% | $22.6 | $390.8 | 5.6% | $23.0 |
| Fee for service | **111.9** | **7.8%** | **8.8** | — | — | — | — | — | — |
| Timber | **474.8** | **5.4%** | **25.7** | 510.6 | 5.7% | 29.0 | 513.8 | 5.9% | 30.9 |
| Corporate borrowings | **54.0** | **3.7%** | **2.0** | 17.5 | 5.7% | 1.0 | — | — | — |
| Total | **$1,153.4** | **5.7%** | **$66.1** | $894.7 | 5.9% | $52.6 | $904.6 | 5.9% | $53.9 |

Our equity strategy is to issue equity in conjunction with future acquisitions. However, we may also issue an amount of equity opportunistically to enhance our liquidity to pursue future acquisitions. On December 22, 2009, we filed shelf registrations to enable us to issue securities in both the U.S. and Canadian markets.

## PARTNERSHIP CAPITAL

As at December 31, 2009, our partnership owns limited partnership units that represent 59% of Brookfield Infrastructure's total outstanding units, and Brookfield owns Redeemable Partnership Units that represent 40% of Brookfield Infrastructure's total outstanding units. The Redeemable Partnership Units, at the request of the holder, require Brookfield Infrastructure to redeem all or a portion of the holder's units of Brookfield Infrastructure at the market price for cash. This right is subject to our partnership's right of first refusal which entitles it, at its sole discretion, to elect to acquire any unit so presented to Brookfield Infrastructure in exchange for one of its units, subject to certain customary adjustments. Based on the number of units outstanding as at December 31, 2009, Brookfield's aggregate limited partnership interest in our partnership would be 40% if Brookfield fully exercised its redemption right and our partnership fully exercised its right of first refusal.

Brookfield also owns general partnership units that represent approximately 1% of Brookfield Infrastructure's total outstanding units. The general partnership units are entitled to receive incentive distributions which are calculated in increments based on the amount by which quarterly distributions on the limited partnership units of Brookfield Infrastructure exceed specified target levels as set forth in Brookfield Infrastructure's limited partnership agreement.

During 2009 and 2008, the number of issued and outstanding units of Brookfield Infrastructure units changed as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| **MILLIONS** | **Book Value** | **Units** | Book Value | Units |
| Outstanding at beginning of year | **$ 709.3** | **38,661,470** | $940.6 | 38,842,072 |
| Units issued(1) | **937.1** | **68,705,358** | — | — |
| Units purchased | **(7.6)** | **(674,000)** | (2.0) | (180,602) |
| Adjustment related to acquired entity | **(5.8)** | **—** | (44.4) | — |
| Revaluation of redeemable partnership units | **173.9** | **—** | (184.9) | — |
| Outstanding at end of year | **$1,806.9** | **106,692,828** | $709.3 | 38,661,470 |

*(1) Includes limited, general partner and redeemable partnership units.*

The caption "Adjustment related to acquired entity" is related to the acquisition of Ontario Transmission, an entity that was accounted for as a reorganization of entities under common control.

As at December 31, the total number of Brookfield Infrastructure's limited partnership units outstanding was comprised as follows:

| | **2009** | 2008 |
|---|---|---|
| General partnership units | **1,066,928** | 388,457 |
| Limited partnership units | **63,155,680** | 23,160,269 |
| Redeemable partnership units | **42,470,220** | 15,112,744 |
| Total | **106,692,828** | 38,661,470 |

In November 2009, to finance the investments in Prime, DBCT and PD Ports, we completed an approximate $940 million offering consisting of approximately 40.0 million units of our partnership, approximately 27.4 million redeemable partnership units and approximately 0.7 million general partnership units at an average price of $13.64 per unit.

Pursuant to its offering in November 2009, our partnership issued 40,669,411 units at an average price of $13.82. The Partnership has 63,155,680 units outstanding at December 31, 2009, which are publicly traded on the New York and Toronto stock exchanges. Our Partnership owns all 63,155,680 of Brookfield Infrastructure's limited partnership units representing an economic interest of 59%.

In November 2008, we implemented a unit repurchase program. Repurchases were authorized for the period beginning on November 10, 2008 and ending on November 9, 2010. In the year ended December 31, 2009, 674,000 units were repurchased and cancelled under this program at an average price of $11.48 per unit. Since commencement of the unit repurchase program in November 2008, 854,602 units were repurchased and cancelled at an average price of $11.39 per Unit. See Item 16E. "Purchases of Equity Securities by the Issuer and Affiliated Purchaser" for more information.

## FINANCIAL RISK MANAGEMENT

Our business is impacted by changes in currency rates, interest rates and other financial exposures. As a general policy, we endeavour to maintain balanced positions where practical or economical to do so, although unmatched positions may be taken. Our principal financial risks are foreign currency and interest rate fluctuations.

We prefer to hedge financial risks with offsetting items such as debt denominated in local currencies that match the profile of the operations being financed. We also make selective use of financial instruments, known as derivatives, to hedge financial positions from time-to-time when natural hedges are not available or when derivatives are more cost effective. The use of derivatives is governed by prescribed policies. We evaluate and monitor the credit risk of derivative financial instruments, and we seek to minimize credit risk through collateral and other mitigation techniques.

### Foreign Currency

A number of our operations are conducted in currencies other than the U.S. dollar. Our policy is to hedge foreign currency denominated book values and/or cash flows where economical to do so, using foreign currency denominated debt as well as financial contracts. It is not always possible, or economically feasible or desirable to hedge certain exposures with the result that a portion of our cash flows and equity are exposed to foreign currency fluctuations. We may also enter into financial contracts to further hedge assets recognizing that in some cases changes to the value of these contracts may be reflected in net income even though the offsetting impact on the value of the assets being hedged may not. We have economic currency exposure to the Chilean peso, British Pound, Australian dollar and Canadian dollar. On a look-through basis, some of our investments have currency exposure to the Euro and New Zealand dollar.

### Interest Rate

We believe that the value of the majority of our assets will vary in part with changes in long-term interest rates due to the nature of their revenue streams. Accordingly, we endeavour to finance these assets with long-term fixed rate borrowings. We intend to match fund floating rate assets with floating rate debt and will otherwise minimize the use of floating rate liabilities. Where financing cannot be obtained to match the interest rate exposure of the asset, derivative contracts may be entered into with credit worthy counterparties.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks in our underlying operations, principally resulting from changes in interest rates and currency exchange rates. In addition, we have indirect exposure to market risks through our investment in Prime which has exposure to market risks in its underlying operations, primarily resulting from changes in interest rates and currency exchange rates.

### Interest Rate and Inflation Risk

Interest rate risk related to Transelec exists principally with respect to its indebtedness with variable rates. Furthermore, Transelec is subject to inflation risk as 59% of its debt portfolio is denominated in Unidad de Fomento, or UF, which is an inflation indexed Chilean peso monetary unit that is set daily, in advance, on the basis of the prior month's inflation rate. However, we believe this is offset by the nature of our revenues which, both contractually and in the regulatory framework, are in large part indexed to Chilean inflation.

Transelec also has financial assets that are sensitive to interest rate changes. These assets include short-term Chilean peso, or CLP, and U.S. dollar denominated time deposits totaling $49.3 million as at December 31, 2009 that earn interest at the market prevailing rate at the time an investment contract is executed.

The following table summarizes our proportionate share of Transelec's interest earning assets and debt obligations that are sensitive to changes in interest rates as well as Chilean inflation at December 31, 2009. For debt obligations, the table presents principal cash flows by expected (contractual) maturity dates.

| December 31, 2009 | Expected Maturity Dates | | | | | |
|---|---|---|---|---|---|---|
| MILLIONS | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
| Interest rate sensitivity: | | | | | | |
| Current assets(1) | $ 49.3 | $ — | $ — | $ — | $ — | **$ 49.3** |
| Long-term assets(2) | — | — | — | 26.6 | — | **26.6** |
| Current liabilities | (22.3) | — | — | — | — | **(22.3)** |
| Long-term debt(3) | — | — | — | (26.6) | (211.9) | **(238.5)** |
| Net floating rate position | 27.0 | — | — | — | (211.9) | **(184.9)** |
| Chilean inflation sensitivity | | | | | | |
| Long-term debt | $(22.3) | $ — | $ — | $ — | $(211.9) | **$(234.2)** |

*(1) Current assets includes short term money market instruments (time deposits etc.) used primarily for cash management purposes.*

*(2) Non current assets includes cash held on restricted deposit, held as security against debt or contract obligations.*

*(3) Long-term debt contains our Chilean transmission operations' debt that is denominated in UF.*

Interest rate risk related to Prime exists principally with respect to its indebtedness with variable rates. Prime has $1,486.9 million of long-term debt (on a proportionate basis) as at December 31, 2009, of which approximately 82% has been issued as floating rate debt. Prime has converted approximately 88%, 75%, 71%, 51%, 46% and 15% of its floating interest rate exposure to fixed rates in 2010, 2011, 2012, 2013, 2014 and thereafter, respectively.

Prime also has financial assets that are sensitive to interest rate changes. These assets include short-term Australian dollar denominated time deposits totalling $263.3 million as at December 31, 2009 that earn interest at the market prevailing rate at the time an investment contract is executed.

We primarily manage interest rate risk through the issuance of fixed rate debt. Where fixed rate debt cannot be obtained, derivative contracts with credit worthy counterparties may be utilized.

**Foreign Currency Risk**

Our principal foreign exchange risks involve changes in the value of the Australian dollar, British pound and CLP versus the U.S. dollar, and to a lesser extent, changes in the Canadian dollar versus the U.S. dollar.

Although Transelec's revenues are billed in CLP, from an economic perspective, they are a combination of CLP and U.S. dollar amounts that are converted to CLP prior to invoicing. These revenues are calculated based upon a return on the replacement cost of Transelec's transmission system, which is comprised of components denominated in U.S. dollars as well as CLP. Based on existing long term contracts and the current regulated transmission rate proceedings, we estimate that our revenues are 67% CLP and 33% U.S. dollar. Factoring in our CLP debt financings and cross-currency interest rate swaps, we estimate that Transelec's adjusted net operating income is 47% U.S. dollar and 53% CLP.

Transelec has a portfolio of financial contracts to hedge a portion of its currency risk. The table below presents on a proportionate basis information about our debt and derivatives that are denominated in CLP and UF for our Chilean Transmission operations, and presents this information on a U.S. dollar equivalent basis. For UF-denominated debt obligations, the table presents principal cash flows, by expected maturity dates. The table below presents on a proportionate basis Transelec's exposure to the various currencies. For foreign currency forward exchange and swap contracts, the table presents the notional amounts by expected maturity dates.

| December 31, 2009 | Expected Maturity Dates | | | | | |
|---|---|---|---|---|---|---|
| **MILLIONS** | **2010** | **2011** | **2012** | **2013** | **Thereafter** | **Total** |
| Assets | | | | | | |
| USD | $ — | $ 79.0 | $ — | $ 26.6 | $ — | **$ 105.6** |
| CLP | — | — | — | — | — | **—** |
| UF | — | — | — | — | — | **—** |
| Liabilities | | | | | | |
| USD | (6.3) | (43.5) | — | (26.6) | — | **(76.4)** |
| CLP | — | (44.6) | — | — | (11.8) | **(56.4)** |
| UF | (22.3) | (49.4) | — | (27.2) | (211.9) | **(310.8)** |
| Net exposures | | | | | | |
| USD | (6.3) | 35.5 | — | — | — | **29.2** |
| CLP | — | (44.6) | — | — | (11.8) | **(56.4)** |
| UF | (22.3) | (49.4) | — | (27.2) | (211.9) | **(310.8)** |

Our distribution income from Prime will be denominated in Australian dollars. Prime, at its level, is exposed to currency risk arising from cash flows received from its international operations (those located outside of Australia). This exposure is managed by Prime, who may hedge foreign currency denominated book values and/or cash flows using foreign currency denominated debt as well as financial contracts.

Our Canadian timber operations' output is sold into both international and local markets. We view the international timber market as a market that is denominated in U.S. dollars, whereas the local market is denominated in Canadian dollars. Our local timber sales offset roughly half of our operating and maintenance costs, which are largely Canadian dollar based. Our Canadian timber operations' project debt financing is U.S. dollar based. Currently our Canadian timber operations do not have any material hedges in place to convert their remaining Canadian dollar operating and maintenance expense exposure to U.S. dollars, although they are considering entering into a combination of short and mid-term currency swaps to manage this exposure.

Our PPP projects receive concession payments denominated in local currencies. At December 31, 2009 we had three equity interests in PPP projects—Longbay Forensic and Prison Hospitals in Australia, the Royal Melbourne Showgrounds in Australia and Peterborough Hospital in the United Kingdom. Currently we do not have any material hedges in place to convert our Australian dollar denominated concession payments to U.S. dollars, although we are considering entering into a combination of short and mid-term currency swaps to manage this exposure. The Peterborough Hospital in the United Kingdom is in the construction phase until late 2011 and no cash flows are expected from this project until that time. We have a commitment to fund our share of the remaining construction costs of the project totaling approximately £8 million. We have entered foreign currency contracts to hedge this amount to the equivalent of approximately $12 million.

We will evaluate strategies or instruments to manage our foreign exchange risks on a portfolio basis which may include hedging our foreign currency denominated book values and/or cash flows using foreign currency denominated debt as well as financial contracts.

### Commodity Risk

Our principal commodity risks are the price of timber and natural gas, and to a lesser extent metals, primarily aluminum. All of our Canadian and U.S. timber operations' log sales are at market prices.

Approximately 90% of Transelec's revenues are adjusted on a semi-annual basis by a multi-factor inflation index that is designed to approximate changes in prices of the underlying components of the replacement cost of our transmission system. See Item 4.B "Business Overview". Due to the construction of the system, metals such as aluminum are a material percentage of replacement cost. Thus, changes in the price of these metals will impact Transelec's revenues.

Prime has direct commodity exposure in certain of its businesses as it collects more natural gas from customers then it consumes. In addition, Prime has indirect commodity exposure in a number of its businesses as increased demand for commodities increases utilization of their networks. The direct commodity exposure will be significantly reduced if the pending settlement at NGPL becomes final.

We do not currently use any strategies or instruments to manage commodity risks in our operations.

## CONTRACTUAL OBLIGATIONS

Pursuant to the Master Service Agreement, on a quarterly basis, we pay a base management fee to the Manager equal to 0.3125% (1.25% annually) of the market value of our partnership. Based on the market value of our partnership as of December 31, 2009, this fee is estimated to be approximately $20 million per annum.

## RELATED PARTY TRANSACTIONS

We have entered into a number of related party transactions with Brookfield. See Item 7.B— "Related Party Transactions."

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to select appropriate accounting policies to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing our partnership's financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; depreciation and amortization; value of goodwill and intangible assets; ability to utilize tax losses; the determination of the primary beneficiary of variable interest entities; effectiveness of financial hedges for accounting purposes; and fair values for disclosure purposes.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in a prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. The estimates are impacted by, among other things, movements in interest rates, foreign exchange and other factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on our partnership's financial statements in a meaningful way.

Brookfield Infrastructure's main critical accounting policy is investment valuation. Brookfield Infrastructure recognizes an impairment charge when a decline in the fair value of its investments below the carrying value is judged to be other-than-temporary. Brookfield Infrastructure considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than Brookfield Infrastructure's cost basis, the financial condition and near-term prospects of the investee, and Brookfield Infrastructure's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following is a discussion of the critical accounting estimates of the companies in which we hold interests:

- *Timberland Carrying Value.* Timberlands are carried at cost less accumulated depletion. Site preparation and planting costs are capitalized as reforestation. Reforestation is transferred to a merchantable timber classification after 30 years. Depletion of the timberlands is based on the volume of timber estimated to be available over the harvest cycle. The process of estimating sustainable harvest is complex, requiring significant estimation in the evaluation of timber stand volumes based on the development of yield curves derived from data on timber species, timber stand age and growing site indexes gathered from a physical sampling of the timberland resource base. Although every reasonable effort is made to ensure that the sustainable harvest determination represents the most accurate assessment possible, subjective decisions and variances in sampling data from the actual timberland resource base make this determination generally less precise than other estimates used in the preparation of the financial statements. Changes in the determination of sustainable harvest could result in corresponding changes in the provision for depletion of the private timberland asset. Rates of depletion are revised for material changes to growth and harvest assumptions and are adjusted for any significant acquisition or disposition of timber.
- *Island Timberlands Performance Fee.* Accrual of the expense relating to the Island Timberlands performance fee (proportionate share of $4.6 million accrual reversal in 2009, $13.1 million reversal in 2008) is determined based upon the internal rate of return of the business which includes estimates of the fair market value of Island Timberland's timber business determined utilizing a discounted cash flow approach. Based on this analysis, the timber business is estimated to be valued at approximately $279.4 million as at December 31, 2009 ($313.1 million as at December 31, 2008) on a proportionate basis. Below, we have outlined the material assumptions that underlie the estimated valuation as well as a sensitivity analysis for each material assumption (all numbers presented on a proportionate basis).
  - *Timber growth and depletion over the next 10 years.* Studies have shown that a base level cut of about 1,843,000 cubic meters per year is sustainable over the long term, with an additional 547,000 cubic meters available for a 10 year period, primarily due to the existence of a surplus of mature timber. If sustainable harvest rates decreased/increased by 10% in five years, the value of the timber assets would decrease/increase to $256.2 million and $302.5 million respectively in 2009 ($265.2 million and $349.5 million, respectively in 2008).
  - *Log prices.* The estimated valuation assumes that log prices will experience some recovery in 2010 then gradually increase. If log prices decreased/increased by 10%, the value of the timber assets would decrease/increase to $177.5 million and $381.3 million, respectively in 2009 ($223.0 million and $403.6 million, respectively in 2008).
  - *A discount rate of 7.85% was used in the appraisal.* If the discount rate increased/decreased by 10%, the value of the timber assets would decrease/increase to $249.5 million and $317.8 million, respectively in 2009 ($284.5 million and $346.5 million, respectively in 2008).

- *HBU land valuation.* The HBU lands are estimated to be valued at approximately $82.3 million ($77.3 million as at December 31, 2008) on a proportionate basis. Below, we have outlined the two material assumptions that underlie the estimated valuation of the HBU land as well as a sensitivity analysis for each material assumption:
  - *Lot selling prices.* The estimated valuation assumes lot selling prices based on market averages in the region. If lot selling prices decreased/increased by 10%, the value of the HBU land would decrease/increase to $72.0 million and $92.6 million respectively in 2009 ($68.3 million and $86.3 million, respectively in 2008).
  - *Discount rate.* An average discount rate of 15% was used in the appraisal. If the discount rate increased/decreased by 10%, the value of the HBU land would decrease/increase to $74.5 million and $91.6 million, respectively in 2009 ($70.5 million and $85.5 million, respectively in 2008).
- *Goodwill.* Impairment testing for goodwill is performed on an annual basis by the underlying investments. The first part of the test is a comparison of the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is required to measure the amount of potential goodwill impairment. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill (that shall be determined in the same manner as the amount of goodwill recognized in a business combination) with the carrying amount of that goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge to income. The fair value of the reporting unit is determined using discounted cash flow models. In order to estimate future cash flows, we must make assumptions about future events that are highly uncertain at the time of estimation. For example, we make assumptions and estimates about future interest rates, exchange rates, electricity transmission rate increases, cost trends, including expected operating and maintenance costs and taxes. The number of years included in determining discounted cash flow, in our opinion, is estimable because the number is closely associated with the useful lives of our transmission lines and other tangible assets. These useful lives are determinable based on historical experience and electricity transmission regulatory framework. The discount rate used in the analysis may fluctuate as economic conditions change. Therefore, the likelihood of a change in estimate in any given period may be relatively high.
- *Intangible Assets.* Intangible assets that are not subject to amortization (e.g. rights-of-way) are tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Fair value of the indefinite useful life intangible assets may be assessed by reference to the market prices and if such information is not available we apply discounted cash flow models that are subject to the same inherent limitations and uncertainties as those described above related to the estimations of the fair value of our reporting unit.
- *Intangible Assets with Finite lives.* Prime has intangible assets with finite useful lives. The useful lives are assessed annually. Any reassessment of useful lives in a particular year will impact the amortization expense (either increasing or decreasing) through to the end of the reassessed useful life for both current and future financial years.
- *Derivatives.* Transelec and Prime have certain financial derivative and embedded derivative instruments that are recorded at fair value, with changes in fair value recognized in earnings under the U.S. Financial Accounting Standards Board Statement of Financial Accounting

Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, except for certain instruments that qualify and are effective hedges of the foreign exchange risk exposure in the net investment of our transmission assets for which the changes in fair value are recognized in other comprehensive income. In establishing the fair value of such instruments, Transelec and Prime make assumptions based on available market data and pricing models, which may change from time to time. Calculation of fair values of financial and embedded derivatives is done using models that are based primarily on discounted future cash flows and which use various inputs. Those inputs include estimated forward exchange rates, interest rates, inflation indices, prices of metals, and others. These inputs become more difficult to predict and the estimates are less precise, the further in the future these estimates are made. As a result, fair values are highly dependent upon the assumptions being used.

- *Recovery of deferred tax assets.* Prime holds deferred tax assets resulting from its operations. Deferred tax assets are recognized for deductible temporary differences and carried forward tax losses to the extent management considers it probable future taxable profits will be available to utilize those temporary differences and tax losses.
- *Property, plant and equipment.* Prime holds property, plant and equipment from its underlying operations. The estimation of the useful lives of property, plant and equipment has been based on historical experience as well as manufacturer's warranties (for plant and equipment) and lease terms (for leased equipment). In addition, the condition of assets is assessed throughout the year and considered against the remaining useful life. Adjustments to useful life are made when necessary.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

In 2007 the U.S. Securities and Exchange Commission, or SEC, adopted rules that permit foreign private issuers to prepare financial statements included in their filings with the SEC in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, without reconciliation to U.S. generally accepted accounting principles, or U.S. GAAP. As a foreign private issuer, our partnership is in the process of evaluating the merits of preparing its financial statements and the financial statements of Brookfield Infrastructure in accordance with IFRS. This evaluation is being made in light of Brookfield Infrastructure's investments in Prime, DBCT and PD Ports which uses IFRS as its primary basis of accounting.

IFRS are premised on a framework similar to U.S. GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. While our partnership believes that the adoption of IFRS will not have a material impact on its or Brookfield Infrastructure's reported cash flow, it is expected to have a material impact on its and Brookfield Infrastructure's financial position and results of operations. Our partnership is in the process of determining the impact of a transition to IFRS on its financial statements and the financial statements of Brookfield Infrastructure.

In conjunction with evaluating the merits of a transition to IFRS, our partnership is in the process of establishing a comprehensive conversion plan that addresses matters including changes in accounting policy, the restatement of comparative periods, organizational and internal control, the modification of existing systems, in addition to other related business matters. Our partnership will transition to IFRS with the first financial statements of our partnership and Brookfield Infrastructure to be prepared in accordance with IFRS being expected to be as at and for the quarter ended March 31, 2010.

## OUR OPERATIONS

Our approximate ownership interests in underlying operations are as follows:

| Ownership Interests | Location | Brookfield Infrastructure's Interest As at December 31 2009 | 2008 |
|---|---|---|---|
| **Utilities** | | | |
| DBCT | Australia | **50%(2)(3)** | — |
| Transelec | Chile | **18%** | 18% |
| Ontario Transmission | Canada | **100%** | 100% |
| Powerco | New Zealand | **17%(1)** | — |
| IEG Connections | UK | **40%** | — |
| TBE | Brazil | **—** | 7-18% |
| **Fee for Service** | | | |
| NGPL | U.S. | **11%(1)** | — |
| WestNet Rail | Australia | **40%(1)** | — |
| PD Ports | UK | **55%(2)(3)** | — |
| Euroports | Europe and China | **24%(1)** | — |
| IEG Distribution | Europe | **40%(1)** | — |
| TGN | Australia | **40%(1)** | — |
| **Timber** | | | |
| Longview | U.S. | **30%(3)** | 30%(3) |
| Island Timberlands | Canada | **38%** | 38% |

(1) *Through its 40% interest in Prime which holds a 26% interest in NGPL, 42% in Powerco, 50% in DBCT, 60.0% in Euroports and 100% in each of IEG, TGN and WestNet Rail.*

(2) *Through its 40% interest in Prime and its 29% direct investment in DBCT.*

(3) *A portion of our direct interest is held through a Brookfield sponsored private fund.*

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

To measure performance, we focus on net income as well as adjusted net operating income, or ANOI. We define ANOI as net income excluding the impact of depreciation, depletion and amortization, deferred taxes and other items as shown in the reconciliation below. For our social infrastructure operations we also subtract debt amortization from ANOI as these are finite life concessions and debt must be fully amortized during the concession term. ANOI is a measure of operating performance that is not calculated in accordance with, and does not have any standardized meaning prescribed by U.S. GAAP. ANOI is therefore unlikely to be comparable to similar measures presented by other issuers. ANOI has limitations as an analytical tool:

- ANOI does not include depreciation and amortization expense; because we own capital assets with finite lives, depreciation and amortization expense recognizes the fact that we must maintain or replace our asset base in order to preserve our revenue generating capability;
- ANOI does not include deferred income taxes, which may become payable if we own our assets for a long period of time; and
- ANOI does not include performance fees accrued relating to our Canadian timber operations, which will be required to be paid in cash and represents a fee we expect to accrue in the future.

Because of these limitations, ANOI should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under U.S. GAAP. We compensate for these limitations by relying on our U.S. GAAP results and using ANOI only supplementally. However, ANOI is a key measure that we use to evaluate the performance of our operations and forms the basis for our Partnership's distribution policy.

When viewed with our U.S. GAAP results, we believe that ANOI provides a more complete understanding of factors and trends affecting our underlying operations. ANOI allows us to evaluate our businesses on the basis of cash return on net capital deployed by removing the effect of non-cash and other items. We add back depreciation and amortization to remove the implication that our assets decline in value over time since we believe that the value of most of our assets will typically increase over time provided we make all necessary maintenance expenditures.

We add back depletion because we endeavor to manage our timberlands on a sustainable basis over the long term. Furthermore, changes in asset values typically do not decline on a predetermined schedule, as suggested by accounting depreciation or depletion, but instead will inevitably vary upwards and downwards based on a number of market and other conditions that cannot be determined in advance. We add back deferred income taxes because we do not believe this item reflects the present value of the actual cash tax obligations we will be required to pay, particularly if our operations are held for a long period of time. Finally, we add back a performance fee payable to Brookfield by Island Timberlands. This performance fee was calculated based upon a percentage of the increased appraised value of the timber and HBU land assets held by our Canadian timber operations over a threshold level. We believe it is appropriate to measure our performance excluding the impact of this accrual as we expect that over time the financial impact of this fee will be more than offset by increased income associated with the increased appraised value of these assets, a benefit which is not reflected in the period in which the related fee accrues. In addition, as a result of our fee-netting mechanism which is designed to eliminate any duplication of fees, any performance fees will reduce future incentive distributions that may otherwise be made to Brookfield by Brookfield Infrastructure. As this credit is reflected as a reduction in distributions to Brookfield, it would not be reflected in ANOI without adding back the performance fee.

The following table reconciles ANOI to the most directly comparable U.S. GAAP measure, which is net income. In doing so, we add back to net income the amounts recorded in respect of depreciation, depletion and amortization, deferred taxes and certain other items as well as the minority interest related to those items such that, similar to net income, ANOI reflects Brookfield Infrastructure's ownership interest. We urge you to review the U.S. GAAP financial measures within the supplemental information, and to not rely on any single financial measure to evaluate Brookfield Infrastructure.

| | Years Ended December 31 | | |
|---|---|---|---|
| **MILLIONS** | **2009** | 2008 | 2007 |
| Net income | **$ 47.8** | $ 28.0 | $ 12.0 |
| Add back or deduct the following: | | | |
| Depreciation, depletion and amortization | **54.1** | 54.3 | 9.8 |
| Unrealized losses on derivative instruments | **21.2** | 2.9 | — |
| Unrealized loss on investment | **11.9** | — | — |
| Deferred taxes and other items | **(17.6)** | (25.5) | (8.5) |
| ANOI | **$117.4** | $ 59.7 | $ 13.3 |

The difference between net income and ANOI is primarily attributable to depreciation and depletion expense which reflects purchase accounting adjustments for Transelec and Longview associated with their respective acquisitions, deferred taxes due to the step up in tax basis associated with those acquisitions, as well as non-cash expenses in Transelec, primarily relating to non-cash inflation indexations on its Chilean peso denominated debt, as well as mark-to-market losses on derivative contracts. The unrealized loss on investment relates to our 7% indirect investment in Longview. This investment is held through a private fund and is carried at fair value with changes to carrying value recorded in the statement of operations.

## ITEM 6. DIRECTORS AND SENIOR MANAGEMENT

### 6.A DIRECTORS AND SENIOR MANAGEMENT

**Board of Directors of our Managing General Partner**

As required by law, our limited partnership agreement provides for the management and control of our partnership by a general partner rather than a board of directors and officers. Our Managing General Partner serves as our partnership's general partner and has a board of directors. Our Managing General Partner has no executive officers. Our Managing General Partner has sole responsibility and authority for the central management and control of our partnership, which is exercised through its board of directors in Bermuda.

The following table presents certain information concerning the current board of directors of our Managing General Partner:

| Name and Municipality of Residence[1] | Age | Position | Principal Occupation |
|---|---|---|---|
| Derek Pannell<br>Toronto, Canada | 63 | Chairman | Director |
| Alex Erskine[2]<br>Smiths, Bermuda | 46 | Director | Partner, Appleby, an international law firm |
| Jonathan Hagger[2]<br>Tunbridge Wells, England | 61 | Director | Chairman, Realty Insurances; and Chairman, GL Hearn |
| Arthur Jacobson, Jr.[3,4]<br>Mamaroneck, New York | 47 | Director | Managing Member, Martinart Partners, L.L.C., a restaurant |
| Anne Schaumburg[2]<br>Short Hills, New Jersey | 60 | Director | Director, NRG Energy, Inc. |
| Danesh Varma[3,4]<br>Kingston-Upon-Thames, England | 60 | Director | Chief Financial Officer, Labrador Iron Mines Limited, a mining company |
| James Wallace[2,3,4]<br>Sudbury, Ontario | 63 | Director | President, Pioneer Construction Inc., a construction company |

*(1) The business address for each of the directors is Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda.*

*(2) Member of the audit committee. Jonathan Hagger is the chairman of the audit committee and also designated as the audit committee financial expert.*

*(3) Member of the nominating and governance committee. James Wallace is the Chairman of the nominating and governance committee.*

*(4) Member of the compensation committee. James Wallace is the Chairman of the compensation committee.*

Set forth below is biographical information for our Managing General Partner's current directors.

**Derek Pannell.** Derek has served as a director of our Managing General Partner since June 15, 2007. Until April 2010, he was a Managing Partner of Brookfield Asset Management and prior to this he was the Chief Executive Officer of Noranda Inc. and Falconbridge Limited from June 2002 to October 2006. He also served as the President and Chief Operating Officer for Noranda Inc. between

September 2001 and June 2002. Derek is a metallurgical engineer with over 41 years of experience in the mining and metals industry. He is former Chair of the Mining Association of Canada and board member of the International Council on Mining and Metals. Derek was a board member of Teck Resources Inc. until April 1, 2010 and currently serves on the boards of Agrium Inc. and African Barrick Gold. Derek is a professional engineer registered in Quebec and Peru and is an Associate of the Royal School of Mines and a Fellow of the Canadian Academy of Engineers. Derek holds a Bachelor of Science degree from Imperial College in London, England.

**Alex Erskine.** Alex has served as a director of our Managing General Partner since February 4, 2009. He is a Partner and the Global Team Leader of the Funds and Investment Services team at Appleby. He practices in the areas of corporate and commercial law, specializing in advising on structuring and operating investment vehicles including mutual funds, hedge funds, unit trusts, partnerships, and close ended funds. Alex joined Appleby in 1999. He served as Managing Partner of Appleby's British Virgin Islands office from March 2007 to October 2008. Prior to joining Appleby he was Deputy Legal and Compliance Director of the Asset Management Division of UBS AG. Alex was educated in Ghana and England and studied law at the University College of Wales, Aberystwyth graduating in 1986 with an L.L.B.Hons. He was called to the Bar of England and Wales in 1996, the Bermuda Bar in 2006 and the British Virgin Islands Bar in 2007.

**Jonathan Hagger.** Jonathan has served as a director of our Managing General Partner since February 19, 2008. He is the Chairman of Realty Insurances, an international insurance brokerage specializing in real estate and private clients. He is also Chairman of GL Hearn, a real estate advisory firm with national practice covering the UK. He is also a Director of a number of private companies. Prior to his current positions he was the Chief Financial Officer of Grosvenor Estate, an investment holding organization which includes the world wide real estate operations of the Grosvenor Group, of which he was Financial Director for 15 years. He is a Fellow of the Institute of Chartered Accountants of England and Wales and the Association of Corporate Treasurers.

**Arthur Jacobson, Jr.** Arthur has served as a director of our Managing General Partner since November 27, 2007. He is a former Managing Director of Spear, Leeds Kellogg Specialists LLC (a division of Goldman Sachs Group Inc.) from 2001 to 2004. He was partner of Benjamin Jacobson and Sons, LLC from 1987 to 2001. He was also a specialist on the NYSE for 16 years, from 1988 to 2004. Prior to that he was an account executive at Drexel Burnham Lambert Inc. from 1985 to 1987. Arthur holds a degree in business administration from the University of Southern California.

**Anne Schaumburg.** Anne has served as a director of our Managing General Partner since November 3, 2008. She has been a member of the board of directors of NRG Energy, Inc., a power generation company listed on NYSE, since 2005. From 1984 until her retirement in 2002, Anne was with the Global Energy Group of Credit Suisse First Boston, where she last served as Managing Director. From 1979 to 1984, she was with the Utilities Group at Dean Witter Financial Services Group, where she last served as Managing Director. From 1971 to 1978, Anne was at First Boston Corporation in the Public Utilities Group. Anne is a graduate of the City University of New York.

**Danesh Varma.** Danesh has served as a director of our Managing General Partner since June 15, 2007. He is the Chief Financial Officer of Labrador Iron Mines Limited. He joined Labrador Iron Mines Limited in 2007 and was Chief Financial Officer of Minco PLC from 2006 to 2007. From 1999 to 2005, Danesh was a director at Dundee B Corp. Ltd. Prior to that, Danesh held a number of senior positions in the banking, corporate finance and accounting fields. Danesh holds a degree from Delhi University and is a Chartered Accountant.

**James Wallace.** James has served as a director of our Managing General Partner since November 27, 2007. He is the President of Pioneer Construction Inc. James is currently serving on the Boards of the following public issuer: Northstar Aerospace (Canada) Inc. and Brookfield Renewable

Power Inc. James resigned from the board of Xstrata Canada Limited (formerly Falconbridge Limited) on March 31, 2009 and has also held positions on the boards Noranda Income Fund, Osprey Media Income Fund, Rio Algom Ltd., and CTV as well as a number of other private companies in which he has ownership interests. James holds a Bachelor of Science from Laurentian University and a Masters of Business Administration from the University of Windsor. James is a Certified Management Accountant and holds a CFA designation.

**Our Management**

Our Managing General Partner does not have any employees. Instead, members of Brookfield's senior management and other individuals from Brookfield's global affiliates are drawn upon to fulfill the Manager's obligations to provide us with management services under our Master Services Agreement. Brookfield currently has approximately 15,000 employees, including approximately 400 investment professionals, worldwide. The following table presents certain information concerning the core senior management team that is principally responsible for our operations and their positions with the Manager:

| Name | Age | Years of Experience | Years at Brookfield | Current Position with the Manager |
|---|---|---|---|---|
| Jeffrey Blidner | 62 | 34 | 9 | Chair |
| Samuel Pollock | 43 | 21 | 16 | Chief Executive Officer |
| John Stinebaugh | 43 | 21 | 5 | Chief Financial Officer |

Each of the members of this team has substantial deal origination and execution expertise, having put together numerous consortiums, partnerships and joint ventures for large complex transactions. Members of this team have also been integral in building and developing Brookfield's utilities, fee for service, timber and social infrastructure operations. Set forth below is biographical information for Messrs. Blidner, Pollock, and Stinebaugh.

**Jeffrey Blidner.** Jeff is a Senior Managing Partner of Brookfield Asset Management with responsibility for strategic planning and transaction execution. Jeff is also the Chairman of the Manager. Jeff led the $2.5 billion acquisition of Transelec, as well as Brookfield's $7 billion acquisition of the Multiplex Group, an Australian-based global property, construction, and development company. Jeff is also the Chairman of the Board of Transelec and is a director of the Board of Prime. Prior to joining Brookfield Asset Management in 2000, Jeff was a senior partner at Goodman & Carr LLP, a Toronto-based law firm. Jeff's practice focused on merchant banking transactions, public offerings, mergers and acquisitions, management buy-outs and private equity transactions. Jeff received his LLB from Osgoode Hall Law School and was called to the Bar in Ontario as a Gold Medalist.

**Samuel Pollock.** Sam is a Senior Managing Partner of Brookfield Asset Management and Chief Executive Officer of the Manager. Since 2006, Sam has led Brookfield's expansion into the infrastructure sector, including the BBI Transaction. Sam joined Brookfield Asset Management in 1994 and, prior to his current role, acted as Brookfield Asset Management's Chief Investment Officer and led various Brookfield investment and transaction initiatives such as the formation of Tricap Partners and the privatization of O&Y Canada. Sam is a director of the Board of Prime. Sam is a Chartered Accountant and holds a business degree from Queen's University.

**John Stinebaugh.** John is a Managing Partner of Brookfield Asset Management and Chief Financial Officer of the Manager. He is responsible for business development for Brookfield's utility infrastructure business, focusing on acquisitions of utility infrastructure assets in North America and other jurisdictions. John co-led the BBI Transaction and is a director on the Board of Myria, the company which owns 80% of NGPL, and previously co-led the $2.5 billion acquisition of Transelec. Prior to this, John was with Credit Suisse Securities (U.S.A.) LLC. He worked in the energy group with responsibility for mergers and acquisitions and leveraged financings. During his tenure at Brookfield Asset Management and Credit Suisse, John worked on announced acquisitions and divestitures of energy infrastructure companies in excess of $15 billion. John received his Chartered Financial Analyst designation in 1995 and graduated with a degree in economics from Harvard University.

See also information contained in this Form 20-F under Item 6.C "Board Practices," Item 3.D "Risk Factors—Risks Relating to our Relationship with Brookfield," Item 6.A "Directors and Senior Management" and Item 7.B "Related Party Transactions."

**Our Master Services Agreement**

The Service Recipients have entered into a Master Services Agreement pursuant to which Brookfield Infrastructure Group Inc. and certain other affiliates of Brookfield Asset Management who are party thereto have agreed to provide or arrange for other service providers to provide management and administration services to our partnership and the other Service Recipients. The operating entities are not a party to the Master Services Agreement.

The following is a summary of certain provisions of our Master Services Agreement and is qualified in its entirety by reference to all of the provisions of the agreement. Because this description is only a summary of the Master Services Agreement, it does not necessarily contain all of the information that you may find useful. We therefore urge you to review the Master Services Agreement in its entirety. Copies of the Master Services Agreement are available electronically on the website of the Securities and Exchange Commission at www.sec.gov and on our SEDAR profile at www.sedar.com and are made available to our unitholders as described under Item 10.C "Material Contracts" and Item 10.H "Documents on display."

**Appointment of the Manager and Services Rendered**

Under our Master Services Agreement, the Service Recipients have appointed the Manager, as the service provider, to provide or arrange for the provision by an appropriate service provider of the following services:

- causing or supervising the carrying out of all day-to-day management, secretarial, accounting, banking, treasury, administrative, liaison, representative, regulatory and reporting functions and obligations;
- establishing and maintaining or supervising the establishment and maintenance of books and records;
- identifying, evaluating and recommending to the Holding Entities acquisitions or dispositions from time-to-time and, where requested to do so, assisting in negotiating the terms of such acquisitions or dispositions;
- recommending and, where requested to do so, assisting in the raising of funds whether by way of debt, equity or otherwise, including the preparation, review or distribution of any prospectus or offering memorandum in respect thereof and assisting with communications support in connection therewith;
- recommending to the Holding Entities suitable candidates to serve on the boards of directors or their equivalents of the operating entities;
- making recommendations with respect to the exercise of any voting rights to which the Holding Entities are entitled in respect of the operating entities;

- making recommendations with respect to the payment of dividends by the Holding Entities or any other distributions by the Service Recipients, including distributions by our partnership to our unitholders;
- monitoring and/or oversight of the applicable Service Recipient's accountants, legal counsel and other accounting, financial or legal advisors and technical, commercial, marketing and other independent experts, and managing litigation in which a Service Recipient is sued or commencing litigation after consulting with, and subject to the approval of, the relevant board of directors or its equivalent;
- attending to all matters necessary for any reorganization, bankruptcy proceedings, dissolution or winding up of a Service Recipient, subject to approval by the relevant board of directors or its equivalent;
- supervising the timely calculation and payment of taxes payable, and the filing of all tax returns due, by each Service Recipient;
- causing the Service Recipients' annual consolidated financial statements and quarterly interim financial statements to be: (i) prepared in accordance with generally accepted accounting principles or other applicable accounting principles for review and audit at least to such extent and with such frequency as may be required by law or regulation; and (ii) submitted to the relevant board of directors or its equivalent for its prior approval;
- making recommendations in relation to and effecting the entry into insurance of each Service Recipient's assets, together with other insurances against other risks, including directors and officers insurance as the relevant service provider and the relevant board of directors or its equivalent may from time to time agree;
- arranging for individuals to carry out the functions of principal executive, accounting and financial officers for our partnership only for purposes of applicable securities laws;
- providing individuals to act as senior officers of Holding Entities as agreed from time-to-time, subject to the approval of the relevant board of directors or its equivalent;
- advising the Service Recipients regarding the maintenance of compliance with applicable laws and other obligations; and
- providing all such other services as may from time-to-time be agreed with the Service Recipients that are reasonably related to the Service Recipient's day-to-day operations.

The Manager's activities are subject to the supervision of the board of directors of our Managing General Partner and of each of the other Service Recipients or their equivalent, as applicable.

**Management Fee**

Pursuant to the Master Services Agreement, on a quarterly basis, we pay a base management fee, referred to as the Base Management Fee, to the Manager equal to 0.3125% (1.25% annually) of the market value of our partnership. For purposes of calculating the Base Management Fee, the market value of our partnership is equal to the volume weighted average of the closing prices of our partnership's units on the NYSE (or other exchange or market where our partnership's units are principally traded) for each of the last five trading days of the applicable quarter multiplied by the number of issued and outstanding units of our partnership on the last of those days (assuming full conversion of Brookfield's interest in Brookfield Infrastructure into units of our partnership), plus the amount of third-party debt, net of cash, with recourse to our partnership, Brookfield Infrastructure and any Holding Entity.

To the extent that under any other arrangement we are obligated to pay a base management fee (directly or indirectly through an equivalent arrangement) to the Manager (or any affiliate) on a portion of our capital that is comparable to the Base Management Fee, the Base Management Fee payable for each quarter in respect thereof will be reduced on a dollar for dollar basis by our proportionate share of the comparable base management fee (or equivalent amount) under such other arrangement for that quarter. The Base Management Fee will not be reduced by the amount of any incentive distribution payable by any Service Recipient or operating entity to the Manager (or any other affiliate) (for which there is a separate credit mechanism under Brookfield Infrastructure's limited partnership agreement), or any other fees that are payable by any operating entity to Brookfield for financial advisory, operations and maintenance, development, operations management and other services. See Item 7.B "Related Party Transactions—Other Services" and Item 7.B "Related Party Transactions—Incentive Distributions."

**Reimbursement of Expenses and Certain Taxes**

We also reimburse the Manager for any out-of-pocket fees, costs and expenses incurred in the provision of the management and administration services. However, the Service Recipients are not required to reimburse the Manager for the salaries and other remuneration of its management, personnel or support staff who carry out any services or functions for such Service Recipients or overhead for such persons.

The relevant Service Recipient is required to pay the Manager all other out-of-pocket fees, costs and expenses incurred in connection with the provision of the services including those of any third party and to reimburse the Manager for any such fees, costs and expenses. Such out-of-pocket fees, costs and expenses include, among other things, (i) fees, costs and expenses relating to any debt or equity financing; (ii) out-of-pocket fees, costs and expenses incurred in connection with the general administration of any Service Recipient; (iii) taxes, licenses and other statutory fees or penalties levied against or in respect of a Service Recipient; (iv) amounts owed under indemnification, contribution or similar arrangements; (v) fees, costs and expenses relating to our financial reporting, regulatory filings and investor relations and the fees, costs and expenses of agents, advisors and other persons who provide services to or on behalf of a Service Recipient; and (vi) any other fees, costs and expenses incurred by the Manager that are reasonably necessary for the performance by the Manager of its duties and functions under the Master Services Agreement.

In addition, the Service Recipients are required to pay all fees, expenses and costs incurred in connection with the investigation, acquisition, holding or disposal of any acquisition that is made or that is proposed to be made by us. Where the acquisition or proposed acquisition involves a joint acquisition that is made alongside one or more other persons, the Manager will be required to allocate such fees, costs and expenses in proportion to the notional amount of the acquisition made (or that would have been made in the case of an unconsummated acquisition) among all joint investors. Such additional fees, expenses and costs represent out-of-pocket costs associated with investment activities that are undertaken pursuant to the Master Services Agreement.

The Service Recipients are also required to pay or reimburse the Manager for all sales, use, value added, withholding or other taxes or customs duties or other governmental charges levied or imposed by reason of the Master Services Agreement or any agreement it contemplates, other than income taxes, corporation taxes, capital taxes or other similar taxes payable by the Manager, which are personal to the Manager.

**Termination**

The Master Services Agreement has no fixed term. However, the Service Recipients may terminate the Master Services Agreement upon 30 days' prior written notice of termination from our Managing General Partner to the Manager if any of the following occurs:

- the Manager defaults in the performance or observance of any material term, condition or covenant contained in the agreement in a manner that results in material harm to the Service Recipients and the default continues unremedied for a period of 30 days after written notice of the breach is given to the Manager;
- the Manager engages in any act of fraud, misappropriation of funds or embezzlement against any Service Recipient that results in material harm to the Service Recipients;
- the Manager is grossly negligent in the performance of its duties under the agreement and such negligence results in material harm to the Service Recipients; or
- certain events relating to the bankruptcy or insolvency of the Manager.

The Service Recipients have no right to terminate for any other reason, including if the Manager or Brookfield experiences a change of control. The Managing General Partner may only terminate the Master Services Agreement on behalf of our partnership with the prior unanimous approval of the Managing General Partner's independent directors.

Our Master Services Agreement expressly provides that the agreement may not be terminated by our Managing General Partner due solely to the poor performance or the under performance of any of our operations.

The Manager may terminate the Master Services Agreement upon 30 days' prior written notice of termination to our Managing General Partner if any Service Recipient defaults in the performance or observance of any material term, condition or covenant contained in the agreement in a manner that results in material harm and the default continues unremedied for a period of 30 days after written notice of the breach is given to the Service Recipient. The Manager may also terminate the Master Services Agreement upon the occurrence of certain events relating to the bankruptcy or insolvency of our partnership.

If the Master Services Agreement is terminated, the licensing agreement, the Relationship Agreement and any of Brookfield's obligations under the Relationship Agreement would also terminate. See Item 7.B "Related Party Transactions—Relationship Agreement" and Item 3.D "Risk Factors—Risks Relating to Our Relationship with Brookfield."

**Indemnification and Limitations on Liability**

Under the Master Services Agreement, the Manager has not assumed and will not assume any responsibility other than to provide or arrange for the provision of the services called for thereunder in good faith and will not be responsible for any action that the Service Recipients take in following or declining to follow the advice or recommendations of the Manager. The maximum amount of the aggregate liability of the Manager or any of its affiliates, or of any director, officer, employee, contractor, agent, advisor or other representative of the Manager or any of its affiliates, will be equal to the Base Management Fee previously paid by the Service Recipients in the two most recent calendar years pursuant to the Master Services Agreement. The Service Recipients have also agreed to indemnify each of the Manager, Brookfield and their, directors, officers, agents, members, partners, shareholders and employees to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs or expenses (including legal fees) incurred by an indemnified person or threatened in connection with our respective businesses, investments and activities or in respect of or arising from the Master Services Agreement or the services provided by the Manager, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under the Master Services Agreement, the indemnified persons will not be liable to the Service Recipients to the fullest extent permitted by law, except for conduct that involved bad faith, fraud, willful misconduct, gross negligence or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

**Outside Activities**

Our Master Services Agreement does not prohibit the Manager or its affiliates from pursuing other business activities or providing services to third parties that compete directly or indirectly with us. For a description of related aspects of the relationship between Brookfield and the Service Recipients, see Item 7.B "Related Party Transactions—Relationship Agreement."

## 6.B COMPENSATION

Our Managing General Partner pays each of its directors $50,000 per year for serving on its board of directors and various board committees. The Managing General Partner pays the chairperson of the board of directors $100,000 per year for serving as chairperson of its board of directors. In connection with the BBI Transaction, a special fee of $5,000 was paid by the Managing General Partner to each of the independent directors who sat on the special committee that was established to consider the related party aspects of the BBI Transaction.

Our Managing General Partner does not have any employees. Our partnership has entered into a Master Services Agreement with the Manager pursuant to which the Manager and certain other affiliates of Brookfield provide or arrange for other service providers to provide day-to-day management and administrative services for our partnership, Brookfield Infrastructure and the Holding Entities. The fees payable under the Master Service Agreement are set forth under Item 6.A "Directors and Senior Management—Our Master Services Agreement—Management Fee." In addition, Brookfield is entitled to receive incentive distributions from Brookfield Infrastructure described under Item 7.B "Related Party Transactions—Incentive Distributions."

Pursuant to the Master Service Agreement, members of Brookfield's senior management and other individuals from Brookfield's global affiliates are drawn upon to fulfill obligations under the Master Service Agreement. However, these individuals, including the Brookfield employees identified in the table under Item 6.A "Directors and Senior Management—Our Management," are not compensated by our partnership or our Managing General Partner. Instead, they will continue to be compensated by Brookfield. These individuals are not directors or officers of the partnership or our Managing General Partner.

## 6.C BOARD PRACTICES

**Board Structure, Practices and Committees**

The structure, practices and committees of our Managing General Partner's board of directors, including matters relating to the size, independence and composition of the board of directors, the election and removal of directors, requirements relating to board action and the powers delegated to board committees, are governed by our Managing General Partner's By-laws. Our Managing General Partner's board of directors is responsible for exercising the management, control, power and authority of the Managing General Partner except as required by applicable law or the By-laws of the Managing General Partner. Our corporate governance practices are not materially different than those required of domestic companies under the NYSE's listing standards. The following is a summary of certain provisions of those By-laws that affect our partnership's governance.

### Size, Independence and Composition of the Board of Directors

Our Managing General Partner's board of directors is currently set at seven directors. The board may consist of between three and eleven directors or such other number of directors as may be determined from time-to-time by a resolution of our Managing General Partner's shareholders and subject to its By-laws. At least three directors and at least a majority of the directors holding office must be independent of our Managing General Partner and Brookfield, as determined by the full board of directors using the standards for independence established by the NYSE.

If the death, resignation or removal of an independent director results in the board of directors consisting of less than a majority of independent directors, the vacancy must be filled promptly. Pending the filling of such vacancy, the board of directors may temporarily consist of less than a majority of independent directors and those directors who do not meet the standards for independence may continue to hold office. In addition, our Managing General Partner's By-laws prohibit 50% or more of the board of directors (or the independent directors as a group) from being citizens or residents of any one of Canada, the United Kingdom or the United States, and require that all board meetings be held in Bermuda.

### Election and Removal of Directors

Our Managing General Partner's board of directors was appointed by its shareholders and each of its current directors will serve until the earlier of his or her death, resignation or removal from office. Vacancies on the board of directors may be filled and additional directors may be added by a resolution of our Managing General Partner's shareholders or a vote of the directors then in office. A director may be removed from office by a resolution duly passed by our Managing General Partner's shareholders or, if the director has been absent without leave from three consecutive meetings of the board of directors, by a written resolution requesting resignation signed by all other directors then holding office. A director will be automatically removed from the board of directors if he or she becomes bankrupt, insolvent or suspends payments to his or her creditors or becomes prohibited by law from acting as a director.

### Action by the Board of Directors

Our Managing General Partner's board of directors may take action in a duly convened meeting at which a quorum is present or by a written resolution signed by all directors then holding office. Our Managing General Partners' board of directors holds a minimum of four meetings per year. When action is to be taken at a meeting of the board of directors, the affirmative vote of a majority of the votes cast is required for any action to be taken.

### Transactions Requiring Approval by Independent Directors

Our Managing General Partner's independent directors have approved a conflicts policy which addresses the approval and other requirements for transactions in which there is greater potential for a conflict of interest to arise. These transactions include:

- the dissolution of our partnership;
- any material amendment to the Master Services Agreement, the equity commitment, our limited partnership agreement or Brookfield Infrastructure's limited partnership agreement;
- any material service agreement or other arrangement pursuant to which Brookfield will be paid a fee, or other consideration other than any agreement or arrangement contemplated by the Master Services Agreement;

- any calls by Brookfield Infrastructure or our partnership on the equity commitment provided by Brookfield as described under Item 7.B "Related Party Transactions—Equity Commitment and Other Financing";
- acquisitions by us from, and dispositions by us to, Brookfield;
- any other material transaction involving us and Brookfield; and
- termination of, or any determinations regarding indemnification under, the Master Services Agreement.

Our conflicts policy requires the transactions described above to be approved by a majority of our Managing General Partner's independent directors. Pursuant to our conflicts policy, independent directors may grant approvals for any of the transactions described above in the form of general guidelines, policies or procedures in which case no further special approval will be required in connection with a particular transaction or matter permitted thereby. See Item 7.B "Related Party Transactions—Conflicts of Interest and Fiduciary Duties."

**Transactions in which a Director has an Interest**

A director who directly or indirectly has an interest in a contract, transaction or arrangement with our Managing General Partner, our partnership or certain of our affiliates is required to disclose the nature of his or her interest to the full board of directors. Such disclosure may generally take the form of a general notice given to the board of directors to the effect that the director has an interest in a specified company or firm and is to be regarded as interested in any contract, transaction or arrangement which may after the date of the notice be made with that company or firm or its affiliates. A director may participate in any meeting called to discuss or any vote called to approve the transaction in which the director has an interest and any transaction approved by the board of directors will not be void or voidable solely because the director was present at or participates in the meeting in which the approval was given provided that the board of directors or a board committee authorizes the transaction in good faith after the director's interest has been disclosed or the transaction is fair to our Managing General Partner and our partnership at the time it is approved.

**Service Contracts**

There are no service contracts with directors that provide benefit upon termination of employment.

**Audit Committee**

Our Managing General Partner's board of directors is required to establish and maintain at all times an audit committee that operates pursuant to a written charter. The audit committee is required to consist solely of independent directors and each member must be financially literate and there will be at least one member designated as an audit committee financial expert. 50% or more of the audit committee may not be directors who are citizens or residents of any one of Canada, the United Kingdom or the United States.

The audit committee is responsible for assisting and advising our Managing General Partner's board of directors with matters relating to:

- our accounting and financial reporting processes;
- the integrity and audits of our financial statements;
- our compliance with legal and regulatory requirements; and
- the qualifications, performance and independence of our independent accountants.

The audit committee is also responsible for engaging our independent accountants, reviewing the plans and results of each audit engagement with our independent accountants, approving professional services provided by our independent accountants, considering the range of audit and non-audit fees charged by our independent accountants and reviewing the adequacy of our internal accounting controls. All meetings of the audit committee will be held in Bermuda. The audit committee charter is available on our website at www.brookfieldinfrastructure.com/aboutus/governance and is available upon written request from our Corporate Secretary, at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

**Nominating and Governance Committee**

Our Managing General Partner's board of directors is required to establish and maintain at all times a nominating and governance committee that operates pursuant to a written charter. The nominating and governance committee is required to consist entirely of independent directors and 50% or more of the nominating and corporate governance committee may not be directors who are citizens or residents of any one of Canada, the United Kingdom or the United States.

The nominating and governance committee is responsible for approving the appointment by the sitting directors of a person to the office of director and for recommending a slate of nominees for election as directors by our Managing General Partner's shareholders. The nominating and governance committee is also responsible for assisting and advising our Managing General Partner's board of directors with respect to matters relating to the general operation of the board of directors, our partnership's governance, the governance of our Managing General Partner and the performance of its board of directors and individual directors. All meetings of the nominating and governance committee will be held in Bermuda. The nominating and governance committee charter is available on our website at www.brookfieldinfrastructure.com/aboutus/governance and is available upon written request from our Corporate Secretary, at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

**Compensation Committee**

Our Managing General Partner's board of directors is required to establish and maintain at all times a compensation committee that operates pursuant to a written charter. The compensation committee is required to consist solely of independent directors. 50% or more of the compensation committee may not be directors who are citizens or residents of any one of Canada, the United Kingdom or the United States.

The compensation committee is responsible for reviewing and making recommendations to the board of directors of the Managing General Partner concerning the remuneration of directors and committee members and supervising any changes in the fees to be paid pursuant to the Master Services Agreement. All meetings of the compensation committee will be held in Bermuda. The compensation committee charter is available on our website at www.brookfieldinfrastructure.com/aboutus/governance and is available upon written request from our Corporate Secretary, at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

**Indemnification and Limitations on Liability**

*Our Limited Partnership Agreement*

Bermuda law permits the partnership agreement of a limited partnership, such as our partnership, to provide for the indemnification of a partner, the officers and directors of a partner and any other person against any and all claims and demands whatsoever, except to the extent that the indemnification may be held by the courts of Bermuda to be contrary to public policy or to the extent that Bermuda law prohibits indemnification against personal liability that may be imposed under specific provisions of Bermuda law. Bermuda law also permits a partnership to pay or reimburse an indemnified person's expenses in advance of a final disposition of a proceeding for which indemnification is sought. See Item 10.B "Memorandum and Articles of Association—Description of Our Units and Our Limited Partnership Agreement—Indemnification; Limitations on Liability" for a description of the indemnification arrangements in place under our limited partnership agreement.

*Our Managing General Partner's By-laws*

Bermuda law permits the By-laws of an exempted company, such as our Managing General Partner, to provide for the indemnification of its officers, directors and shareholders and any other person designated by the company against any and all claims and demands whatsoever, except to the extent that the indemnification may be held by the courts of Bermuda to be contrary to public policy or to the extent that Bermuda law prohibits indemnification against personal liability that may be imposed under specific provisions of Bermuda law. Bermuda company law also permits an exempted company to pay or reimburse an indemnified person's expenses in advance of a final disposition of a proceeding for which indemnification is sought.

Under our Managing General Partner's By-laws, our Managing General Partner is required to indemnify, to the fullest extent permitted by law, its affiliates, directors, officers, resident representative, shareholders and employees, any person who serves on a governing body of Brookfield Infrastructure or any of its subsidiaries and certain others against any and all losses, claims, damages, liabilities, costs or expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, incurred by an indemnified person in connection with our partnership's investments and activities or in respect of or arising from their holding such positions, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under our Managing General Partner's By-laws, (i) the liability of such persons has been limited to the fullest extent permitted by law and except to the extent that their conduct involves bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful; and (ii) any matter that is approved by the independent directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties. Our Managing General Partner's By-laws require it to advance funds to pay the expenses of an indemnified person in connection with a matter in which indemnification may be sought until it is determined that the indemnified person is not entitled to indemnification.

*Insurance*

Our partnership has obtained insurance coverage under which the directors of our Managing General Partner are insured, subject to the limits of the policy, against certain losses arising from claims made against such directors by reason of any acts or omissions covered under the policy in their respective capacities as directors of our Managing General Partner, including certain liabilities under securities laws.

**Canadian Insider Reporting**

Our partnership is not subject to Canadian insider reporting requirements due to its status as a "SEC Foreign Issuer" under Canadian securities laws. However, our partnership does not rely on the exemption that is available to it from the insider reporting requirements of Canadian securities laws.

**Governance of Brookfield Infrastructure**

The board of directors of the Infrastructure General Partner is identical to the board of directors of our Managing General Partner and has substantially similar governance arrangements as our partnership. However, the Infrastructure General Partner's By-laws allow for alternate directors. A director of the Infrastructure General Partner may by written notice to the secretary of the Infrastructure General Partner appoint any person, including another director, who meets any minimum standards that are required by applicable law to serve as an alternate director to attend and vote in the director's place at any meeting of the Infrastructure General Partner's board of directors at which the director is not personally present and to perform any duties and functions and exercise any rights that the director could perform or exercise personally. Any alternate director appointed may not be a citizen or resident of Canada, the United Kingdom or the United States if such residency would cause 50% or more of the board of directors (or the independent directors as a group) to consist of directors who are citizens or residents of any one of Canada, the United Kingdom or the United States.

### 6.D EMPLOYEES

Our partnership does not employ any of the individuals who carry out the management and activities of our partnership. The personnel that carry out these activities are employees of Brookfield, and their services are provided to our partnership or for our benefit under our Master Services Agreement. For a discussion of the individuals from Brookfield's management team that are expected to be involved in our infrastructure business, see Item 6.A "Directors and Senior Management—Our Management."

### 6.E SHARE OWNERSHIP

Each of our directors and officers of the Managing General Partner own less than one percent of our units.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 7.A MAJOR SHAREHOLDERS

The following table presents information regarding the beneficial ownership of our limited partnership units by each entity that we know beneficially owns more than 5% of our partnership's units, as at December 31, 2009.

| | Units Outstanding | |
|---|---|---|
| **Name and Address** | **Units Owned** | **Percentage(1)** |
| Brookfield Asset Management Inc.<br>Suite 300, Brookfield Place, 181 Bay Street<br>Toronto, Ontario M5J 2T3 | 42.5 million(2) | 40.2%(2) |
| Partners Limited<br>Suite 300, Brookfield Place, 181 Bay Street<br>Toronto, Ontario M5J 2T3 | 44.7 million(3) | 42.3%(3) |

(1) *Assumes that all of the Redemption — Exchange Units of Brookfield Infrastructure are exchanged for our units pursuant to the Redemption Exchange Mechanism described at Item 10.B "Memorandum and Articles of Association — Description of Brookfield Infrastructure's Limited Partnership Agreement — Redemption Exchange Mechanism."*

(2) *Brookfield Asset Management may be deemed to be the beneficial owner of 42,519,150 of our units that it holds through wholly-owned subsidiaries, constituting approximately 40.2% of the issued and outstanding units, assuming that all of the Redeemable Partnership Units of Brookfield Infrastructure are exchanged for our units pursuant to the Redemption Exchange Mechanism described at Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption Exchange Mechanism." This includes 48,930 of our units beneficially held by Brookfield Asset Management.*

(3) *Partners Limited owns all of Brookfield Asset Management's Class B Limited Voting Shares and approximately 50% of BAM Investment Corp.'s common shares. Partners Limited may be deemed to be the beneficial owner of 44,737,799 of our units,*

*constituting approximately 42.3% of the issued and outstanding units, assuming that all of the Redemption-Exchange Units of Brookfield Infrastructure are exchanged for our units pursuant to the Redemption-Exchange Mechanism described at Item 10.B "Memorandum and Articles of Association — Description of Brookfield Infrastructure's Limited Partnership Agreement — Redemption Exchange Mechanism." This includes 2,218,649 of our units beneficially held by BAM Investment Corp. Partners Limited may be deemed to have the power (together with each of Brookfield Asset Management and BAM Investments Corp.) to vote or direct the vote of the units beneficially owned by it or to dispose of such units other than 20,295 of our units with respect to which it has sole voting and investment power.*

Our major unitholders have the same voting rights as all other holders of limited partnership units.

As of April 30, 2010, 129,937 of our outstanding limited partnership units were held by 1,606 holders of record in the United States, not including limited partnership units held of record by Depository Trust and Clearance Corporation, or DTC. As of April 30, 2010, DTC was the holder of record of 62,761,156 limited partnership units.

See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risks Relating to our Relationship with Brookfield," Item 6.C "Board Practices," Item 6.A "Directors and Senior Management" and Item 7.B "Related Party Transactions."

### 7.B RELATED PARTY TRANSACTIONS

We are an affiliate of Brookfield. We have entered into a number of agreements and arrangements with Brookfield in order to enable us to be established as a separate entity and pursue our vision of being a leading owner and operator of high quality infrastructure assets. While we believe that this ongoing relationship with Brookfield provides us with a strong competitive advantage as well as access to opportunities that would otherwise not be available to us, we operate very differently from an independent, stand-alone entity. We describe below these relationships as well as potential conflicts of interest (and the methods for resolving them) and other material considerations arising from our relationship with Brookfield.

See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risks Relating to our Relationship with Brookfield," Item 6.C "Board Practices," Item 6.A "Directors and Senior Management" and Item 7.A "Major Shareholders."

*Relationship Agreement*

Our partnership, Brookfield Infrastructure, the Holding Entities, the Manager and Brookfield have entered into an agreement, referred to as the Relationship Agreement, that governs aspects of the relationship among them. Pursuant to the Relationship Agreement, Brookfield has agreed that we serve as the primary (though not exclusive) vehicle through which Brookfield makes future infrastructure related acquisitions that are suitable for our strategy and objectives. Our acquisition strategy focuses on large scale transactions, for which we believe there is less competition and where Brookfield has sufficient influence or control so that our operations-oriented approach can be deployed to create value. Due to similar asset characteristics and capital requirements we believe that the infrastructure industry will evolve like the real estate industry in which assets are commonly owned through consortiums and partnerships of institutional equity investors and owner/operators such as ourselves. Accordingly, an integral part of our strategy is to participate with institutional investors in Brookfield sponsored or co-sponsored consortiums for single asset acquisitions and as a partner in or alongside Brookfield sponsored or co-sponsored partnerships that target acquisitions that suit our profile. Brookfield has a strong track record of leading such consortiums and partnerships and actively managing underlying assets to improve performance. Brookfield agreed that it will not sponsor such arrangements that are suitable for us in the infrastructure sector unless we are given an opportunity to participate.

Brookfield's commitment to us and our ability to take advantage of opportunities is subject to a number of inherent limitations such as our financial capacity, the suitability of the acquisition in terms of the underlying asset characteristics and its fit with our strategy, limitations arising from the tax and regulatory regimes that govern our affairs and certain other restrictions. See Item 3.D "Risk Factors— Risks Relating to Our Relationship with Brookfield." Under the terms of the Relationship Agreement, our partnership, Brookfield Infrastructure and the Holding Entities acknowledge and agree that, subject to providing us the opportunity to participate on the basis described above, Brookfield (including its directors, officers, agents, members, partners, shareholders and employees) is able to pursue other business activities and provide services to third parties that compete directly or indirectly with us. In addition, Brookfield has established or advised, and may continue to establish or advise, other entities that rely on the diligence, skill and business contacts of Brookfield's professionals and the information and acquisition opportunities they generate during the normal course of their activities. Our partnership, Brookfield Infrastructure and the Holding Entities acknowledge and agree that some of these entities may have objectives that overlap with our objectives or may acquire infrastructure assets or businesses that could be considered appropriate acquisitions for us, and that Brookfield may have greater financial incentives to assist those other entities over us. Due to the foregoing, we expect to compete from time-to-time with Brookfield or other third parties for access to the benefits that we expect to realize from Brookfield's involvement in our business.

Since Brookfield has large, well established operations in real estate and renewable power that are separate from us, Brookfield will not be obligated to provide us with any opportunities in these sectors. In addition, since Brookfield has granted an affiliate the right to act as the exclusive vehicle for Brookfield's timberland acquisitions in Eastern Canada and the Northeastern U.S., we will not be entitled to participate in timberland acquisitions in those geographic regions. Brookfield also recently appointed an affiliate as its exclusive vehicle for the acquisition of contracted hydro and wind power generation facilities located in Canada. In the event of the termination of the Master Services Agreement, the Relationship Agreement would also terminate, including Brookfield's commitments to provide us with acquisition opportunities, as described above.

Pursuant to the Relationship Agreement, Brookfield has also agreed to use reasonable efforts to ensure that any voting rights with respect to any operating entity that are held by entities over which it has control are voted:

- in favor of the election of a director (or its equivalent) approved by the entity through which our interest in the relevant entity is held; and
- in accordance with the direction of the entity through which our interest in the relevant entity is held with respect to the approval or rejection of the following matters relating to the operating entity, as applicable: (i) any sale of all or substantially all of its assets, (ii) any merger, amalgamation, consolidation, business combination or other material corporate transaction, except in connection with any internal reorganization that does not result in a change of control, (iii) any plan or proposal for a complete or partial liquidation or dissolution, or any reorganization or any case, proceeding or action seeking relief under any existing laws or future laws relating to bankruptcy or insolvency, (iv) any issuance of shares, units or other securities, including debt securities, or (v) any commitment or agreement to do any of the foregoing.

For these purposes, the relevant entity may maintain, from time-to-time, an approved slate of nominees or provide direction with respect to the approval or rejection of any matter in the form of general guidelines, policies or procedures in which case no further approval or direction will be required. Any such general guidelines, policies or procedures may be modified by the relevant entity in its discretion.

Under the Relationship Agreement, our partnership, Brookfield Infrastructure and the Holding Entities have agreed that none of Brookfield or the Manager, nor any director, officer, agent, member, partner, shareholder or employee of Brookfield or the Manager, will be liable to us for any claims, liabilities, losses, damages, costs or expenses (including legal fees) arising in connection with the business, investments and activities in respect of or arising from the Relationship Agreement. The maximum amount of the aggregate liability of Brookfield, or of any director, officer, employee, contractor, agent, advisor or other representative of Brookfield, will be equal to the amounts previously paid in the two most recent calendar years by the Service Recipients pursuant to the Master Services Agreement.

*Services Provided under Our Master Services Agreement*

The Service Recipients have entered into the Master Services Agreement pursuant to which Brookfield Infrastructure Group Inc. and certain other affiliates of Brookfield Asset Management who are party thereto agreed to provide or arrange for other service providers to provide management and administration services to our partnership and the other Service Recipients. In exchange, the Manager is entitled to a Base Management Fee. For a description of our Master Services Agreement, see Item 6.A "Directors and Senior Management—Our Master Services Agreement."

*Other Services*

Brookfield may provide to the operating entities services which are outside the scope of the Master Services Agreement under arrangements that are on market terms and conditions and pursuant to which Brookfield will receive fees. The services provided under these arrangements include financial advisory, operations and maintenance, development, operations management and other services. Pursuant to our conflict of interest guidelines, those arrangements may require prior approval by a majority of the independent directors, which may be granted in the form of general guidelines, policies or procedures. See "—Conflicts of Interest and Fiduciary Duties."

*Equity Commitment and Other Financing*

Concurrent with the closing of the spin-off, Brookfield provided to our partnership and Brookfield Infrastructure an equity commitment in the amount of $200 million. The equity commitment may be called by our partnership and/or Brookfield Infrastructure in exchange for the issuance of a number of units of our partnership or Brookfield Infrastructure, as the case may be, to Brookfield, corresponding to the amount of the equity commitment called divided by the volume weighted average of the trading price for our units on the principal stock exchange on which our units are listed for the five days immediately preceding the date of the call. The equity commitment is available to be called until January 31, 2011. The equity commitment is available in minimum amounts of $10 million and the amount available under the equity commitment will be reduced permanently by the amount so called. Before funds may be called on the equity commitment a number of conditions precedent must be met, including that Brookfield continues to control the Infrastructure GP LP and has the ability to elect a majority of the board of directors of the Infrastructure General Partner.

The units of Brookfield Infrastructure to be issued under the equity commitment will become subject to the Redemption-Exchange Mechanism and may therefore result in Brookfield acquiring additional units of our partnership. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism."

If the equity commitment were called in full by Brookfield Infrastructure, Brookfield's ownership of Brookfield Infrastructure would increase from approximately 41% to approximately 47% or, if the equity commitment were called in full by our partnership, Brookfield's ownership of our outstanding limited partnership units would increase from approximately 0% to approximately 16%, in each case assuming that our units' market price is equal to our pro forma book value per unit. However, since capital calls under the equity commitment will be at the five day volume weighted average price of our units, the capital calls will not be economically dilutive to our existing unit holders.

The rationale for the equity commitment is to provide our partnership and Brookfield Infrastructure with access to equity capital on an as needed basis and to maximize our flexibility. Brookfield Infrastructure has also established a credit facility with a syndicate of banks. We intend to use the liquidity provided by the equity commitment and credit facility for working capital purposes, and we may use the proceeds from the equity commitment to fund growth capital investments and acquisitions. Furthermore, Brookfield has informed us that it will also consider providing bridge financing to us for the purposes of funding acquisitions. The determination of which of these sources of funding Brookfield Infrastructure will access in any particular situation will be a matter of optimizing needs and opportunities at that time.

*Allocation Agreement*

On October 8, 2009, our partnership entered into an allocation agreement, or as subsequently amended, the Allocation Agreement, with Brookfield, Brookfield Infrastructure and BIP Bermuda Holdings I Limited, or Bermuda Holdco, that governed the terms on which the BBI Transaction was financed, which agreement was subsequently amended on October 20, 2009 and October 30, 2009. The following represents a summary only and reference should be made to the full text of the Allocation Agreement, which can be found at www.sedar.com.

Pursuant to the Allocation Agreement our partnership used its reasonable commercial efforts to conduct an offering of our units, on terms reasonably acceptable to our partnership, in order to raise sufficient funds to fund the investment in Prime, or the BBI Investment, and the acquisition of 60% of the PD Ports and DBCT. Pursuant to the Allocation Agreement, our partnership invested the gross proceeds of the public offering of our units on November 6, 2009, or the Offering, in Class A Units of Brookfield Infrastructure. Brookfield Infrastructure in turn invested the proceeds from the issuance of the Brookfield Investment and Class A Units in an issuance of shares of Bermuda Holdco. Bermuda Holdco used the proceeds received from such issuance of its shares to acquire: first, 60% of the PD Ports and DBCT and second, the proceeds remaining, following the acquisition of PD Ports and DBCT, to the Investment. The Allocation Agreement provided that since the unitholder resolution with respect to the use of proceeds discussed above, or the Unitholder Resolution, was approved, Brookfield exercised its option to maintain its effective interest in our partnership immediately prior to the offering by purchasing Redeemable Partnership Units, general partner units and our units held directly or indirectly by Brookfield. Brookfield also subscribed for general partner units of Brookfield Infrastructure so that the general partner interest would remain at approximately 1%.

The Allocation Agreement contemplated that approximately 40% of the PD Ports and DBCT would be allocated to third party investors. Third party investors acquired approximately 40% of PD Ports and DBCT, while we acquired 60% of PD Ports and DBCT. We acquired PD Ports and DBCT through (or alongside) one or more Brookfield-sponsored private funds. The Allocation Agreement provided that the ownership by Bermuda Holdco, such third party investors and, if applicable, Brookfield, would be on terms substantially similar to the terms of another fund managed by Brookfield on behalf of third party investors. In particular, the Allocation Agreement provided that: (i) Bermuda Holdco benefited from the same terms as the other investors and PD Ports and DBCT; (ii) Bermuda Holdco's share of any management fees and carried interest payable to Brookfield was subject to the netting mechanisms set out in the Master Services Agreement; and (iii) fees for any advisory, development oversight, property management or other services provided by Brookfield would be borne equally by Bermuda Holdco and the other investors in PD Ports and DBCT in proportion to their relative interests.

*Prime Relationship Agreement*

Prime, Brookfield and Brookfield Infrastructure entered into a relationship agreement, or the Prime Relationship Agreement, in connection with the BBI Transaction, as specified in the implementation agreement dated October 9, 2009, or the Implementation Agreement, Brookfield was provided with certain rights in relation to the ongoing governance of Prime. The Prime Relationship Agreement provides, among other things, that the Prime board of directors, or the Prime Board, will be made up of eight directors and the responsible entity for Prime, Babcock & Brown Investor Services Limited's board of directors, or the BBIS Board, will be made of up seven directors. It is intended that at least half of each of the Prime Board and BBIS Board be comprised of independent non-executive directors. Directors nominated by Brookfield are considered independent if each of the Prime Board and BBIS Board determine that the directors satisfy the criteria of independence in the ASX Corporate Governance Principles.

The Prime Relationship Agreement provides the following rights:

- for so long as Brookfield has, directly or indirectly, a legal or beneficial interest in Prime securities on issue of (i) 10% or more, but less than 20%, Brookfield will be entitled to nominate one director to the Prime Board and BBIS Board; (ii) 20% or more, but less than 35%, Brookfield will be entitled to nominate two directors to the Prime Board and BBIS Board; or (iii) 35% or more, Brookfield will be entitled to nominate three directors to the Prime Board and BBIS Board;
- Brookfield shall have certain rights in respect of appointments to committees of the Prime Board and BBIS Board;
- a conflicts committee is to be established in respect the Prime Board and BBIS Board (comprising three independent non-executive directors, including one independent director who has been nominated by Brookfield, if any) to consider any matters that may give rise to a conflict of interest between the interests of Brookfield and the interests of Prime and BBIS;
- in the event of any change in the chief executive officer or chief financial officer of Prime, Brookfield will have an opportunity to provide its views on the replacement appointment process; and
- the Prime Relationship Agreement will terminate if Brookfield's relevant interest in Prime falls below 10% or increases to 50% or more. Brookfield also has the ability to terminate the arrangements at any time.

*Preferred Shares*

Brookfield has provided an aggregate of $20 million of working capital to our Holding Entities through a subscription for preferred shares of such Holding Entities. The preferred shares are entitled to receive a cumulative preferential dividend equal to 6% of their redemption value as and when declared by the board of directors of the applicable Holding Entity and are redeemable at the option of the Holding Entity, subject to certain limitations, at any time after the tenth anniversary of their issuance. The preferred shares are not entitled to vote, except as required by law.

*Redemption-Exchange Mechanism*

One or more wholly-owned subsidiaries of Brookfield Asset Management that hold Redeemable Partnership Units (as hereinafter defined) have the right to require Brookfield Infrastructure to redeem all or a portion of the Redeemable Partnership Units, subject to our partnership's right of first refusal, for cash in an amount equal to the market value of one of our units multiplied by the number of units to be redeemed (subject to certain adjustments). See Item 10.B "Memorandum and Articles of

Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism." Taken together, the effect of the redemption right and the right of first refusal is that one or more wholly-owned subsidiaries of Brookfield will receive our units, or the value of such units, at the election of our partnership. Should our partnership determine not to exercise its right of first refusal, cash required to fund a redemption of limited partnership interests of Brookfield Infrastructure held by wholly-owned subsidiaries of Brookfield will likely be financed by a public offering of our units.

*Registration Rights Agreement*

Our partnership has entered into a registration rights agreement with Brookfield pursuant to which our partnership has agreed that, upon the request of Brookfield, our partnership will file one or more registration statements to register for sale under the United States Securities Act of 1933, as amended, any of our partnership's units held by Brookfield (including our units acquired pursuant to the Redemption-Exchange Mechanism). In the registration rights agreement we have agreed to pay expenses in connection with such registration and sales and have indemnified Brookfield for material misstatements or omissions in the registration statement.

*Incentive Distributions*

Infrastructure GP LP is entitled to receive incentive distributions from Brookfield Infrastructure as a result of its ownership of the general partnership interest in Brookfield Infrastructure. The incentive distributions are to be calculated in increments based on the amount by which quarterly distributions on the limited partnership units of Brookfield Infrastructure exceed specified target levels as set forth in Brookfield Infrastructure's limited partnership agreement. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Distributions."

The Infrastructure GP LP may, at its sole discretion, elect to reinvest incentive distributions in exchange for Redeemable Partnership Units.

To the extent that any Holding Entity or any operating entity pays to Brookfield any comparable performance or incentive distribution, the amount of any future incentive distributions will be reduced in an equitable manner to avoid duplication of distributions.

For example, in conjunction with the consortium arrangements in respect of our Canadian timber operations and our Chilean transmission operations, we pay to Brookfield our pro-rata share of base management fees paid by each of the respective consortiums and, in the case of our Canadian timber operations, our pro-rata share of performance fees. Pursuant to the Master Services Agreement, the base management fees paid pursuant to the consortium arrangements are creditable against the management fee payable under the Master Services Agreement and, in the case of the performance fees paid pursuant to the consortium arrangements in respect of the Canadian timber operations, such performance fees reduce incentive distributions to which Brookfield would otherwise be entitled from Brookfield Infrastructure pursuant to Brookfield Infrastructure's limited partnership agreement. See Item 6.A "Directors and Senior Management—Our Master Services Agreement."

In addition, until June 30, 2009 operations, maintenance and corporate services were provided to Ontario Transmission by Brookfield on an outsourced—cost recovery basis, with such costs being recoverable under the regulated revenue requirement of this operation.

*General Partner Distributions*

Pursuant to our limited partnership agreement, the Managing General Partner is entitled to receive a general partner distribution equal to 0.01% of the total distributions of our partnership. See Item 10.B "Memorandum and Articles of Association—Description of Our Units and Our Limited Partnership Agreement."

Pursuant to the limited partnership agreement of Brookfield Infrastructure, Infrastructure GP LP is entitled to receive a general partner distribution from Brookfield Infrastructure equal to a share of the total distributions of Brookfield Infrastructure in proportion to the Infrastructure GP LP's percentage interest in Brookfield Infrastructure which, immediately following the spin-off, was equal to 1% of the total distributions of Brookfield Infrastructure. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Distributions." In addition, it is entitled to receive the incentive distributions described above under "—Incentive Distribution."

*Distribution Reinvestment Plan*

Brookfield Infrastructure has a distribution reinvestment plan. Brookfield has advised our partnership that it may from time-to-time reinvest distributions it receives from Brookfield Infrastructure in Brookfield Infrastructure's distribution reinvestment plan. In addition, subject to regulatory approval and U.S. securities law registration requirements, our partnership intends to adopt a distribution reinvestment plan. While our partnership has not yet implemented a distribution reinvestment plan, the following is a summary description of the principal terms of the plan our partnership intends to implement.

Pursuant to the distribution reinvestment plan, holders of our units will be able to elect to have all distributions paid on our units held by them automatically reinvested in additional units in accordance with the terms of the distribution reinvestment plan, provided that there are not any laws or governmental regulations in the unitholder's jurisdiction that may limit or prohibit participation. Distributions to be reinvested in our units under the distribution reinvestment plan will be reduced by the amount of any applicable withholding tax.

Distributions due to plan participants will be paid to the plan agent, for the benefit of the plan participants and, if a plan participant has elected to have his or her distributions automatically reinvested, applied, on behalf of such plan participant, to the purchase of additional units. Such purchases will be made from our partnership on the distribution date at a price per unit calculated by reference to the volume weighted average of the trading price for our units on the New York Stock Exchange, or NYSE, for the five trading days immediately preceding the date the relevant distribution is paid by our partnership.

The units so purchased will be allocated on a pro rata basis to plan participants. The plan agent will furnish to each plan participant a report of the units purchased for the plan participant's account in respect of each distribution and the cumulative total purchased for that account. While our partnership will not issue fractional units, a plan participant's pro rata entitlement to units purchased under the distribution reinvestment plan may include a fraction of a unit and such fractional units shall accumulate. A cash adjustment for any fractional units will be paid by the plan agent upon the withdrawal from or termination by a plan participant of his or her participation in the distribution reinvestment plan or upon termination of the distribution reinvestment plan at price per unit calculated based upon the closing price of our units on the NYSE on the trading day immediately preceding such withdrawal or termination. A registered holder may, at any time, obtain unit certificates for any number of whole units held for the participant's account under the distribution reinvestment plan by notifying the plan agent. Certificates for units acquired under the distribution reinvestment plan will not be issued to participants unless specifically requested. Prior to pledging, selling or otherwise transferring units held for a participant's account (except for sale of units through the plan agent), a registered holder must request that his or her units be electronically transferred to his or her brokerage account or a unit certificate be issued. The automatic reinvestment of distributions under the distribution reinvestment plan will not relieve participants of any income tax obligations applicable to such distributions. No brokerage commissions will be payable in connection with the purchase of our units under the distribution reinvestment plan and all administrative costs will be borne by our partnership.

Unitholders will be able to terminate their participation in the distribution reinvestment plan by providing, or by causing to be provided, notice to the plan agent. Such notice, if actually received by the plan agent no later than 5 business days prior to a record date, will have effect in respect of the distribution to be made as of such date. Thereafter, distributions to such unitholders will be in cash. In addition, unitholders may request that all or part of their units be sold. When units are sold through the plan agent, a holder will receive the proceeds less a handling charge and any brokerage trading fees. Our partnership will be able to terminate the distribution reinvestment plan, in its sole discretion, upon notice to the plan participants and the plan agent, but such action will have no retroactive effect that would prejudice a participant's interest. Our partnership will also be able to amend, modify or suspend the distribution reinvestment plan at any time in its sole discretion, provided that the plan agent gives written notice of that amendment, modification or suspension to our unitholders, for any amendment, modification or suspension to the distribution reinvestment plan that in our partnership's opinion may materially prejudice participants.

Our partnership does not intend to reinvest distributions it receives from Brookfield Infrastructure in Brookfield Infrastructure's distribution reinvestment plan except to the extent that holders of our units elect to reinvest distributions pursuant to our distribution reinvestment plan. Brookfield has advised our partnership that it may from time-to-time reinvest distributions it receives from Brookfield Infrastructure pursuant to Brookfield Infrastructure's distribution reinvestment plan. The units of Brookfield Infrastructure to be issued to Brookfield under the distribution reinvestment plan will become subject to the Redemption-Exchange Mechanism and may therefore result in Brookfield acquiring additional units of our partnership. See Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Redemption-Exchange Mechanism."

*Indemnification Arrangements*

Subject to certain limitations, Brookfield and its directors, officers, agents, members, partners, shareholders and employees generally benefit from indemnification provisions and limitations on liability that are included in our limited partnership agreement, our Managing General Partner's By-laws, Brookfield Infrastructure's limited partnership agreement, our Master Services Agreement and other arrangements with Brookfield. See Item 6.A "Directors and Senior Management—Our Master Services Agreement," Item 10.B "Memorandum and Articles of Association—Description of Our Units and Our Limited Partnership Agreement—Indemnification; Limitations of Liability" and Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement—Indemnification; Limitations of Liability."

*Licensing Agreement*

Our partnership and Brookfield Infrastructure have each entered into a licensing agreement with Brookfield pursuant to which Brookfield has granted a non-exclusive, royalty-free license to use the name "Brookfield" and the Brookfield logo. Other than under this limited license, we do not have a legal right to the "Brookfield" name and the Brookfield logo in the United States and Canada.

We will be permitted to terminate the licensing agreement upon 30 days' prior written notice if Brookfield defaults in the performance of any material term, condition or agreement contained in the agreement and the default continues for a period of 30 days after written notice of termination of the breach is given to Brookfield. Brookfield may terminate the licensing agreement effective immediately upon termination of our Master Services Agreement or with respect to any licensee upon 30 days' prior written notice of termination if any of the following occurs:

- the licensee defaults in the performance of any material term, condition or agreement contained in the agreement and the default continues for a period of 30 days after written notice of termination of the breach is given to the licensee;
- the licensee assigns, sublicenses, pledges, mortgages or otherwise encumbers the intellectual property rights granted to it pursuant to the licensing agreement;
- certain events relating to a bankruptcy or insolvency of the licensee; or
- the licensee ceases to be an affiliate of Brookfield.

A termination of the licensing agreement with respect to one or more licensee will not affect the validity or enforceability of the agreement with respect to any other licensees.

*Conflicts of Interest and Fiduciary Duties*

Our organizational and ownership structure and strategy involve a number of relationships that may give rise to conflicts of interest between our partnership and our unitholders, on the one hand, and Brookfield, on the other hand. In particular, conflicts of interest could arise, among other reasons, because:

- in originating and recommending acquisition opportunities, Brookfield has significant discretion to determine the suitability of opportunities for us and to allocate such opportunities to us or to itself or third parties;
- because of the scale of typical infrastructure acquisitions and because our strategy includes completing acquisitions through consortium or partnership arrangements with pension funds and other financial sponsors, we will likely make co-investments with Brookfield and Brookfield sponsored funds or Brookfield sponsored or co-sponsored consortiums and partnerships, which typically will require that Brookfield owe fiduciary duties to the other partners or consortium members that it does not owe to us;
- there may be circumstances where Brookfield will determine that an acquisition opportunity is not suitable for us because of limits arising due to regulatory or tax considerations or limits on our financial capacity or because of the immaturity of the target assets or the fit with our acquisition strategy and Brookfield is entitled to pursue the acquisition on its own behalf rather than offering us the opportunity to make the acquisition and, as a result, Brookfield may initially or ultimately make the acquisition;
- where Brookfield has made an acquisition, it may transfer it to us at a later date after the assets have been developed or we have obtained sufficient financing;
- our relationship with Brookfield involves a number of arrangements pursuant to which Brookfield provides various services and access to financing arrangements and acquisition opportunities, and circumstances may arise in which these arrangements will need to be amended or new arrangements will need to be entered into;
- our arrangements with Brookfield were negotiated in the context of the spin-off, which may have resulted in those arrangements containing terms that are less favorable than those which otherwise might have been obtained from unrelated parties;

- under Brookfield Infrastructure's limited partnership agreement and the agreements governing the operating entities, Brookfield is generally entitled to share in the returns generated by our operations, which could create an incentive for it to assume greater risks when making decisions than they otherwise would in the absence of such arrangements;
- Brookfield is permitted to pursue other business activities and provide services to third parties that compete directly with our business and activities without providing us with an opportunity to participate, which could result in the allocation of Brookfield's resources, personnel and acquisition opportunities to others who compete with us;
- Brookfield does not owe our partnership or our unitholders any fiduciary duties, which may limit our recourse against it; and
- the liability of Brookfield is limited under our arrangements with them, and we have agreed to indemnify Brookfield against claims, liabilities, losses, damages, costs or expenses which they may face in connection with those arrangements, which may lead them to assume greater risks when making decisions than they otherwise would if such decisions were being made solely for their own account, or may give rise to legal claims for indemnification that are adverse to the interests of our unitholders.

With respect to transactions in which there is greater potential for a conflict of interest to arise, our Managing General Partner may be required to seek the prior approval of a majority of the independent directors pursuant to conflict of interest guidelines that have been approved by a majority of the independent directors. These transactions include (i) the dissolution of our partnership; (ii) any material amendment to the Master Services Agreement, the equity commitment, our limited partnership agreement or Brookfield Infrastructure's limited partnership agreement; (iii) any material service agreement or other arrangement pursuant to which Brookfield will be paid a fee, or other consideration other than any agreement or arrangement contemplated by the Master Services Agreement; (iv) any calls by Brookfield Infrastructure or our partnership on the equity commitment; (v) acquisitions by us from, and dispositions by us to, Brookfield; (vi) any other transaction involving Brookfield; and (vii) termination of, or any determinations regarding indemnification under, the Master Services Agreement. Pursuant to our conflicts policy, independent directors may grant prior approvals for any of these transactions in the form of general guidelines, policies or procedures in which case no further special approval will be required in connection with a particular transaction or matter permitted thereby. In certain circumstances, these transactions may be related party transactions for the purposes of, and subject to certain requirements of Multilateral Instrument 61-101—Protection of Minority Security Holders in Special Transactions, or MI 61-101, which in some situations requires minority shareholder approval and/or valuation for transactions with related parties. An exemption from such requirements is available when the fair market value of the transaction is not more than 25% of the market capitalization of the issuer. Our partnership has been granted exemptive relief from the requirements of MI 61-101 that, subject to certain conditions, would permit it to be exempt from the minority approval and valuation requirements for transactions that would have a value of less than 25% of our partnership's market capitalization if Brookfield's indirect equity interest in our partnership was included in the calculation of our partnership's market capitalization. As a result, the 25% threshold above which the minority approval and valuation requirements would apply would be increased to include the approximately 40% indirect interest in our partnership held by Brookfield.

We maintain a conflicts policy to assist in the resolution of these potential or actual conflicts which states that conflicts be resolved based on the principles of transparency, independent validation and approvals. The policy recognizes the benefit to us of our relationship with Brookfield and our intent to pursue a strategy that seeks to maximize the benefits from this relationship. The policy also recognizes that the principal areas of potential application of the policy on an ongoing basis will be in connection with our acquisitions and our participation in Brookfield led consortia and partnership arrangements, together with any management or service arrangements entered into in connection therewith or the ongoing operations of the underlying operating entities.

In general, the policy provides that acquisitions that are carried out jointly by us and Brookfield, or in the context of a Brookfield led or co-led consortium or partnership be carried out on the basis that the consideration paid by us be no more, on a per share or proportionate basis, than the consideration paid by Brookfield or other participants, as applicable. The policy also provides that any fees or carried interest payable in respect of our proportionate investment, or in respect of an acquisition made solely by us, must be credited in the manner contemplated by our Master Services Agreement and Brookfield Infrastructure's limited partnership agreement, where applicable, or that such fees or carried interest must either have been negotiated with another arm's length participant or otherwise demonstrated to be on market terms. The policy further provides that if the acquisition involves the purchase by us of an asset from Brookfield, or the participation in a transaction involving the purchase by us and Brookfield of different assets, that a fairness opinion or, in some circumstances, a valuation or appraisal by a qualified expert be obtained. These requirements provided for in the conflicts policy are in addition to any disclosure, approval and valuation requirements that may arise under applicable law.

Our limited partnership agreement and the limited partnership agreement of Brookfield Infrastructure contain various provisions that modify the fiduciary duties that might otherwise be owed to us and our unitholders. These duties include the duties of care and loyalty. The duty of loyalty, in the absence of provisions in the limited partnership agreements of our partnership and Brookfield Infrastructure to the contrary, would generally prohibit the Managing General Partner and Infrastructure General Partner from taking any action or engaging in any transaction as to which it has a conflict of interest. The limited partnership agreements of our partnership and Brookfield Infrastructure each prohibit the limited partners from advancing claims that otherwise might raise issues as to compliance with fiduciary duties or applicable law. For example, the agreements provide that our Managing General Partner, the Infrastructure General Partner and their affiliates will not have any obligation under the limited partnership agreements of our partnership or Brookfield Infrastructure, or as a result of any duties stated or implied by law or equity, including fiduciary duties, to present business or investment opportunities to our partnership, Brookfield Infrastructure, any Holding Entity or any other holding vehicle established by our partnership. They also allow affiliates of the Managing General Partner and Infrastructure General Partner to engage in activities that may compete with us or our activities. In addition, the agreements permit our Managing General Partner and the Infrastructure General Partner to take into account the interests of third parties, including Brookfield, when resolving conflicts of interest.

These modifications to the fiduciary duties are detrimental to our unitholders because they restrict the remedies available for actions that might otherwise constitute a breach of fiduciary duty and permit conflicts of interest to be resolved in a manner that is not always in the best interests of our partnership or the best interests of our unitholders. We believe it is necessary to modify the fiduciary duties that might otherwise be owed to us and our unitholders, as described above, due to our organizational and ownership structure and the potential conflicts of interest created thereby. Without modifying those duties, the ability of our Managing General Partner and the Infrastructure General Partner to attract and retain experienced and capable directors and to take actions that we believe will be necessary for the carrying out of our business would be unduly limited due to their concern about potential liability.

## 7.C INTEREST OF EXPERTS AND COUNSEL

Not applicable.

# ITEM 8. FINANCIAL INFORMATION

## 8.A CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Please see Item 18 below for additional information required to be disclosed under this Item.

## 8.B SIGNIFICANT CHANGES

Please see Item 3 “Key Information,” Item 4 “Information on the Company,” Item 5 “Operating and Financial Review and Prospects” for additional information.

# ITEM 9. THE OFFER AND LISTING

## 9.A PRICING HISTORY

The following table sets forth the annual high and low prices for our units on the NYSE for the periods indicated since the date of listing on January 31, 2008:

| | High | Low |
|---|---|---|
| Year Ended December 31, 2008 | $21.60 | $ 9.47 |
| Year Ended December 31, 2009 | $18.64 | $ 7.15 |

The following table sets forth the quarterly high and low prices for our units on the NYSE for the periods indicated since the date of listing on January 31, 2008:

| | High | Low |
|---|---|---|
| January 31, 2008 to March 31, 2008 | $21.60 | $14.60 |
| April 1, 2008 to June 30, 2008 | $21.00 | $16.95 |
| July 1, 2008 to September 30, 2008 | $19.81 | $15.00 |
| October 1, 2008 to December 31, 2008 | $16.55 | $ 9.47 |
| January 1, 2009 to March 31, 2009 | $15.00 | $ 7.15 |
| April 1, 2009 to June 30, 2009 | $14.37 | $11.51 |
| July 1, 2009 to September 30, 2009 | $18.64 | $11.30 |
| October 1, 2009 to December 31, 2009 | $18.45 | $14.26 |
| January 1, 2010 to March 31, 2010 | $18.50 | $15.85 |

The following table sets forth the monthly high and low prices for our units on the NYSE for the most recent six months:

| | High | Low |
|---|---|---|
| November 1, 2009 to November 30, 2009 | $16.27 | $14.39 |
| December 1, 2009 to December 31, 2009 | $17.35 | $15.28 |
| January 1, 2010 to January 31, 2010 | $17.27 | $15.90 |
| February 1, 2010 to February 28, 2010 | $17.12 | $15.85 |
| March 1, 2010 to March 31, 2010 | $18.50 | $16.46 |
| April 1, 2010 to April 30, 2010 | $18.66 | $17.45 |
| May 1, 2010 to May 28, 2010 | $17.82 | $14.95 |

The following table sets forth the annual high and low prices for our units on the Toronto Stock Exchange, or TSX, for the periods indicated since the date of listing on September 10, 2009, in Canadian dollars:

| | High | Low |
|---|---|---|
| September 10, 2009 to December 31, 2009 | $19.50 | $15.50 |

The following table sets forth the quarterly high and low prices for our units on the TSX for the periods indicated since the date of listing on September 10, 2009, in Canadian dollars:

| | High | Low |
|---|---|---|
| September 10, 2009 to September 30, 2009 | $19.50 | $17.00 |
| October 1, 2009 to December 31, 2009 | $19.50 | $15.50 |
| January 1, 2010 to March 31, 2010 | $18.80 | $17.00 |

The following table sets forth the monthly high and low prices for our units on the TSX for the most recent six months, in Canadian dollars:

| | High | Low |
|---|---|---|
| November 1, 2009 to November 30, 2009 | $17.05 | $15.53 |
| December 1, 2009 to December 31, 2009 | $18.00 | $16.06 |
| January 1, 2010 to January 31, 2010 | $18.05 | $17.00 |
| February 1, 2010 to February 28, 2010 | $17.90 | $17.01 |
| March 1, 2010 to March 31, 2010 | $18.80 | $17.20 |
| April 1, 2010 to April 30, 2010 | $18.60 | $17.58 |
| May 1, 2010 to May 31, 2010 | $18.16 | $16.12 |

### 9.B PLAN OF DISTRIBUTION

Not applicable.

### 9.C MARKET

Our units are listed on the NYSE under the symbol "BIP" and on the Toronto Stock Exchange, or TSX, under the symbol "BIP.UN".

### 9.D SELLING SHAREHOLDERS

Not applicable.

### 9.E DILUTION

Not applicable.

### 9.F EXPENSES OF THE ISSUE

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### 10.A SHARE CAPITAL

Not applicable.

## 10.B MEMORANDUM AND ARTICLES OF ASSOCIATION

## DESCRIPTION OF OUR UNITS AND OUR LIMITED PARTNERSHIP AGREEMENT

The following is a description of the material terms of our units and our limited partnership agreement, as amended, and is qualified in its entirety by reference to all of the provisions of our limited partnership agreement. Because this description is only a summary of the terms of our units and our limited partnership agreement, it does not contain all of the information that you may find useful. For more complete information, you should read the limited partnership agreement which is available electronically on the website of the Securities and Exchange Commission at www.sec.gov and our SEDAR profile at www.sedar.com and will be made available to our holders as described under Item 10.C "Material Contracts" and Item 10.H "Documents on display."

See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risk Relating to Our Relationship with Brookfield," Item 6.C "Board Practices," Item 6.A "Directors and Senior Management" and Item 7.B "Related Party Transactions."

*Formation and Duration*

Our partnership is a Bermuda exempted limited partnership registered under the Limited Partnership Act 1883 and the Exempted Partnerships Act 1992. Our partnership has a perpetual existence and will continue as a limited liability partnership unless our partnership is terminated or dissolved in accordance with our limited partnership agreement. Our partnership interests consist of our units, which represent limited partnership interests in our partnership, and any additional partnership interests representing limited partnership interests that we may issue in the future as described below under "—Issuance of Additional Partnership Interests." In this description, references to "holders of our partnership interests" and our "unitholders" are to our limited partners and references to our limited partners include holders of our units.

*Nature and Purpose*

Under section 2.2 of our limited partnership agreement, the purpose of our partnership is to: acquire and hold interests in Brookfield Infrastructure and, subject to the approval of the Managing General Partner, any other subsidiary of our partnership; engage in any activity related to the capitalization and financing of our partnership's interests in such entities; and engage in any other activity that is incidental to or in furtherance of the foregoing and that is approved by our Managing General Partner and that lawfully may be conducted by a limited partnership organized under the Limited Partnership Act 1883 and our limited partnership agreement.

*Our Units*

Our units are limited partnership interests in our partnership. Holders of our units are not entitled to the withdrawal or return of capital contributions in respect of our units, except to the extent, if any, that distributions are made to such holders pursuant to our limited partnership agreement or upon the liquidation of our partnership as described below under "—Liquidation and Distribution of Proceeds" or as otherwise required by applicable law. Except to the extent expressly provided in our limited partnership agreement, a holder of our units does not have priority over any other holder of our units, either as to the return of capital contributions or as to profits, losses or distributions. Holders of our units will not be granted any preemptive or other similar right to acquire additional interests in our partnership. In addition, holders of our units do not have any right to have their units redeemed by our partnership.

*Issuance of Additional Partnership Interests*

Our Managing General Partner has broad rights to cause our partnership to issue additional partnership interests and may cause our partnership to issue additional partnership interests (including new classes of partnership interests and options, rights, warrants and appreciation rights relating to such interests) for any partnership purpose, at any time and on such terms and conditions as it may determine without the approval of any limited partners. Any additional partnership interests may be issued in one or more classes, or one or more series of classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of partnership interests) as may be determined by our Managing General Partner in its sole discretion, all without approval of our limited partners.

*Investments in Brookfield Infrastructure*

If and to the extent that our partnership raises funds by way of the issuance of equity or debt securities, or otherwise, pursuant to a public offering, private placement or otherwise, an amount equal to the proceeds will be invested in Brookfield Infrastructure.

*Capital Contributions*

Brookfield and the Managing General Partner each contributed $1 to the capital of our partnership in order to form our partnership. Thereafter, Brookfield contributed to our partnership limited partnership interests of Brookfield Infrastructure in exchange for Redeemable Partnership Units and our units, the latter of which was distributed by Brookfield Asset Management in the spin off.

*Distributions*

Distributions to partners of our partnership will be made only as determined by the Managing General Partner in its sole discretion. However, the Managing General Partner will not be permitted to cause our partnership to make a distribution if it does not have sufficient cash on hand to make the distribution, the distribution would render it insolvent or if, in the opinion of the Managing General Partner, the distribution would leave it with insufficient funds to meet any future contingent obligations.

Any distributions from our partnership will be made to the limited partners as to 99.99% and to the Managing General Partner as to 0.01%. Each limited partner will receive a pro rata share of distributions made to all limited partners in accordance with the proportion of all outstanding units held by that limited partner. See Item 8.A "Consolidated Statements and Other Financial Information."

*Allocations of Income and Losses*

Net income and net loss for U.S. federal income tax purposes will be allocated for each taxable year among our partners using a monthly, quarterly or other permissible convention pro rata on a per unit basis, except to the extent otherwise required by law or pursuant to tax elections made by our partnership. The source and character of items of income and loss so allocated to a partner of our partnership will be the same source and character as the income earned or loss incurred by our partnership.

The income for Canadian federal income tax purposes of our partnership for a given fiscal year of our partnership will be allocated to each partner in an amount calculated by multiplying such income by a fraction, the numerator of which is the sum of the distributions received by such partner with respect to such fiscal year and the denominator of which is the aggregate amount of the distributions made by our partnership to partners with respect to such fiscal year. Generally, the source and character of items of income so allocated to a partner with respect to a fiscal year of our partnership will be the same source and character as the distributions received by such partner with respect to such fiscal year.

If, with respect to a given fiscal year, no distribution is made by our partnership or our partnership has a loss for Canadian federal income tax purposes, one quarter of the income, or loss, as the case may be, for Canadian federal income tax purposes of our partnership for such fiscal year, will be allocated to the partners of record at the end of each calendar quarter ending in such fiscal year pro rata to their respective percentage interests in our partnership, which in the case of the Managing General Partner shall mean 0.01%, and in the case of all limited partners of our partnership shall mean in the aggregate 99.99%, which aggregate percentage interest shall be allocated among the limited partners in the proportion that the number of limited partnership units held at each such date by a limited partner is of the total number of limited partnership units issued and outstanding at each such date. Generally, the source and character of such income or losses so allocated to a partner at the end of each calendar quarter will be the same source and character as the income or loss earned or incurred by our partnership in such calendar quarter.

*Limited Liability*

Assuming that a limited partner does not participate in the control or management of our partnership or conduct the affairs of, sign or execute documents for or otherwise bind our partnership within the meaning of the Limited Partnership Act 1883 and otherwise acts in conformity with the provisions of our limited partnership agreement, such partner's liability under the Limited Partnership Act 1883 and our limited partnership agreement will be limited to the amount of capital such partner is obligated to contribute to our partnership for its limited partner interest plus its share of any undistributed profits and assets, except as described below.

If it were determined, however, that a limited partner was participating in the control or management of our partnership or conducting the affairs of, signing or executing documents for or otherwise binding our partnership (or purporting to do any of the foregoing) within the meaning of the Limited Partnership Act 1883 or the Exempted Partnerships Act 1992, such limited partner would be liable as if it were a general partner of our partnership in respect of all debts of our partnership incurred while that limited partner was so acting or purporting to act. Neither our limited partnership agreement nor the Limited Partnership Act 1883 specifically provides for legal recourse against our Managing General Partner if a limited partner were to lose limited liability through any fault of our Managing General Partner. While this does not mean that a limited partner could not seek legal recourse, we are not aware of any precedent for such a claim in Bermuda case law.

*No Management or Control*

Our partnership's limited partners, in their capacities as such, may not take part in the management or control of the activities and affairs of our partnership and do not have any right or authority to act for or to bind our partnership or to take part or interfere in the conduct or management of our partnership. Limited partners are not entitled to vote on matters relating to our partnership, although holders of units are entitled to consent to certain matters as described under "—Amendment of Our Limited Partnership Agreement," "—Opinion of Counsel and Limited Partner Approval," "—Merger, Sale or Other Disposition of Assets," and "—Withdrawal of Our Managing General Partner" which may be effected only with the consent of the holders of the percentages of our outstanding units specified below. Each unit shall entitle the holder thereof to one vote for the purposes of any approvals of holders of units.

*Meetings*

Our Managing General Partner may call special meetings of partners at a time and place outside of Canada determined by our Managing General Partner on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. The limited partners do not have the ability to call a special meeting. Only holders of record on the date set by our Managing General Partner (which may not be less than 10 days nor more than 60 days, before the meeting) are entitled to notice of any meeting.

Written consents may be solicited only by or on behalf of our Managing General Partner. Any such consent solicitation may specify that any written consents must be returned to our partnership within the time period, which may not be less than 20 days, specified by our Managing General Partner.

For purposes of determining holders of partnership interests entitled to provide consents to any action described above, our Managing General Partner may set a record date, which may be not less than 10 nor more than 60 days before the date by which record holders are requested in writing by our Managing General Partner to provide such consents. Only those holders of partnership interests on the record date established by our Managing General Partner will be entitled to provide consents with respect to matters as to which a consent right applies.

*Amendment of Our Limited Partnership Agreement*

Amendments to our limited partnership agreement may be proposed only by or with the consent of our Managing General Partner. To adopt a proposed amendment, other than the amendments that do not require limited partner approval discussed below, our Managing General Partner must seek approval of a majority of our outstanding units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment.

*Prohibited Amendments*

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, except that any amendment that would have a material adverse effect on the rights or preferences of any class of partnership interests in relation to other classes of partnership interests may be approved by at least a majority of the type or class of partnership interests so affected, or
- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by our partnership to our Managing General Partner or any of its affiliates without the consent of our Managing General Partner, which may be given or withheld in its sole discretion.

The provision of our limited partnership agreement preventing the amendments having the effects described directly above can be amended upon the approval of the holders of at least 90% of the outstanding units.

*No Limited Partner Approval*

Subject to applicable law, our Managing General Partner may generally make amendments to our limited partnership agreement without the approval of any limited partner to reflect:

- a change in the name of our partnership, the location of our partnership's registered office, or our partnership's registered agent,
- the admission, substitution or withdrawal of partners in accordance with our limited partnership agreement,

- a change that our Managing General Partner determines is necessary or appropriate for our partnership to qualify or to continue our partnership's qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any jurisdiction or to ensure that our partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for tax purposes,
- an amendment that our Managing General Partner determines to be necessary or appropriate to address certain changes in tax regulations, legislation or interpretation,
- an amendment that is necessary, in the opinion of our counsel, to prevent our partnership or our Managing General Partner or its directors, officers, agents or trustees, from having a material risk of being in any manner being subjected to the provisions of the U.S. Investment Company Act or similar legislation in other jurisdictions,
- an amendment that our Managing General Partner determines in its sole discretion to be necessary or appropriate for the creation, authorization or issuance of any class or series of partnership interests or options, rights, warrants or appreciation rights relating to partnership securities,
- any amendment expressly permitted in our limited partnership agreement to be made by our Managing General Partner acting alone,
- an amendment effected, necessitated or contemplated by an agreement of merger, consolidation or other combination agreement that has been approved under the terms of our limited partnership agreement,
- any amendment that in the sole discretion of our Managing General Partner is necessary or appropriate to reflect and account for the formation by our partnership of, or its investment in, any corporation, partnership, joint venture, limited liability company or other entity, as otherwise permitted by our limited partnership agreement,
- a change in our partnership's fiscal year and related changes, or
- any other amendments substantially similar to any of the matters described directly above.

In addition, our Managing General Partner may make amendments to our limited partnership agreement without the approval of any limited partner if those amendments, in the discretion of our Managing General Partner:

- do not adversely affect our partnership's limited partners considered as a whole (including any particular class of partnership interests as compared to other classes of partnership interests) in any material respect,
- are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any governmental agency or judicial authority,
- are necessary or appropriate to facilitate the trading of our units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which our units are or will be listed for trading,
- are necessary or appropriate for any action taken by our Managing General Partner relating to splits or combinations of units under the provisions of our limited partnership agreement, or
- are required to effect the intent expressed in this Form 20-F or the intent of the provisions of our limited partnership agreement or are otherwise contemplated by our limited partnership agreement.

*Opinion of Counsel and Limited Partner Approval*

Our Managing General Partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners if one of the amendments described above under "—No Limited Partner Approval" should occur. No other amendments to our limited partnership agreement (other than an amendment pursuant to a merger, sale or other disposition of assets effected in accordance with the provisions described under "—Merger, Sale or Other Disposition of Assets") will become effective without the approval of holders of at least 90% of our units, unless our partnership obtains an opinion of counsel to the effect that the amendment will not cause our partnership to be treated as an association taxable as a corporation or otherwise taxable as an entity for tax purposes (provided that for U.S. tax purposes our Managing General Partner has not made the election described below under "—Election to be Treated as a Corporation") or affect the limited liability under the Limited Partnership Act of 1883 of any of our partnership's limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of partnership interests in relation to other classes of partnership interests will also require the approval of the holders of at least a majority of the outstanding partnership interests of the class so affected.

In addition, any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners whose aggregate outstanding voting units constitute not less than the voting requirement sought to be reduced.

*Merger, Sale or Other Disposition of Assets*

Any merger, consolidation or other combination of our partnership requires the prior approval of our Managing General Partner who has no duty or obligation to provide any such approval. Our limited partnership agreement generally prohibits our Managing General Partner, without the prior approval of the holders of a majority of our units, from causing our partnership to, among other things, sell, exchange or otherwise dispose of all or substantially all of our partnership's assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our partnership's behalf the sale, exchange or other disposition of all or substantially all of the assets of our partnership's subsidiaries. However, our Managing General Partner in its sole discretion may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our partnership's assets (including for the benefit of persons other than our partnership or our partnership's subsidiaries) without that approval. Our Managing General Partner may also sell all or substantially all of our partnership's assets under any forced sale of any or all of our partnership's assets pursuant to the foreclosure or other realization upon those encumbrances without that approval.

If conditions specified in our limited partnership agreement are satisfied, our Managing General Partner may convert or merge our partnership into, or convey some or all of our partnership's assets to, a newly formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our partnership's legal form into another limited liability entity. Holders of partnership interests are not entitled to dissenters' rights of appraisal under our limited partnership agreement or the Limited Partnership Act 1883 or the Exempted Partnerships Act 1992 in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

*Election to be Treated as a Corporation*

If our Managing General Partner determines that it is no longer in our partnership's best interests to continue as a partnership for U.S. federal income tax purposes, our Managing General Partner may elect to treat our partnership as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes.

*Termination and Dissolution*

Our partnership will terminate upon the earlier to occur of (i) the date on which all of our partnership's assets have been disposed of or otherwise realized by our partnership and the proceeds of such disposals or realizations have been distributed to partners, (ii) the service of notice by our Managing General Partner, with the special approval of a majority of its independent directors, that in its opinion the coming into force of any law, regulation or binding authority has or will render illegal or impracticable the continuation of our partnership, and (iii) at the election of our Managing General Partner, if our partnership, as determined by the Managing General Partner, is required to register as an "investment company" under the U.S. Investment Company Act or similar legislation in other jurisdictions.

Our partnership will be dissolved upon the withdrawal of our Managing General Partner as the general partner of our partnership (unless Brookfield becomes the general partner as described in the following sentence or the withdrawal is effected in compliance with the provisions of our limited partnership agreement that are described below under "—Withdrawal of Our Managing General Partner") or the entry by a court of competent jurisdiction of a decree of judicial dissolution of our partnership or an order to wind up or liquidate our Managing General Partner. Our partnership will be reconstituted and continue without dissolution if within 30 days of the date of dissolution (and so long as a notice of dissolution has not been filed with the Bermuda Monetary Authority), Brookfield executes a transfer deed pursuant to which it becomes the general partner and assumes the rights and undertakes the obligations of the general partner and our partnership receives an opinion of counsel that the admission of Brookfield as general partner will not result in the loss of the limited liability of any limited partner.

*Liquidation and Distribution of Proceeds*

Upon our dissolution, unless our partnership is continued as a new limited partnership, the liquidator authorized to wind up our partnership's affairs will, acting with all of the powers of our Managing General Partner that the liquidator deems necessary or appropriate in its judgment, liquidate our partnership's assets and apply the proceeds of the liquidation first, to discharge our partnership's liabilities as provided in our limited partnership agreement and by law and thereafter to the partners pro rata according to the percentages of their respective partnership interests as of a record date selected by the liquidator. The liquidator may defer liquidation of our partnership's assets for a reasonable period of time or distribute assets to partners in kind if it determines that an immediate sale or distribution of all or some of our partnership's assets would be impractical or would cause undue loss to the partners.

*Withdrawal of Our Managing General Partner*

Our Managing General Partner may withdraw as Managing General Partner without first obtaining approval of our unitholders by giving 90 days' advance notice, and that withdrawal will not constitute a violation of our limited partnership agreement.

Upon the withdrawal of our Managing General Partner, the holders of a majority of the voting power of our outstanding units may select a successor to that withdrawing Managing General Partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability, tax matters and the U.S. Investment Company Act (and similar legislation in other jurisdictions) cannot be obtained, our partnership will be dissolved, wound up and liquidated. See "—Termination and Dissolution" above.

In the event of withdrawal of a general partner where that withdrawal violates our limited partnership agreement, a successor general partner will have the option to purchase the general partnership interest of the departing general partner for a cash payment equal to its fair market value. Under all other circumstances where a general partner withdraws, the departing general partner will have the option to require the successor general partner to purchase the general partnership interest of the departing general partner for a cash payment equal to its fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached within 30 days of the general partner's departure, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree upon an expert within 45 days of the general partner's departure, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partnership interests will automatically convert into units pursuant to a valuation of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

*Transfer of the General Partnership Interest*

Our Managing General Partner may transfer all or any part of its general partnership interests without first obtaining approval of any unitholder. As a condition of this transfer, the transferee must assume the rights and duties of the Managing General Partner to whose interest that transferee has succeeded, agree to be bound by the provisions of our limited partnership agreement and furnish an opinion of counsel regarding limited liability, tax matters, and the U.S. Investment Company Act (and similar legislation in other jurisdictions). Any transfer of the general partnership interest is subject to prior notice to and approval of the relevant Bermuda regulatory authorities. At any time, the members of our Managing General Partner may sell or transfer all or part of their shares in our Managing General Partner without the approval of the unitholders.

*Partnership Name*

If our Managing General Partner ceases to be the general partner of our partnership and our new general partner is not an affiliate of Brookfield, our partnership will be required by our limited partnership agreement to change the name of our partnership to a name that does not include "Brookfield" and which could not be capable of confusion in any way with such name. Our limited partnership agreement explicitly provides that this obligation shall be enforceable and waivable by our Managing General Partner notwithstanding that it may have ceased to be the general partner of our partnership.

*Transactions with Interested Parties*

Our Managing General Partner, the Manager and their respective partners, members, shareholders, directors, officers, employees and shareholders, which we refer to as "interested parties," may become limited partners or beneficially interested in limited partners and may hold, dispose of or otherwise deal with our units with the same rights they would have if our Managing General Partner was not a party to our limited partnership agreement. An interested party will not be liable to account either to other interested parties or to our partnership, our partnership's partners or any other persons for any profits or benefits made or derived by or in connection with any such transaction.

Our limited partnership agreement permits an interested party to sell investments to, purchase assets from, vest assets in and enter into any contract, arrangement or transaction with our partnership, Brookfield Infrastructure, any of the Holding Entities, any operating entity or any other holding vehicle established by our partnership and may be interested in any such contract, transaction or arrangement and shall not be liable to account either to our partnership, Brookfield Infrastructure, any of the Holding Entities, any operating entity or any other holding vehicle established by our partnership or any other person in respect of any such contract, transaction or arrangement, or any benefits or profits made or derived therefrom, by virtue only of the relationship between the parties concerned, subject to any approval requirements that are contained in our conflicts policy. See Item 7.B "Related Party Transactions—Conflicts of Interest and Fiduciary Duties."

*Outside Activities of Our Managing General Partner; Conflicts of Interest*

Under our limited partnership agreement, our Managing General Partner is required to maintain as its sole activity the role of general partner of our partnership. Our Managing General Partner is not permitted to engage in any activity or incur any debts or liabilities except in connection with or incidental to its performance as general partner or acquiring, owning or disposing of debt or equity securities of Brookfield Infrastructure, a Holding Entity or any other holding vehicle established by our partnership.

Our limited partnership agreement provides that each person who is entitled to be indemnified by our partnership (other than our Managing General Partner), as described below under "—Indemnification; Limitation on Liability," has the right to engage in businesses of every type and description and other activities for profit, and to engage in and possess interests in business ventures of any and every type or description, irrespective of whether (i) such activities are similar to our affairs or activities or (ii) such affairs and activities directly compete with, or disfavor or exclude, our Managing General Partner, our partnership, Brookfield Infrastructure, any Holding Entity, any operating entity or any other holding vehicle established by our partnership. Such business interests, activities and engagements will be deemed not to constitute a breach of our limited partnership agreement or any duties stated or implied by law or equity, including fiduciary duties, owed to any of our Managing General Partner, our partnership, Brookfield Infrastructure, any Holding Entity, any operating entity and any other holding vehicle established by our partnership (or any of their respective investors), and shall be deemed not to be a breach of our Managing General Partner's fiduciary duties or any other obligation of any type whatsoever of our Managing General Partner. None of our Managing General Partner, our partnership, Brookfield Infrastructure, any Holding Entity, any operating entity, any other holding vehicle established by our partnership or any other person shall have any rights by virtue of our limited partnership agreement or the partnership relationship established thereby or otherwise in any business ventures of any person who is entitled to be indemnified by our partnership as described below under "—Indemnification; Limitation on Liability."

Our Managing General Partner and the other indemnified persons described in the preceding paragraph do not have any obligation under our limited partnership agreement or as a result of any duties stated or implied by law or equity, including fiduciary duties, to present business or investment opportunities to our partnership, Brookfield Infrastructure, any Holding Entity, any operating entity or any other holding vehicle established by our partnership. These provisions will not affect any obligation of an indemnified person to present business or investment opportunities to our partnership, Brookfield Infrastructure, any Holding Entity, any operating entity or any other holding vehicle established by our partnership pursuant to a separate written agreement between such persons.

Any conflicts of interest and potential conflicts of interest that are approved by a majority of our Managing General Partner's independent directors from time-to-time will be deemed approved by all partners. Pursuant to our conflicts policy, independent directors may grant approvals for any of the transactions described above in the form of general guidelines, policies or procedures in which case no further special approval will be required in connection with a particular transaction or matter permitted thereby. See Item 7.B "Related Party Transactions—Conflicts of Interest and Fiduciary Duties."

*Indemnification; Limitations on Liability*

Under our limited partnership agreement, our partnership is required to indemnify to the fullest extent permitted by law our Managing General Partner, our Manager and any of their respective affiliates (and their respective officers, directors, agents, shareholders, partners, members and employees), any person who serves on a governing body of Brookfield Infrastructure, a Holding Entity, operating entity or any other holding vehicle established by our partnership and any other person designated by our Managing General Partner as an indemnified person, in each case, against all losses, claims, damages, liabilities, costs or expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, incurred by an indemnified person in connection with our investments and activities or by reason of their holding such positions, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under our limited partnership agreement, (i) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by the independent directors of our Managing General Partner will not constitute a breach of our limited partnership agreement or any duties stated or implied by law or equity, including fiduciary duties. Our limited partnership agreement requires us to advance funds to pay the expenses of an indemnified person in connection with a matter in which indemnification may be sought until it is determined that the indemnified person is not entitled to indemnification.

*Accounts, Reports and Other Information*

Under our limited partnership agreement, our partnership is required to prepare financial statements in accordance with U.S. GAAP. However, our partnership plans to prepare its financial statements and the financial statements of Brookfield Infrastructure in accordance with IFRS. This change is being made in light of Brookfield Infrastructure's recent investments in Prime, DBCT and PD Ports which use IFRS as their primary basis of accounting. The first financial statements of the Partnership and Brookfield infrastructure to be prepared in accordance with IFRS will be for the financial statements as at and for the quarter ended March 31, 2010. See also the information contained in this Form 20-F under Item 3.D "Risk Factors—Risk Relating to Us and Our Partnership—We will adopt new accounting standard for the quarter ending March 31, 2010, and this adoption may have a material impact on our consolidated financial statements".

Our partnership's financial statements must be made publicly available together with a statement of the accounting policies used in their preparation, such information as may be required by applicable laws and regulations and such information as our Managing General Partner deems appropriate. Our partnership's annual financial statements must be audited by an independent accountant firm of international standing and made publicly available within such period of time as is required to comply with applicable laws and regulations, including any rules of any applicable securities exchange. Our partnership's quarterly financial statements may be unaudited and are made available publicly as and within the time period required by applicable laws and regulations.

The Managing General Partner is also required to use commercially reasonable efforts to prepare and send to the limited partners of our partnership on an annual basis, additional information regarding our partnership, including Schedule K-1 (or equivalent) and information related to the passive foreign investment company status of any non-U.S. corporation that we control and, where reasonably possible, any other non-U.S. corporation in which we hold an interest. The Managing General Partner will, where reasonably possible, prepare and send information required by the non-U.S. limited partners of our partnership for U.S. federal income tax reporting purposes, including information related to investments in "U.S. real property interests," as that term is defined in Section 897 of the U.S. Internal Revenue Code. The Managing General Partner will also, where reasonably possible and applicable, prepare and send information required by limited partners of our partnership for Canadian federal income tax purposes.

*Governing Law; Submission to Jurisdiction*

Our limited partnership agreement is governed by and will be construed in accordance with the laws of Bermuda. Under our limited partnership agreement, each of our partnership's partners (other than governmental entities prohibited from submitting to the jurisdiction of a particular jurisdiction) will submit to the non-exclusive jurisdiction of any court in Bermuda in any dispute, suit, action or proceeding arising out of or relating to our limited partnership agreement. Each partner waives, to the fullest extent permitted by law, any immunity from jurisdiction of any such court or from any legal process therein and further waives, to the fullest extent permitted by law, any claim of inconvenient forum, improper venue or that any such court does not have jurisdiction over the partner. Any final judgment against a partner in any proceedings brought in a court in Bermuda will be conclusive and binding upon the partner and may be enforced in the courts of any other jurisdiction of which the partner is or may be subject, by suit upon such judgment. The foregoing submission to jurisdiction and waivers will survive the dissolution, liquidation, winding up and termination of our partnership.

*Transfers of Units*

We are not required to recognize any transfer of our units until certificates, if any, evidencing such units are surrendered for registration of transfer. Each person to whom a unit is transferred (including any nominee holder or an agent or representative acquiring such unit for the account of another person) will be admitted to our partnership as a partner with respect to the unit so transferred subject to and in accordance with the terms of our limited partnership agreement. Any transfer of a unit will not entitle the transferee to share in the profits and losses of our partnership, to receive distributions, to receive allocations of income, gain, loss, deduction or credit or any similar item or to any other rights to which the transferor was entitled until the transferee becomes a partner and a party to our partnership's limited partnership agreement.

By accepting a unit for transfer in accordance with our limited partnership agreement, each transferee will be deemed to have:

- executed our limited partnership agreement and become bound by the terms thereof;
- granted an irrevocable power of attorney to our Managing General Partner and any officer thereof to act as such partner's agent and attorney-in-fact to execute, swear to, acknowledge, deliver, file and record in the appropriate public offices all (i) all agreements, certificates, documents and other instruments relating to the existence or qualification of our partnership as an exempted limited partnership (or a partnership in which the limited partners have limited liability) in Bermuda and in all jurisdictions in which our partnership may conduct activities and affairs or own property; any amendment, change, modification or restatement of our limited partnership agreement, subject to the requirements of our limited partnership agreement; the dissolution and liquidation of our partnership; the admission, withdrawal or removal of any partner of our partnership or any capital contribution of any partner of our partnership; the determination of the rights, preferences and privileges of any class or series of units or other partnership interests of our partnership, and to a merger or consolidation of our partnership; and (ii) subject to the requirements of our limited partnership agreement, all ballots, consents,

approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the sole discretion of our Managing General Partner or the liquidator of our partnership, to make, evidence, give, confirm or ratify any voting consent, approval, agreement or other action that is made or given by our partnership's partners or is consistent with the terms of our limited partnership agreement or to effectuate the terms or intent of our limited partnership agreement; and

- made the consents and waivers contained in our limited partnership agreement, including with respect to the approval of the transactions and agreements entered into in connection with our formation and the spin-off.

The transfer of any unit and the admission of any new partner to our partnership will not constitute any amendment to our limited partnership agreement.

*Transfer Agent and Registrar*

The Bank of New York in New York, New York, U.S.A. has been appointed to act as transfer agent and registrar for the purpose of registering our limited partnership interests and transfers of our limited partnership interests as provided in our limited partnership agreement. Our partnership will indemnify the transfer agent, its agents and each of their shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

**Description of Brookfield Infrastructure's Limited Partnership Agreement**

The following is a description of the material terms of Brookfield Infrastructure's limited partnership agreement and is qualified in its entirety by reference to all of the provisions of such agreement. Holders of units in our partnership are not limited partners of Brookfield Infrastructure and do not have any rights under its limited partnership agreement. We have included a summary of what we believe are the most important provisions of Brookfield Infrastructure's limited partnership agreement because we conduct our operations through Brookfield Infrastructure and the Holding Entities and our rights with respect to our equity holding in Brookfield Infrastructure are governed by the terms of Brookfield Infrastructure's limited partnership agreement.

Because this description is only a summary of the terms of the agreement, it does not necessarily contain all of the information that you may find useful. For more complete information, you should read Brookfield Infrastructure's limited partnership agreement which is available electronically on the website of the Securities and Exchange Commission at www.sec.gov and on our SEDAR profile at www.sedar.com and will be made available to our unitholders as described under Item 10.C "Material Contracts" and Item 10.H "Documents on display."

*Formation and Duration*

Brookfield Infrastructure is a Bermuda exempted limited partnership registered under the Limited Partnership Act 1883 and the Exempted Partnerships Act 1992. Brookfield Infrastructure has a perpetual existence and will continue as a limited liability partnership unless the partnership is terminated or dissolved in accordance with its limited partnership agreement.

*Nature and Purpose*

Under its limited partnership agreement, the purpose of Brookfield Infrastructure is to: acquire and hold interests in the Holding Entities and, subject to the approval of Infrastructure GP LP, any other subsidiary of Brookfield Infrastructure; engage in any activity related to the capitalization and financing of Brookfield Infrastructure's interests in such entities; and engage in any other activity that is incidental to or in furtherance of the foregoing and that is approved by the Infrastructure GP LP and that lawfully may be conducted by a limited partnership organized under the Limited Partnership Act 1883 and our limited partnership agreement.

*Units*

Brookfield Infrastructure's units are limited partnership interests in Brookfield Infrastructure. Holders of units are not entitled to the withdrawal or return of capital contributions in respect of their units, except to the extent, if any, that distributions are made to such holders pursuant to Brookfield Infrastructure's limited partnership agreement or upon the liquidation of Brookfield Infrastructure or as otherwise required by applicable law. Except to the extent expressly provided in Brookfield Infrastructure's limited partnership agreement, a holder of units does not have priority over any other holder of units, either as to the return of capital contributions or as to profits, losses or distributions.

In connection with the spin-off, Brookfield Infrastructure issued two classes of units. The first class of units was issued to Brookfield and subsequently transferred to our partnership and the second class of units, referred to as the Redeemable Partnership Units, were issued to wholly-owned subsidiaries of Brookfield. Redeemable Partnership Units are identical to the limited partnership units held by our partnership, except as described below under "—Distributions" and "—No Management or Control" and except that they have the right of redemption described below under the heading "—Redemption-Exchange Mechanism."

*Issuance of Additional Partnership Interests*

Infrastructure GP LP has broad rights to cause Brookfield Infrastructure to issue additional partnership interests and may cause Brookfield Infrastructure to issue additional partnership interests (including new classes of partnership interests and options, rights, warrants and appreciation rights relating to such interests) for any partnership purpose, at any time and on such terms and conditions as it may determine without the approval of any limited partners. Any additional partnership interests may be issued in one or more classes, or one or more series of classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of partnership interests) as may be determined by Infrastructure GP LP in its sole discretion, all without approval of our limited partners.

*Redemption-Exchange Mechanism*

At any time after two years from the date of closing of the spin-off, one or more wholly-owned subsidiaries of Brookfield that hold Redeemable Partnership Units will have the right to require Brookfield Infrastructure to redeem for cash all or a portion of the Redeemable Partnership Units held by such subsidiary, subject to our partnership's right of first refusal, as described below. Any such redeeming subsidiary may exercise its right of redemption by delivering a notice of redemption to Brookfield Infrastructure and our partnership. After presentation for redemption, such redeeming subsidiary will receive, subject to our partnership's right of first refusal, as described below, for each unit that is presented, cash in an amount equal to the market value of one of our units multiplied by the number of units to be redeemed (as determined by reference to the five day volume weighted average of the trading price of our units and subject to certain customary adjustments). Upon its receipt of the redemption notice, our partnership will have a right of first refusal entitling it, at its sole discretion, to elect to acquire all (but not less than all) units described in such notice and presented to Brookfield Infrastructure for redemption in exchange for units on a one for one basis (subject to certain customary adjustments). Upon a redemption for cash, the holder's right to receive distributions with respect to Brookfield Infrastructure's units so redeemed will cease.

Brookfield's aggregate limited partnership interest in our partnership would be approximately 40% (in addition to the 0.2% of our units that were acquired by Brookfield in connection with the satisfaction of Canadian federal and U.S. "back-up" withholding tax requirements upon the spin-off) if it exercised its redemption right in full and our partnership exercised its right of first refusal on the Brookfield Infrastructure units redeemed. Brookfield's total percentage interest in our partnership would be increased if it participates in Brookfield Infrastructure's distribution reinvestment plan or receives additional units of Brookfield Infrastructure under the equity commitment.

*Distributions*

Distributions by Brookfield Infrastructure will be made in the sole discretion of the Infrastructure GP LP. However, the Infrastructure GP LP will not be permitted to cause Brookfield Infrastructure to make a distribution if Brookfield Infrastructure does not have sufficient cash on hand to make the distribution, the distribution would render Brookfield Infrastructure insolvent or if, in the opinion of the Infrastructure GP LP, the distribution would leave Brookfield Infrastructure with insufficient funds to meet any future contingent obligations.

Except as set forth below, prior to the dissolution of Brookfield Infrastructure, distributions of available cash (if any) in any given quarter will be made by Brookfield Infrastructure as follows, referred to as the Regular Distribution Waterfall:

- first, 100% of any available cash to our partnership until our partnership has been distributed an amount equal to our partnership's expenses and outlays for the quarter properly incurred;
- second, 100% of any available cash then remaining to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, until each holder of a Brookfield Infrastructure limited partnership unit has received distributions during such quarter in an amount equal to $0.305, referred to as the First Distribution Threshold;
- third, 85% of any available cash then remaining to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, and 15% to the Infrastructure GP LP, until each holder of a Brookfield Infrastructure limited partnership unit has received distributions during such quarter in an amount equal to $0.33, referred to as the Second Distribution Threshold; and
- thereafter, 75% of any available cash then remaining to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, and 25% to the Infrastructure GP LP.

If, prior to the dissolution of Brookfield Infrastructure, available cash is deemed by the Infrastructure GP LP, in its sole discretion, to be (i) attributable to sales or other dispositions of Brookfield Infrastructure's assets and (ii) representative of unrecovered capital, then such available cash shall be distributed to the partners of Brookfield Infrastructure in proportion to the unreturned capital attributable to Brookfield Infrastructure's partnership interests held by the partners until such time as the unreturned capital attributable to each such partnership interest is equal to zero. Thereafter, distributions of available cash made by Brookfield Infrastructure (to the extent made prior to dissolution) will be made in accordance with the Regular Distribution Waterfall.

Upon the occurrence of an event resulting in the dissolution of Brookfield Infrastructure, all cash and property of Brookfield Infrastructure in excess of that required to discharge Brookfield Infrastructure's liabilities will be distributed as follows: (a) to the extent such cash and/or property is attributable to a realization event occurring prior to the event of dissolution, such cash and/or property will be distributed in accordance with the Regular Distribution Waterfall and/or the distribution waterfall applicable to unrecovered capital; and (b) all other cash and/or property will be distributed in the manner set forth below.

- first, 100% to our partnership until our partnership has received an amount equal to the excess of (1) the amount of our partnership's outlays and expenses incurred during the term of Brookfield Infrastructure, over (2) the aggregate amount of distributions received by our partnership pursuant to the first tier of the Regular Distribution Waterfall during the term of Brookfield Infrastructure;
- second, 100% to the partners of Brookfield Infrastructure, in proportion to their respective amounts of unrecovered capital in Brookfield Infrastructure;
- third, 100% to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, until each holder of a Brookfield Infrastructure's limited partnership unit has received an amount equal to the excess of (i) the First Distribution Threshold for each quarter during the term of Brookfield Infrastructure (subject to adjustment upon the subsequent issuance of additional partnership interests in Brookfield Infrastructure), over (ii) the aggregate amount of distributions made in respect of a Brookfield Infrastructure's limited partnership unit pursuant to the second tier of the Regular Distribution Waterfall during the term of a Brookfield Infrastructure (subject to adjustment upon the subsequent issuance of additional partnership interests in Brookfield Infrastructure);
- fourth, 85% to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, and 15% to the Infrastructure GP LP, until each holder of a Brookfield Infrastructure limited partnership unit has received an amount equal to the excess of (i) the Second Distribution Threshold less the First Distribution Threshold for each quarter during the term of Brookfield Infrastructure (subject to adjustment upon the subsequent issuance of additional partnership interests in Brookfield Infrastructure), over (ii) the aggregate amount of distributions made in respect of a Brookfield Infrastructure's limited partnership unit pursuant to the third tier of the Regular Distribution Waterfall during the term of Brookfield Infrastructure (subject to adjustment upon the subsequent issuance of additional partnership interests in Brookfield Infrastructure);
- thereafter, 75% to the owners of Brookfield Infrastructure's partnership interests, pro rata to their percentage interests, and 25% to the Infrastructure GP LP.

Each partner's percentage interest is determined by the relative portion of all outstanding partnership interests held by that partner from time to time and is adjusted upon and to reflect the issuance of additional partnership interests of Brookfield Infrastructure. In addition, the unreturned capital attributable to each of the partnership interests, as well as certain of the distribution thresholds set forth above, may be adjusted pursuant to the terms of the limited partnership agreement of Brookfield Infrastructure so as to ensure the uniformity of the economic rights and entitlements of (i) the previously outstanding Brookfield Infrastructure's partnership interests and (ii) the subsequently-issued Brookfield Infrastructure's partnership interests.

The limited partnership agreement of Brookfield Infrastructure provides that, to the extent that any Holding Entity or any operating entity pays to Brookfield any comparable performance or incentive distribution, the amount of any incentive distributions paid to the Infrastructure GP LP in accordance with the distribution entitlements described above will be reduced in an equitable manner to avoid duplication of distributions.

The Infrastructure GP LP may elect, at its sole discretion, to reinvest incentive distributions in Redeemable Partnership Units.

*No Management or Control*

Brookfield Infrastructure's limited partners, in their capacities as such, may not take part in the management or control of the activities and affairs of Brookfield Infrastructure and do not have any right or authority to act for or to bind Brookfield Infrastructure or to take part or interfere in the conduct or management of Brookfield Infrastructure.

Limited partners are not entitled to vote on matters relating to Brookfield Infrastructure, although holders of units are entitled to consent to certain matters as described under "—Amendment of Brookfield Infrastructure's Limited Partnership Agreement," "—Opinion of Counsel and Limited Partner Approval," "—Merger, Sale or Other Disposition of Assets," and "—Withdrawal of the General Partner" which may be effected only with the consent of the holders of the percentages of outstanding units specified below. For the purposes of any approval required from holders of Brookfield Infrastructure's units, if Brookfield and its subsidiaries are entitled to vote, they will be entitled to one vote per unit held subject to a maximum number of votes equal to 49% of the total number of units of Brookfield Infrastructure then issued and outstanding. Each unit shall entitle the holder thereof to one vote for the purposes of any approvals of holders of units.

*Meetings*

The Infrastructure GP LP may call special meetings of the limited partners at a time and place outside of Canada determined by it on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. Special meetings of the limited partners may also be called by limited partners owning 50% or more of the voting power of the outstanding partnership interests of the class or classes for which a meeting is proposed. For this purpose, the partnership interests outstanding do not include partnership interests owned by the Infrastructure GP LP or Brookfield. Only holders of record on the date set by the Infrastructure GP LP (which may not be less than 10 days nor more than 60 days, before the meeting) are entitled to notice of any meeting.

*Amendment of Brookfield Infrastructure's Limited Partnership Agreement*

Amendments to Brookfield Infrastructure's limited partnership agreement may be proposed only by or with the consent of the Infrastructure GP LP. To adopt a proposed amendment, other than the amendments that do not require limited partner approval discussed below, the Infrastructure GP LP must seek approval of a majority of Brookfield Infrastructure's outstanding units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment.

*Prohibited Amendments*

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, except that any amendment that would have a material adverse effect on the rights or preferences of any class of partnership interests in relation to other classes of partnership interests may be approved by at least a majority of the type or class of partnership interests so affected, or
- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by Brookfield Infrastructure to the Infrastructure GP LP or any of its affiliates without the consent of the Infrastructure GP LP which may be given or withheld in its sole discretion.

The provision of Brookfield Infrastructure's limited partnership agreement preventing the amendments having the effects described directly above can be amended upon the approval of the holders of at least 90% of the outstanding units.

*No Limited Partner Approval*

Subject to applicable law, the Infrastructure GP LP may generally make amendments to Brookfield Infrastructure's limited partnership agreement without the approval of any limited partner to reflect:

- a change in the name of the partnership, the location of the partnership's registered office or the partnership's registered agent,
- the admission, substitution, withdrawal or removal of partners in accordance with the limited partnership agreement,
- a change that the Infrastructure GP LP determines is necessary or appropriate for the partnership to qualify or to continue its qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any jurisdiction or to ensure that Brookfield Infrastructure will not be treated as an association taxable as a corporation or otherwise taxed as an entity for tax purposes,
- an amendment that the Infrastructure GP LP determines to be necessary or appropriate to address certain changes in tax regulations, legislation or interpretation,
- an amendment that is necessary, in the opinion of counsel, to prevent Brookfield Infrastructure or the Infrastructure GP LP or its directors, officers, agents or trustees, from having a material risk of being in any manner subjected to the provisions of the U.S. Investment Company Act or similar legislation in other jurisdictions,
- an amendment that the Infrastructure GP LP determines in its sole discretion to be necessary or appropriate for the creation, authorization or issuance of any class or series of partnership interests or options, rights, warrants or appreciation rights relating to partnership securities,
- any amendment expressly permitted in Brookfield Infrastructure's limited partnership agreement to be made by the Infrastructure GP LP acting alone,
- an amendment effected, necessitated or contemplated by an agreement of merger, consolidation or other combination agreement that has been approved under the terms of Brookfield Infrastructure's limited partnership agreement,
- any amendment that in the sole discretion of the Infrastructure GP LP is necessary or appropriate to reflect and account for the formation by the partnership of, or its investment in, any corporation, partnership, joint venture, limited liability company or other entity, as otherwise permitted by Brookfield Infrastructure's limited partnership agreement,
- a change in its fiscal year and related changes,
- any amendment concerning the computation or allocation of specific items of income, gain, expense or loss among the partners that, in the sole discretion of the Infrastructure GP LP, is necessary or appropriate to (i) comply with the requirements of applicable law, (ii) reflect the partners' interests in Brookfield Infrastructure, or (iii) consistently reflect the distributions made by Brookfield Infrastructure to the partners pursuant to the terms of the limited partnership agreement of Brookfield Infrastructure,
- any other amendments substantially similar to any of the matters described directly above.

In addition, the Infrastructure GP LP may make amendments to Brookfield Infrastructure's limited partnership agreement without the approval of any limited partner if those amendments, in the discretion of the Infrastructure GP LP:

- do not adversely affect Brookfield Infrastructure's limited partners considered as a whole (including any particular class of partnership interests as compared to other classes of partnership interests) in any material respect,
- are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any governmental agency or judicial authority,
- are necessary or appropriate to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed for trading,
- are necessary or appropriate for any action taken by the Infrastructure GP LP relating to splits or combinations of units under the provisions of Brookfield Infrastructure's limited partnership agreement, or
- are required to effect the intent expressed in this Form 20-F or the intent of the provisions of Brookfield Infrastructure's limited partnership agreement or are otherwise contemplated by Brookfield Infrastructure's limited partnership agreement.

*Opinion of Counsel and Limited Partner Approval*

The Infrastructure GP LP will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners if one of the amendments described above under "—No Limited Partner Approval" should occur. No other amendments to Brookfield Infrastructure's limited partnership agreement (other than an amendment pursuant to a merger, sale or other disposition of assets effected in accordance with Brookfield Infrastructure's limited partnership agreement) will become effective without the approval of holders of at least 90% of Brookfield Infrastructure's units, unless it obtains an opinion of counsel to the effect that the amendment will not cause Brookfield Infrastructure to be treated as an association taxable as a corporation or otherwise taxable as an entity for tax purposes (provided that for U.S. tax purposes the Infrastructure GP LP has not made the election described below under "—Election to be Treated as a Corporation") or affect the limited liability under the Limited Partnership Act of 1883 of any of Brookfield Infrastructure's limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of partnership interests in relation to other classes of partnership interests will also require the approval of the holders of at least a majority of the outstanding partnership interests of the class so affected.

In addition, any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners whose aggregate outstanding voting units constitute not less than the voting requirement sought to be reduced.

*Election to be Treated as a Corporation*

If the Infrastructure GP LP determines that it is no longer in Brookfield Infrastructure's best interests to continue as a partnership for U.S. federal income tax purposes, the Infrastructure GP LP may elect to treat Brookfield Infrastructure as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes.

*Dissolution*

Brookfield Infrastructure shall dissolve and its affairs shall be wound up, upon the earlier of (i) the service of notice by the Infrastructure GP LP, with the approval of a majority of the members of the independent directors of our Managing General Partner, that in the opinion of the Infrastructure GP LP the coming into force of any law, regulation or binding authority renders illegal or impracticable the continuation of Brookfield Infrastructure; (ii) the election of the Infrastructure GP LP if Brookfield Infrastructure, as determined by the Infrastructure GP LP, is required to register as an "investment company" under the U.S. Investment Company Act or similar legislation in other jurisdictions; (iii) the date that the Infrastructure GP LP withdraws from the our partnership (unless Brookfield becomes the general partner of Brookfield Infrastructure as described below under "—Withdrawal of the General Partner"); (iv) the date on which any court of competent jurisdiction enters a decree of judicial dissolution of Brookfield Infrastructure or an order to wind up or liquidate the Infrastructure GP LP; and (v) the date on which the Infrastructure GP LP decides to dispose of, or otherwise realize proceeds in respect of, all or substantially all of Brookfield Infrastructure's assets in a single transaction or series of transactions.

Brookfield Infrastructure shall not dissolve if within 30 days of the date of dissolution (and provided that a notice of dissolution with respect to Brookfield Infrastructure has not been filed with the Bermuda Monetary Authority), Brookfield executes a transfer deed pursuant to which the new general partner assumes the rights and undertakes the obligations of the original general partner, but only if Brookfield Infrastructure receives an opinion of counsel that the admission of Brookfield as general partner will not result in the loss of limited liability of any limited partner of Brookfield Infrastructure.

*Withdrawal of the General Partner*

The Infrastructure GP LP may withdraw as general partner without first obtaining approval of unitholders by giving 90 days advance notice, and that withdrawal will not constitute a violation of the limited partnership agreement.

Upon the withdrawal of the Infrastructure GP LP, the holders of a majority of the voting power of outstanding units may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability, tax matters and the U.S. Investment Company Act (and similar legislation in other jurisdictions) cannot be obtained, Brookfield Infrastructure will be dissolved, wound up and liquidated. See "—Dissolution" above.

The Infrastructure GP LP may not be removed unless that removal is approved by the vote of the holders of at least 66⅔% of the outstanding class of units that are not Redeemable Partnership Units and it receives an opinion of counsel regarding limited liability tax matters and the U.S. Investment Company Act (and similar legislation in other jurisdictions). Any removal of the Infrastructure GP LP is also subject to the approval of a successor general partner by the vote of the holders of a majority of the voting power of its outstanding units.

In the event of removal of a general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates Brookfield Infrastructure's limited partnership agreement, a successor general partner will have the option to purchase the general partnership interest of the departing general partner for a cash payment equal to its fair market value. Under all other circumstances where a general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partnership interest of the departing general partner for a cash payment equal to its fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached within 30 days of the general partner's departure, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree upon an expert within 45 days of the general partner's departure, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partnership interests will automatically convert into units pursuant to a valuation of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

*Transfer of the General Partnership Interest*

The Infrastructure GP LP may transfer all or any part of its general partnership interests without first obtaining approval of any unitholder. As a condition of this transfer, the transferee must assume the rights and duties of the general partner to whose interest that transferee has succeeded, agree to be bound by the provisions of Brookfield Infrastructure's limited partnership agreement and furnish an opinion of counsel regarding limited liability, tax matters and the U.S. Investment Company Act (and similar legislation in other jurisdictions). Any transfer of the general partnership interest is subject to prior notice to and approval of the relevant Bermuda regulatory authority. At any time, the members of the Infrastructure GP LP may sell or transfer all or part of their units in the Infrastructure GP LP without the approval of the unitholders.

*Transactions with Interested Parties*

The Infrastructure GP LP, the Infrastructure General Partner and their respective partners, members, shareholders, directors, officers, employees and shareholders, which we refer to as "interested parties", may become limited partners or beneficially interested in limited partners and may hold, dispose of or otherwise deal with units of Brookfield Infrastructure with the same rights they would have if the Infrastructure GP LP and Infrastructure General Partner were not a party to the limited partnership agreement of Brookfield Infrastructure. An interested party will not be liable to account either to other interested parties or to Brookfield Infrastructure, its partners or any other persons for any profits or benefits made or derived by or in connection with any such transaction.

The limited partnership agreement of Brookfield Infrastructure permits an interested party to sell investments to, purchase assets from, vest assets in and enter into any contract, arrangement or transaction with Brookfield Infrastructure, any of the Holding Entities, any operating entity or any other holding vehicle established by Brookfield Infrastructure and may be interested in any such contract, transaction or arrangement and shall not be liable to account either to Brookfield Infrastructure, any of the Holding Entities, any operating entity or any other holding vehicle established by Brookfield Infrastructure or any other person in respect of any such contract, transaction or arrangement, or any benefits or profits made or derived therefrom, by virtue only of the relationship between the parties concerned, subject to our conflicts policy.

*Outside Activities of the General Partner*

Under Brookfield Infrastructure's limited partnership agreement, the general partner will be required to maintain as its sole activity the role of the general partner of Brookfield Infrastructure. The general partner will not be permitted to engage in any activity or incur any debts or liabilities except in connection with or incidental to its performance as general partner or acquiring, owning or disposing of debt or equity securities of a subsidiary of an Holding Entity or any other holding vehicle established by Brookfield Infrastructure.

Brookfield Infrastructure's limited partnership agreement provides that each person who is entitled to be indemnified by the partnership, as described below under "—Indemnification; Limitations on Liability" (other than the general partner) will have the right to engage in businesses of every type and description and other activities for profit, and to engage in and possess interests in business ventures of any and every type or description, irrespective of whether (i) such businesses and activities are similar to our activities, or (ii) such businesses and activities directly compete with, or disfavor or exclude, the Infrastructure General Partner, the Infrastructure GP LP, Brookfield Infrastructure, any Holding Entity, operating entity, or any other holding vehicle established by Brookfield Infrastructure. Such business interests, activities and engagements will be deemed not to constitute a breach of the limited partnership agreement or any duties stated or implied by law or equity, including fiduciary duties, owed to any of the Infrastructure General Partner, the Infrastructure GP LP, Brookfield Infrastructure, any Holding Entity, operating entity, and any other holding vehicle established by Brookfield Infrastructure (or any of their respective investors), and shall be deemed not to be a breach of the Infrastructure General Partner's fiduciary duties or any other obligation of any type whatsoever of the general partner. None of the Infrastructure General Partner, the Infrastructure GP LP, Brookfield Infrastructure, any Holding Entity, operating entity, any other holding vehicle established by Brookfield Infrastructure or any other person shall have any rights by virtue of Brookfield Infrastructure's limited partnership agreement or the partnership relationship established thereby or otherwise in any business ventures of any person who is entitled to be indemnified by Brookfield Infrastructure as described below under "—Indemnification; Limitations on Liability."

The Infrastructure GP LP and the other indemnified persons described in the preceding paragraph will not have any obligation under Brookfield Infrastructure's limited partnership agreement or as a result of any duties stated or implied by law or equity, including fiduciary duties, to present business or investment opportunities to Brookfield Infrastructure, any Holding Entity, operating entity, or any other holding vehicle established by Brookfield Infrastructure. These provisions will not affect any obligation of such indemnified person to present business or investment opportunities to Brookfield Infrastructure, any Holding Entity, operating entity or any other holding vehicle established by Brookfield Infrastructure pursuant to a separate written agreement between such persons.

*Accounts; Reports*

Under Brookfield Infrastructure's limited partnership agreement, the Infrastructure GP LP is required to prepare financial statements in accordance with U.S. GAAP. In conjunction with our adoption of IFRS as at and for the quarter ended March 31, 2010, we expect to amend the limited partnership agreement accordingly. Brookfield Infrastructure's financial statements must be made publicly available together with a statement of the accounting policies used in their preparation, such information as may be required by applicable laws and regulations and such information as the Infrastructure GP LP deems appropriate. Brookfield Infrastructure's annual financial statements must be audited by an independent accountant firm of international standing and made publicly available within such period of time as is required to comply with applicable laws and regulations, including any rules of any applicable securities exchange. Brookfield Infrastructure's quarterly financial statements are unaudited and are made available publicly as and within the time period required by applicable laws and regulations.

The Infrastructure GP LP is also required to use commercially reasonable efforts to prepare and send to the limited partners of Brookfield Infrastructure on an annual basis, additional information regarding Brookfield Infrastructure, including Schedule K-1 (or equivalent) and information related to the passive foreign investment company status of any non-U.S. corporation that we control and, where reasonably possible, any other non-U.S. corporation in which we hold an interest. The Infrastructure GP LP will also, where reasonably possible, prepare and send information required by the non-U.S. limited partners of Brookfield Infrastructure for U.S. federal income tax reporting purposes, including information related to investments in "U.S. real property interests," as that term is defined in Section 897 of the U.S. Internal Revenue Code. The Infrastructure GP LP will also, where reasonably possible and applicable, prepare and send information required by limited partners of Brookfield Infrastructure for Canadian federal income tax purposes.

The Infrastructure GP LP will deliver to our partnership (i) the financial statements of Brookfield Infrastructure, and (ii) the accounts and financial statements of any Holding Entity or any other holding vehicle established by Brookfield Infrastructure that is not consolidated with Brookfield Infrastructure or any Holding Entity or holding vehicle whose accounts are subject to such approval.

*Indemnification; Limitations on Liability*

Under Brookfield Infrastructure's limited partnership agreement, it is required to indemnify to the fullest extent permitted by law the Infrastructure General Partner, the Infrastructure GP LP, the Manager and any of their respective affiliates (and their respective officers, directors, agents, shareholders, partners, members and employees), any person who serves on a governing body of Brookfield Infrastructure, a Holding Entity, operating entity or any other holding vehicle established by our partnership and any other person designated by its general partner as an indemnified person, in each case, against all losses, claims, damages, liabilities, costs or expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, incurred by an indemnified person in connection with its business, investments and activities or by reason of their holding such positions, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under Brookfield Infrastructure's limited partnership agreement, (i) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or willful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by the independent directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties. Brookfield Infrastructure's limited partnership agreement requires it to advance funds to pay the expenses of an indemnified person in connection with a matter in which indemnification may be sought until it is determined that the indemnified person is not entitled to indemnification.

*Governing Law*

Brookfield Infrastructure's limited partnership agreement is governed by and will be construed in accordance with the laws of Bermuda.

## 10.C MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, to which we have been a party within the past two years:

1. the Acquisition Agreements: Securities Purchase Agreement, dated November 19, 2007, between Brookfield Asset Management Inc. and Brookfield Infrastructure Holdings;

(Canada) Inc.; Securities Purchase Agreement, dated November 16, 2007, between Brookfield Asset Management Inc. and BIP Bermuda Holdings III Limited; Securities Purchase Agreement, dated November 20, 2007, between Brookfield Longview Holdings LLC and Brookfield Infrastructure Corporation; Debt Purchase Agreement, dated November 20, 2007, between Brascan (US) Corporation and Brookfield Infrastructure Corporation; English summary of the Amended and Restated Payment-in-Kind Agreement, dated November 5, 2007, between Brascan Brasil Ltda. and Brookfield Brasil TBE Participaçoes Ltda.; and Asset Purchase Agreement dated December 11, 2007, between Great Lakes Power Limited and Great Lakes Power Transmission LP;

2. Master Purchase Agreement, dated June 18, 2007, between Brookfield Infrastructure Partners Limited and Brookfield Asset Management Inc.;

3. Master Services Agreement, dated December 4, 2007, by and among Brookfield Asset Management Inc., Brookfield Infrastructure Partners L.P., Brookfield Infrastructure L.P., Brookfield Infrastructure Holdings (Canada) Inc. and Brookfield Asset Management Barbados Inc. and others described under Item 6.A "Directors and Senior Management—Our Master Services Agreement";

4. Relationship Agreement, dated December 4, 2007, by and among Brookfield Infrastructure Partners L.P., Brookfield Infrastructure Group Inc., Brookfield Infrastructure L.P., Brookfield Infrastructure Group Corporation and Brookfield Asset Management Inc. and others described under Item 7.B "Related Party Transactions—Relationship Agreement";

5. Equity Commitment, dated December 4, 2007, by and among Brookfield Asset Management Inc., Brookfield Infrastructure Partners L.P. and Brookfield Infrastructure L.P. described under Item 7.B "Related Party Transactions—Equity Commitment and Other Financing";

6. Registration Rights Agreement, dated December 4, 2007, between Brookfield Infrastructure Partners L.P. and Brookfield Asset Management Inc. described under Item 7.B "Related Party Transactions—Registration Rights Agreement";

7. the licensing agreements described under the heading Item 7.B "Related Party Transactions—Licensing Agreement": Trademark Sublicense Agreement, effective as of May 21, 2007, between Brookfield Infrastructure Partners L.P. and Brookfield Global Asset Management Inc. and Trademark Sublicense Agreement, effective as of August 17, 2007, between Brookfield Infrastructure L.P. and Brookfield Global Asset Management Inc.;

8. Amended and Restated Limited Partnership Agreement of Brookfield Infrastructure Partners L.P., dated December 4, 2007, and amended June 13, 2008, described under Item 10.B "Memorandum and Articles of Association—Description of Our Units and Our Limited Partnership Agreement";

9. Second Amended and Restated Limited Partnership Agreement for Brookfield Infrastructure L.P., dated December 4, 2007, and amended June 13, 2008, described under Item 10.B "Memorandum and Articles of Association—Description of Brookfield Infrastructure's Limited Partnership Agreement";

10. Credit Agreement, dated June 16, 2009, between Brookfield Infrastructure L.P. and Citibank, N.A., Credit Suisse, Toronto Branch, HSBC Bank Canada and Royal Bank of Canada described under Item 5 "Operating and Financial Review and Prospects—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity.";

11. Implementation Agreement, dated October 8, 2009, between Prime Infrastructure, Brookfield Infrastructure L.P. and Brookfield Asset Management Inc.;

12. Allocation Agreement, dated October 8, 2009 between Brookfield Asset Management Inc., Brookfield Infrastructure L.P. and BIP Bermuda Holdings I Limited described under Item 7 "Major Shareholders and Related Party Transactions—Related Party Transactions—Allocation Agreement"; and

13. Second Amendment to the Amended and Restated Limited Partnership Agreement, dated November 16, 2009 described under Item 14 "Material Modifications to the Rights of Security Holders and Use of Proceeds."

Copies of the agreements noted above will be made available, free of charge, by our Managing General Partner and are available electronically on the website of SEC at www.sec.gov and on our SEDAR profile at www.sedar.com. Written requests for such documents should be directed to our Corporate Secretary at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. Copies of the agreements noted above will also be available for inspection at the offices of the Manager at 181 Bay Street, Suite 300, Brookfield Place, Toronto, Ontario, M5J 2T3 during normal business hours.

### 10.D EXCHANGE CONTROLS

There are currently no governmental laws, decrees, regulations or other legislation of Bermuda or the United States which restrict the import or export of capital or the remittance of dividends, interest or other payments to non-residents of Bermuda or the United States holding the Company's securities, except as otherwise described in this Form 20-F under Item 10.E "Taxation."

### 10.E TAXATION

The following summary discusses certain material United States, Canadian and Bermudian tax considerations related to the holding and disposition of our units as of the date hereof. Holders of our units are advised to consult their own tax advisors concerning the consequences under the tax laws of the country of which they are resident or in which they are otherwise subject to tax of making an investment in our units.

### CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This summary discusses certain United States federal income tax consequences related to the holding and disposition of units as of the date hereof. This summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, or the U.S. Internal Revenue Code, on the regulations promulgated thereunder and on published administrative rulings, judicial decisions and other applicable authorities, all as in effect on the date hereof and all of which are subject to change at any time (possibly with retroactive effect). This summary is necessarily general and may not apply to all categories of investors, some of which may be subject to special rules (including, without limitation, investors that own more than 5% of our units, dealers in securities or currencies, financial institutions or financial services entities, life insurance companies, holders of our units held as part of a straddle, hedge, constructive sale or conversion transaction with other investments, U.S. Holders whose functional currency is not the U.S. dollar, persons who have elected mark-to-market accounting, persons who hold our units through a partnership or other entity which is a pass-through entity for U.S. federal income tax purposes, persons for whom our units are not a capital asset, or certain expatriates who meet the expatriation rules in Section 877 of the U.S. Internal Revenue Code or former long-term residents of the United States. Tax-exempt organizations are discussed separately below. The actual tax consequences of the ownership and disposition of our units will vary depending on your circumstances.

For purposes of this discussion, a "U.S. Holder" is a beneficial holder of one or more of our units that is for U.S. federal income tax purposes (1) an individual citizen or resident of the United States; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (4) a trust which either (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person. A "non-U.S. Holder" is a holder that is not a U.S. Holder and who, in addition, is not (i) a partnership or other fiscally transparent entity, or (ii) an individual present in the United States for 183 days or more in a taxable year who meets certain other conditions under the substantial presence test under Section 7701(b)(3) of the U.S. Internal Revenue Code and U.S. Treasury Regulation Section 301.7701(b)-1(c).

If a partnership holds our units, the tax treatment of a partner of such partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our units, you should consult your own tax advisors.

A non-U.S. Holder who holds more than 5% of our units may be subject to special rules under the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA. For purposes of determining whether a non-U.S. Holder holds more than 5% of our units, special attribution rules apply. Where a non-U.S. person who holds (or is deemed to hold) more than 5% of our units disposes of units at a time when our partnership is a U.S. Real Property Holding Corporation, or USRPHC (which determination includes a five year look back period) any gain will be subject to U.S. taxation at 35%, and such non-U.S. person will have a U.S. tax return filing obligation. Our Managing General Partner does not believe that our partnership is currently, or has been, a USRPHC. Our partnership is not under any obligation to avoid becoming a USRPHC or to notify unitholders in the event that our Managing General Partner determines it becomes a USRPHC. If any unitholder is a non-U.S. person and owns or anticipates owning more than 5% of our units, such person should consult their tax advisors. The application of the FIRPTA rules to a non-U.S. Holder who holds (or is deemed to hold) more than 5% of our units would result in such non-U.S. Holder being liable for FIRPTA tax if such non-U.S. Holder disposes of our units at a time when we are a USRPHC or have at any time been a USRPHC within the shorter of such non-U.S. Holder's holding period or five years preceding the disposition.

**This discussion does not constitute tax advice and is not intended to be a substitute for tax planning. You should consult your own tax advisors concerning the U.S. federal, state and local income tax consequences particular to your ownership and disposition of our units, as well as any consequences under the laws of any other taxing jurisdiction.**

***Partnership Status of our partnership and Brookfield Infrastructure***

Each of our partnership and Brookfield Infrastructure has made a protective election to be treated as a partnership for U.S. federal income tax purposes. An entity that is treated as a partnership for U.S. federal income tax purposes incurs no U.S. federal income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss, and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether cash distributions are made. Distributions of cash by a partnership to a partner are generally not taxable unless the amount of cash distributed to a partner is in excess of the partner's adjusted basis in its partnership interest.

An entity that would otherwise be classified as a partnership for U.S. federal income tax purposes may nonetheless be taxable as a corporation if it is a "publicly traded partnership," unless an exception applies. Our partnership will be publicly traded; however, an exception, referred to as the "Qualifying Income Exception," exists with respect to a publicly traded partnership if at least 90% of such partnership's gross income for every taxable year consists of "qualifying income" and the partnership would not be required to register under the U.S. Investment Company Act if it were a U.S. corporation. Qualifying income includes certain interest income, dividends, real property rents, gains from the sale or other disposition of real property, and any gain from the sale or disposition of a capital asset or other property held for the production of income that otherwise constitutes qualifying income. Our Managing General Partner, and the Infrastructure General Partner, intend to manage our affairs so that our partnership will meet the Qualifying Income Exception in each taxable year (however, the status of certain fees and expense reimbursements we received or may receive in connection with the BBI Transaction and treat as "qualifying income" or exclude from income is not clear).

There is currently proposed legislation in the U.S. Congress (H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010, or the Act), which, if enacted in its current form and determined to be applicable to our partnership could have adverse consequences, including (a) the (i) re-characterization of capital gain income as "ordinary income", (ii) potential for interest income subject to the portfolio interest exception to be reclassified as "ordinary income" and subjected to U.S. withholding tax and (iii) potential for qualified dividend income to be reclassified as "ordinary income" and subjected to a higher rate of U.S. income tax, and (b) significant limitations on the ability of our partnership to meet the "qualifying income" exception for taxation as a partnership for U.S. federal income tax purposes. Based upon the current structure and investments of our partnership, it is not anticipated that issues (a)(i) and (a)(ii), above (to which the Act is generally intended to apply for income recognized after December 31, 2010), would have an immediate or material impact to our unitholders. Further, the provisions relating to issue (b), above, as currently drafted do not apply for ten (10) years. However, at this time it is unclear when or whether such proposed legislation will ultimately become law, and whether the legislation as enacted would be problematic for our partnership. Our Managing General Partner does not believe that the drafters of the proposed legislation intended that it would be applied to our partnership and are hopeful that if the legislation is enacted the legislative history will provide an exception to the application of the legislation to our partnership. **In view of the potential significance of any such U.S. federal income tax law changes and the fact that there are likely to be ongoing developments in this area, you should consult your own tax advisor as to the potential effects the proposed legislation might have on an investment in our partnership.** Subject to the foregoing, our Managing General Partner believes our partnership will be treated as a partnership and not as a corporation for U.S. federal income tax purposes. The remainder of this section assumes that the proposed tax legislation, even if enacted, would not be applicable to our partnership or to Brookfield Infrastructure.

If our partnership fails to meet the Qualifying Income Exception, other than a failure which is determined by the U.S. Internal Revenue Service, or the IRS, to be inadvertent and which is cured within a reasonable time after discovery, or if our partnership is required to register under the U.S. Investment Company Act, our partnership will be treated as if it had transferred all of its assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which our partnership fails to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed the stock to the holders of our units in liquidation thereof. This deemed contribution would likely result in recognition of gain (but not loss) to U.S. Holders. However, U.S. Holders actually or constructively owning less than 5% of our units generally would not recognize the portion of such gain attributable to stock or securities of non-U.S. corporations which we may hold. If, at the time of the contribution, our partnership has liabilities in excess of the tax basis of its assets, all U.S. Holders would generally recognize gain in respect of such excess liabilities upon the deemed transfer. Afterwards, our partnership would be treated as a corporation for U.S. federal income tax purposes.

If our partnership were treated as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our partnership's items of income, gain, loss and deduction would be reflected only on our partnership's tax return rather than being passed through to holders of our units, and our partnership would be subject to U.S. corporate income tax and branch profits tax with respect to its income, if any, that is effectively connected with a U.S. trade or business. Moreover, under certain circumstances, our partnership may be classified as a PFIC, for U.S. federal income tax purposes, and you would be subject to the rules applicable to PFICs discussed below. See "—Consequences to U.S. Holders—Passive Foreign Investment Companies". Subject to the PFIC rules discussed below, distributions made to U.S. Holders would be treated as either taxable dividend income, which may be eligible for reduced rates of taxation (if such distributions are made prior to January 1, 2011, and are made in respect of our units traded on the NYSE or certain other requirements are satisfied), to the extent of our partnership's current or accumulated earnings and profits, or in the absence of earnings and profits, as a nontaxable return of capital, to the extent of the holder's tax basis in our units, or as taxable capital gain, after the holder's basis is reduced to zero. In addition, dividends, interest and certain other passive income that our partnership receives with respect to U.S. investments generally would be subject to U.S. withholding tax at a rate of 30% (although certain non-U.S. Holders nevertheless may be entitled to certain treaty benefits in respect of their allocable share of such income) and U.S. Holders would not be allowed a tax credit with respect to any such tax withheld. In addition, the "portfolio interest" exemption would not apply to certain interest income of our partnership (although certain non-U.S. Holders nevertheless may be entitled to certain treaty benefits in respect of their allocable share of such income). Accordingly, treatment of our partnership as a corporation could materially reduce a holder's after-tax return and, thus, could result in a substantial reduction of the value of our units. If Brookfield Infrastructure were to be treated as a corporation for U.S. federal income tax purposes, consequences similar to those described above would apply.

The remainder of this section assumes that our partnership and Brookfield Infrastructure will be treated as partnerships for U.S. federal income tax purposes. We expect that a substantial portion of the items of income, gain, deduction, loss and credit realized by our partnership will be realized in the first instance by Brookfield Infrastructure and allocated to our partnership for reallocation to our unitholders. Unless otherwise specified, references in this section to realization of our partnership's items of income, gain, loss, deduction or credit include a realization of such items by Brookfield Infrastructure and the allocation of such items to our partnership.

**Consequences to U.S. Holders**

***Holding of our units***

***Income and Loss.*** If you are a U.S. Holder, you will be required to take into account, as described below, your distributive share of our partnership's items of income, gain, loss, deduction and credit for each of our partnership's taxable years ending with or within your taxable year. Each item generally will have the same character and source (either U.S. or foreign) as though you had realized the item directly. You will report those items without regard to whether any distribution has been or will be received from our partnership. Although we intend to make cash distributions (which we intend to pay to all of our unitholders on a quarterly basis) in an amount that is generally expected to be sufficient to permit our U.S. Holders to fund their estimated U.S. tax obligations (including any U.S. federal, state and local income taxes) with respect to their distributive shares of our partnership's net income or gain, based upon your particular tax situation and simplifying assumptions that we will make in determining the amount of such distributions, and whether or not you elect to reinvest such distributions pursuant to the distribution reinvestment plan, your tax liability may exceed cash distributions made to you, in which case you would have to satisfy tax liabilities arising from your units in our partnership from your own funds.

With respect to U.S. Holders who are individuals, certain dividends paid by a corporation, including certain qualified foreign corporations, to us and that are allocable to such U.S. Holders prior to January 1, 2011 may qualify for reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of specified income tax treaties with the United States. In addition, a foreign corporation is treated as a qualified corporation with respect to its shares that are readily tradable on an established securities market in the United States. Among other exceptions, U.S. Holders who are individuals will not be eligible for reduced rates of taxation on any dividends if the payer is a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. Holders that are corporations may be entitled to a "dividends received deduction" in respect of dividends paid by U.S. corporations in which we own stock. You should consult your own tax advisors regarding the application of the foregoing rules to your particular circumstances.

For U.S. federal income tax purposes, your allocable share of our partnership's items of income, gain, loss, deduction or credit will be governed by our limited partnership agreement if such allocations have a "substantial economic effect" or are determined to be in accordance with your interest in our partnership. Similarly, our partnership's allocable share of items of income, gain, loss, deduction or credit of Brookfield Infrastructure will be governed by the limited partnership agreement of Brookfield Infrastructure if such allocations have "substantial economic effect" or are determined to be in accordance with our partnership's interest in Brookfield Infrastructure. Our Managing General Partner and the Infrastructure Partner believe that, for U.S. federal income tax purposes, such allocations should be given effect, and our Managing General Partner and the Infrastructure General Partner intend to prepare tax returns based on such allocations. If the IRS successfully challenged the allocations made pursuant to either our limited partnership agreement or the limited partnership agreement of Brookfield Infrastructure, the resulting allocations for U.S. federal income tax purposes may be less favorable than the allocations set forth in such agreements.

***Basis.*** You will have an initial tax basis for your units equal to the sum of (i) the amount of cash paid for our units (or, if you received your units pursuant to the spin-off, the amount of dividend income you recognized pursuant to the spin-off) and (ii) your share of our partnership's liabilities, if any. That basis will be increased by your share of our partnership's income and by increases in your share of our partnership's liabilities, if any. That basis will be decreased, but not below zero, by distributions you receive from our partnership, by your share of our partnership's losses and by any decrease in your share of our partnership's liabilities. Under applicable U.S. federal income tax rules, a partner in a partnership has a single, or "unitary," tax basis in his or her partnership interest. As a result, any amount you pay to acquire additional units in our partnership (including through the distribution reinvestment plan) will be averaged with the adjusted tax basis of our units you owned prior to the acquisition of such additional units. The amount you pay to acquire additional units cannot be "traced" to the additional units so acquired. Certain consequences of your "unitary" tax basis are discussed in greater detail below in "Special Considerations for Purchasers of Additional units."

For purposes of the foregoing rules, the rules discussed immediately below, and the rules applicable to a sale or your units, our partnership's liabilities will generally include our partnership's share of any liabilities of Brookfield Infrastructure.

***Limits on Deductions for Losses and Expenses.*** Your deduction of your share of our partnership's losses will be limited to your tax basis in your units and, if you are an individual or a corporate holder that is subject to the "at risk" rules, to the amount for which you are considered to be "at risk" with respect to our partnership's activities, if that is less than your tax basis. In general, you will be at risk to the extent of your tax basis in your units, reduced by (i) the portion of that basis attributable to your share of our partnership's liabilities for which you will not be personally liable (excluding certain qualified non-recourse financing) and (ii) any amount of money you borrow to acquire or hold your units, if the lender of those borrowed funds owns an interest in us, is related to you, or can look only to your units for repayment. Your at risk amount will generally increase by your allocable share of our partnership's income and gain and decrease by cash distributions you receive from our partnership and your allocable share of losses and deductions. You must recapture losses deducted in previous years to the extent that distributions cause your at risk amount to be less than zero at the end of any taxable year. Losses disallowed or recaptured as a result of these limitations will carry forward and will be allowable to the extent that your tax basis or at risk amount, whichever is the limiting factor, subsequently increases. Upon the taxable disposition of your units, any gain recognized by you can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations may no longer be used. You should consult your own tax advisors as to the effects of the at risk rules.

***Limitations on Deductibility of Organizational Expenses and Syndication Fees.*** In general, neither our partnership nor any U.S. Holder may deduct organizational or syndication expenses. Similar rules apply to organizational or syndication expenses incurred by Brookfield Infrastructure. While an election may be made by a partnership to amortize organizational expenses over a 15-year period, we do not intend to make such election for either our partnership or Brookfield Infrastructure. Syndication fees (which would include any sales or placement fees or commissions) must be capitalized and cannot be amortized or otherwise deducted.

***Limitations on Interest Deductions.*** Your share of our partnership's interest expense is likely to be treated as "investment interest" expense. If you are a non-corporate taxpayer, the deductibility of "investment interest" expense is generally limited to the amount of your "net investment income." Your share of our partnership's dividend and interest income will be treated as investment income, although "qualified dividend income" subject to reduced rates of tax in the hands of an individual will only be treated as investment income if you elect to treat such dividend as ordinary income not subject to reduced rates of tax. In addition, state and local tax laws may disallow deductions for your share of our partnership's interest expense.

Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

***Deductibility of Partnership Investment Expenditures by Individual Partners and by Trusts and Estates.*** Subject to certain exceptions, all miscellaneous itemized deductions of an individual taxpayer, and certain of such deductions of an estate or trust, are deductible only to the extent that such deductions exceed 2% of the taxpayer's adjusted gross income. Moreover, the otherwise allowable itemized deductions of individuals whose gross income exceeds an applicable threshold amount are subject to reduction by an amount equal to the lesser of (i) 3% of the excess of the individual's adjusted gross income over the threshold amount, or (ii) 80% of the amount of the itemized deductions, such reductions to be reduced on a phased basis in 2009, eliminated in 2010, and, absent U.S. Congressional action, reinstated for tax years after 2010. The operating expenses of our partnership, including our partnership's allocable share of the base management fee or any other management fees (if any), will likely be treated as miscellaneous itemized deductions subject to the foregoing rule. Alternatively, it is possible that our partnership and Brookfield Infrastructure will be required to capitalize amounts paid in respect of the base management fee (as well as amounts paid in respect of any other management fees (if any)). Accordingly, if you are a non-corporate U.S. Holder, you should consult your own tax advisors with respect to the application of these limitations.

### *Sale or Exchange of Our Units*

You will recognize gain or loss on a sale by you of our units equal to the difference, if any, between the amount realized and your tax basis in our units sold. Your amount realized will be measured by the sum of the cash or the fair market value of other property received plus your share of our partnership's liabilities, if any.

Gain or loss recognized by you on the sale or exchange by you of our units will generally be taxable as capital gain or loss and will be long-term capital gain or loss if our units were held for more than one year on the date of such sale or exchange. Under certain circumstances, your gain or loss may be long-term capital gain or loss, in part, and short-term capital gain or loss, in part, under the "split" holding period rules discussed below in "Special Considerations for Purchasers of Additional Units." Assuming you have not elected to treat your share of our interest in any PFICs in which we may invest as a "qualified electing fund", gain attributable to such investment in a PFIC would be taxable in the manner described below in "—Passive Foreign Investment Companies". In addition, certain gain attributable to "unrealized receivables" or "inventory items" could be characterized as ordinary income rather than capital gain. For example, if our partnership holds debt acquired at a market discount, accrued market discount on such debt would be treated as "unrealized receivables." The deductibility of capital losses is subject to limitations.

### *Special Considerations for Purchasers of Additional Units*

Where a partner in a partnership acquires portions of his or her interest at different times, applicable U.S. federal income tax rules provide that the partner has a divided, or "split" holding period in his or her interest. Thus, if you acquire additional units at different times (including acquisitions made through the distribution reinvestment plan) each unit you own (including the additional units you acquire) will have a "split" holding period: a fraction of each unit will have a holding period commencing on the date after the acquisition of the additional units under the plan, and a fraction of each unit will have a holding period attributable to your previously-owned, or historic, units, based on the relative fair market values of the additional units and the historic units (as of the date of the acquisition of the additional units). The foregoing rules apply each time you acquire additional units (including under the distribution reinvestment plan). Nonetheless, each unit will retain an "averaged" adjusted tax basis as described above in "Basis.".

Subject to the special tracing approach described below, if you dispose of any units (whether historic or additional units) within one year of acquiring additional units, the disposition may give rise to both short- term capital gain (or loss), in part, and long-term capital gain (or loss), in part, as a result of each unit's "split" holding period. Likewise, a cash distribution to you within a year of the acquisition of additional units in excess of your "unitary" adjusted tax basis in all of your units could give rise to both short-term and long-term capital gain.

You may under certain circumstances use a "tracing" approach in lieu of having a "split" holding period in your units. The U.S. Treasury Regulations provide that a selling partner in a "publicly traded partnership" may use the actual holding period of the portion of his or her partnership interest if (1) the interest is divided into identifiable units with ascertainable holding periods, (2) the partner can identify the portion of the partnership interest transferred, and (3) the partner elects to use the identification method for all sales or exchanges of his or her interests in the partnership. As described above, our partnership will be a "publicly traded partnership." If you intend to rely on this alternative tracing approach, you must make an election to do so with your first disposition of units. This election applies only to your holding period in your units, not to your basis, which you may not "trace" under the "unitary" tax basis rules described above.

You should consult your own tax advisors regarding the consequences of a "split" holding period in your units, as well the availability and advisability of making the alternative tracing election.

*Foreign Tax Credit Limitations*

You will generally be entitled to a foreign tax credit with respect to your allocable share of creditable foreign taxes paid on our partnership's income and gains. Complex rules may, depending on your particular circumstances, limit the availability or use of foreign tax credits. Gains from the sale of our partnership's investments may be treated as U.S. source gains. Consequently, you may not be able to use the foreign tax credit arising from any foreign taxes imposed on such gains unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income treated as derived from foreign sources. Certain losses that our partnership incurs may be treated as foreign source losses, which could reduce the amount of foreign tax credits otherwise available.

*Section 754 Election*

Our partnership and Brookfield Infrastructure have each made the election permitted by Section 754 of the U.S. Internal Revenue Code (the "the Section 754 Election"). The Section 754 Election is irrevocable without the consent of the IRS. The Section 754 Election generally requires our partnership to adjust the tax basis in its assets, or inside basis, attributable to a transferee of our units under Section 743(b) of the U.S. Internal Revenue Code to reflect the purchase price paid by the transferee for our units. This election does not apply to a person who purchases our units directly from us. For purposes of this discussion, a transferee's inside basis in our partnership's assets will be considered to have two components: (i) the transferee's share of our partnership's tax basis in our partnership's assets, or common basis, and (ii) the adjustment under Section 743(b) of the U.S. Internal Revenue Code to that basis. The foregoing rules would also apply to Brookfield Infrastructure.

Generally, a Section 754 Election would be advantageous to a transferee U.S. Holder if such U.S. Holder's tax basis in its units is higher than our units' share of the aggregate tax basis of our partnership's assets immediately prior to the transfer. In that case, as a result of the Section 754 Election, the transferee U.S. Holder would have a higher tax basis in such U.S. Holder's share of our partnership's assets for purposes of calculating, among other items, such U.S. Holder's share of any gain or loss on a sale of our partnership's assets. Conversely, a Section 754 Election would be disadvantageous to a transferee U.S. Holder if such U.S. Holder's tax basis in its units is lower than those units' share of the aggregate tax basis of our partnership's assets immediately prior to the transfer. Thus, the fair market value of our units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 Election are complex, and our Managing General Partner and the Infrastructure General Partner advise that they will make them on the basis of assumptions as to the value of our assets and other matters. You should consult your own tax advisors as to the effects of the Section 754 Election.

*Uniformity of Our Units*

Because we cannot match transferors and transferees of our units, we must maintain uniformity of the economic and tax characteristics of our units to a purchaser of our units. In the absence of uniformity, we may be unable to comply fully with a number of U.S. federal income tax requirements. A lack of uniformity can result from a literal application of Treasury Regulations under Section 743 of the U.S. Internal Revenue Code to our partnership's Section 743(b) adjustments, the determination that our partnership's Section 704(c) allocations are unreasonable, or other reasons. Section 704(c) allocations would be intended to reduce or eliminate the disparity between tax basis and the value of our partnership's assets in certain circumstances, including on the issuance of additional units. In order to maintain the fungibility of all of our units at all times, we seek to achieve the uniformity of U.S. tax treatment for all purchasers of our units which are acquired at the same time and price (irrespective of the identity of the particular seller of our units or the time when our units are issued by our partnership) through the application of certain tax accounting principles that our Managing General Partner believes are reasonable for our partnership. However, the IRS may disagree with us and may successfully challenge our application of such tax accounting principles. Any non-uniformity could have a negative impact on the value of our units.

***Foreign Currency Gain or Loss***

Our partnership's functional currency will be the U.S. dollar, and our partnership's income or loss will be calculated in U.S. dollars. It is likely that our partnership will recognize "foreign currency" gain or loss with respect to transactions involving non-U.S. dollar currencies. In general, foreign currency gain or loss is treated as ordinary income or loss. You should consult your own tax advisors regarding the tax treatment of foreign currency gain or loss.

***Passive Foreign Investment Companies***

A U.S. Holder will be subject to special rules applicable to indirect investments in foreign corporations, including an investment in a PFIC.

A PFIC is defined as any foreign corporation with respect to which (after applying the applicable look-through rules under Section 1297(c) of the U.S. Internal Revenue Code) either (i) 75% or more of its gross income for a taxable year is "passive income" or (ii) 50% or more of its assets in any taxable year (generally based on the quarterly average of the value of its assets) produce "passive income." There are no minimum stock ownership requirements for PFICs. Once a corporation qualifies as a PFIC it is as to any person with an interest in such corporation at any time at which it was a PFIC, subject to certain exceptions, always treated as a PFIC, regardless of whether it satisfies either of the qualification tests in subsequent years. Any gain on disposition of stock of a PFIC, as well as income realized on certain "excess distributions" by the PFIC, is treated as though realized ratably over the shorter of your holding period of our units or our holding period for the PFIC. Such gain or income is taxable as ordinary income and dividends paid by a PFIC are not eligible for the preferential tax rate in the hands of individuals who would otherwise be eligible for the preferential tax rate for dividends. In addition, an interest charge would be imposed on you based on the tax deferred from prior years.

If you made an election to treat your share of our interest in a PFIC as a "qualified electing fund", such election a "QEF election", for the first year you are treated as holding such interest, in lieu of the foregoing treatment, you would be required to include in income each year a portion of the ordinary earnings and net capital gains of the PFIC, even if not distributed to our partnership or to you. A QEF election must be made by you on an entity-by-entity basis. To make a QEF election, you would, among other things, be required to (a) obtain an information statement (through an intermediary statement supplied by our partnership) with respect to the PFIC and (b) prepare and submit IRS Form 8621 with your annual income tax return. Once you make a QEF election for an entity, such election applies to any additional shares of interest in such entity acquired directly or indirectly, including through additional units acquired after the QEF election is made (such as units acquired under the distribution reinvestment plan). If you make a QEF election after the first year that you are treated as holding in interest in a PFIC, the adverse tax consequences relating to PFIC stock will continue to apply with respect to the pre-QEF election period, unless you make a "purging election". The purging election would create a deemed sale of your previously held share of our interests in a PFIC. The gain recognized by the purging election would be subject to the special tax and interest charge rules, which treat the gain as an excess distribution, as described above. As a result of the purging election, you would have a new basis and holding period in your share of our interests in the PFIC. U.S. Holders should consult their own tax advisors as to the manner in which such direct inclusions affect their allocable share of our income and their tax basis in their units and the advisability of making a QEF election or a purging election.

Alternatively, in the case of a PFIC that is a publicly traded foreign company, an election may be made to "mark-to-market" the stock of such foreign portfolio company on an annual basis. Once you make a "mark-to-market" election, such election applies to any additional shares of interest in such entity acquired directly or indirectly, including through additional units acquired after the "mark-to-market" election is made (such as units acquired under the distribution reinvestment plan). Pursuant to such an election, you would include in each year as ordinary income the excess, if any, of the fair market value of such stock over its adjusted basis at the end of the taxable year. You may treat as ordinary loss any excess of the adjusted basis of the stock over its fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the election. Although we may in the future acquire PFICs which are publicly traded foreign companies, it is not expected that interests in any of our current operations will be publicly traded. Thus, a U.S. Holder would not be eligible to make a mark-to-market election in respect of its indirect ownership interest in any of our operating entities.

Based on our analysis of our operating entities and Holding Entities, as well as our expectations regarding future operations, our Managing General Partner and the Infrastructure General Partner believe that some of the operating entities may be PFICs and we expect that one or more of the entities acquired in the BBI Transaction will also be PFICs. Although we do not otherwise intend to invest significant amounts in PFICs, there can be no assurance that a current or future investment will not qualify as a PFIC or that an investment in PFIC stock will be eligible for the "mark-to-market" election. In addition, we may be required to hold an existing or future operating entity through a Holding Entity that would be a PFIC in order to ensure that our partnership satisfies the Qualifying Income Exception. See "—Investment Structure", below. To the extent reasonably practicable, we intend to timely provide you with information related to the PFIC status of each entity we are able to identify as a PFIC, including information necessary to make a QEF election with respect to each such entity. To the extent reasonably practicable, we intend to make distributions of the earnings of each entity we are able to identify as a PFIC not less frequently than annually so as to minimize the likelihood that you will have excess distributions with respect to any such entity. However, because we cannot assure that will be the case, and because any gains on a sale of any such entity would remain subject to the PFIC tax regime discussed above (see also "Sale or Exchange of Our Units," above), we urge you to consider timely filing a QEF election with respect to each entity we are able to identify as a PFIC and for which we are able to provide the necessary information for the first year we hold an interest in such entity (or for the first year you held units, if later).

An investment in a PFIC may create a reporting obligation under the "Foreign Bank and Financial Account Reporting" rules as discussed below. Recently enacted U.S. legislation requires each U.S. person who directly or indirectly owns an interest in a PFIC to file an annual report with the IRS and failure to file such report could result in the imposition of penalties on such U.S. person. You should consult your own tax advisors regarding the PFIC rules, including the potential effects this legislation might have on your filing requirements and the advisability of making a QEF election or, if applicable, a mark-to-market election, with respect to each PFIC.

***Investment Structure***

To manage our affairs so as to ensure that our partnership meets the Qualifying Income Exception for the publicly traded partnership rules (discussed above) and comply with certain requirements in our limited partnership agreement, we may need to structure certain investments through an entity classified as a corporation for U.S. federal income tax purposes. Such investment structures will be entered into as determined in the sole discretion of our Managing General Partner and the Infrastructure General Partner in order to create a tax structure that generally is efficient for our unitholders. However, because our unitholders will be located in numerous taxing jurisdictions, no assurances can be given that any such investment structure will be beneficial to all our unitholders to the same extent, and may even impose additional tax burdens on some of our unitholders. As discussed above, if any such entity were a non-U.S. corporation it may be considered a PFIC. If any such entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its investments. In addition, if the investment involves U.S. real property, gain recognized on disposition of the investment by a corporation would generally be subject to corporate-level tax, whether the corporation is a U.S. or a non-U.S. corporation.

***Taxes in Other Jurisdictions***

In addition to U.S. federal income tax consequences, because of an investment in our partnership, you may be subject to potential U.S. state and local taxes in the U.S. state or locality in which you are a resident for tax purposes. You may also be subject to tax return filing obligations and income, franchise or other taxes, including withholding taxes, in non-U.S. jurisdictions in which we invest. We will attempt, to the extent reasonably practicable, to structure our operations and investments so as to avoid income tax filing obligations by our investors in non-U.S. jurisdictions, but, there may be circumstances in which we are unable to do so. Income or gains from investments held by us may be subject to withholding or other taxes in jurisdictions outside the United States, subject to the possibility of reduction under applicable income tax treaties. If you wish to claim the benefit of an applicable income tax treaty, you may be required to submit information to tax authorities in such jurisdictions. You should consult your own tax advisors regarding the U.S. state, local and non-U.S. tax consequences of an investment in our partnership.

***U.S. Withholding Taxes***

Although each U.S. Holder is required to provide us with a Form W-9, we nevertheless may be unable to accurately or timely determine the tax status of our investors for purposes of determining whether U.S. withholding applies to payments made by our partnership to some or all of our unitholders. In such a case, payments made by our partnership to U.S. Holders may be subject to U.S. "backup" withholding at the applicable rate (currently 28%) or other U.S. withholding taxes (potentially as high as 30%). You would be able to treat as a credit your allocable share of any U.S. withholding taxes paid in the taxable year in which such withholding taxes were paid and, as a result, you may be entitled to a refund of such taxes from the IRS. In the event you transfer or otherwise dispose of some or all of your units, special rules may apply for purposes of determining whether you or the transferee of such units is subject to U.S. withholding taxes in respect of income allocable to, or distributions made on account of, such units and/or entitled to refunds of any such taxes withheld. See below "Administrative Matters—Certain Effects of a Transfer of Units". You should consult your own tax advisors regarding the treatment of U.S. withholding taxes.

***Transferor/Transferee Allocations***

Our partnership may allocate items of income, gain, loss, deduction and credit using a monthly or other convention, whereby any such items recognized in a given month by our partnership are allocated to the holders of our units as of a specified date of such month. As a result, if you transfer your units, you may be allocated income, gain, loss and deduction realized by our partnership after the date of transfer. Similarly, if you acquire additional units, you may be allocated income, gain, loss, and deduction realized by our partnership prior to your ownership of such units.

Although Section 706 of the U.S. Internal Revenue Code generally provides guidelines for allocations of items of partnership income and deductions between transferors and transferees of partnership interests, it is not clear that our partnership's allocation method complies with its requirements. If our partnership's convention were not permitted, the IRS might contend that our partnership's taxable income or losses must be reallocated among our unitholders. If such a contention were sustained, your respective tax liabilities would be adjusted to your possible detriment. Our

Managing General Partner is authorized to revise our partnership's method of allocation between transferors and transferees (as well as among investors whose interests otherwise vary during a taxable period).

### *U.S. Federal Estate Tax Consequences*

If our units are included in the gross estate of a U.S. citizen or resident for U.S. federal estate tax purposes, then a U.S. federal estate tax might be payable in connection with the death of such person. Individual U.S. Holders should consult their own tax advisors concerning the potential U.S. federal estate tax consequences with respect to our units.

## U.S. Taxation of Tax-Exempt U.S. Holders of Our Units

Income recognized by a U.S. tax-exempt organization is exempt from U.S. federal income tax except to the extent of the organization's "unrelated business taxable income", or "UBTI". UBTI is defined generally as any gross income derived by a tax-exempt organization from an unrelated trade or business that it regularly carries on, less the deductions directly connected with that trade or business. In addition, income arising from a "flow through" entity for U.S. federal income tax purposes that holds operating assets or is otherwise engaged in a trade or business will generally constitute UBTI. Notwithstanding the foregoing, UBTI generally does not include any dividend income, interest income (or certain other categories of passive income) or capital gains recognized by a tax-exempt organization so long as such income is not debt financed, as discussed below. Our Managing General Partner believes that our partnership will not be engaged in a trade or business, and anticipates that any operating assets held by us will be held through entities that are treated as corporations for U.S. federal income tax purposes.

The exclusion from UBTI for dividends, interest (or other passive income) and capital gains does not apply to income from "debt-financed property", which is treated as UBTI to the extent of the percentage of such income that the average acquisition indebtedness with respect to the property bears to the average tax basis of the property for the taxable year. Gain attributable to the sale of previously debt-financed property continues to be subject to these rules for 12 months after any acquisition indebtedness is satisfied. If an entity treated as a partnership for U.S. federal income tax purposes incurs acquisition indebtedness, a tax-exempt partner in such partnership would be deemed to have acquisition indebtedness equal to its allocable portion of such acquisition indebtedness. Our partnership and Brookfield Infrastructure are not prohibited from incurring indebtedness, and at times either or both may do so. If any such indebtedness were used to acquire property by our partnership or Brookfield Infrastructure, such property would be subject to the rules described above, and, consequently, tax-exempt U.S. Holders may recognize UBTI as a result of an investment in our partnership. In addition, even if such indebtedness were not used either by our partnership or by Brookfield Infrastructure to acquire property but were instead used to fund distributions to our unitholders, if a tax-exempt U.S. Holder used such proceeds to make an investment outside our partnership, the IRS could assert that such investment constitutes "debt-financed property" subject to the rules described above. Our Managing General Partner and the Infrastructure General Partner expect our partnership and Brookfield Infrastructure to realize some income from debt-financed property.

A tax-exempt organization is subject to U.S. federal income tax at the regular graduated rates on the net amount of its UBTI, and a tax-exempt organization deriving gross income characterized as UBTI that exceeds $1,000 in any taxable year is obligated to file a U.S. federal income tax return, even if it has no liability for that year as a result of deductions against such gross income, including an annual $1,000 statutory deduction.

The potential for having income characterized as UBTI may make our units an unsuitable investment for a tax-exempt organization. Tax-exempt U.S. Holders should consult their own tax advisors regarding all aspects of UBTI.

**Investments by U.S. Mutual Funds**

U.S. mutual funds that are treated as regulated investment companies, or RICs, for U.S. federal income tax purposes are required, among other things, to meet an annual 90% gross income and a quarterly 50% asset value test under Section 851(b) of the U.S. Internal Revenue Code to maintain their favorable U.S. federal income tax status. The treatment of an investment by a RIC in our units for purposes of these tests will depend on whether our partnership will be treated as a "qualified publicly traded partnership". If our partnership is so treated, then our units themselves are the relevant assets for purposes of the 50% asset value test and the net income from our units is the relevant gross income for purposes of the 90% gross income test. If, however, our partnership is not so treated, then the relevant assets are the RIC's allocable share of the underlying assets held by our partnership and the relevant gross income is the RIC's allocable share of the underlying gross income earned by our partnership. Whether our partnership will qualify as a "qualified publicly traded partnership" depends on the exact nature of its future investments, but our Managing General Partner believes it is likely that our partnership will not be treated as a "qualified publicly traded partnership." RICs should consult their own tax advisors about the U.S. tax consequences of an investment in our units.

***Consequences to Non-U.S. Holders***

Our Managing General Partner and the Infrastructure General Partner intend to use commercially reasonable efforts to structure the activities of our partnership and of Brookfield Infrastructure to avoid generating income treated as effectively connected with a U.S. trade or business, including effectively connected income attributable to the sale of a "United States Real Property Interest", as defined in the U.S. Internal Revenue Code. Specifically, our partnership will not make an investment directly, or through an entity which would be treated as a pass-through entity for U.S. federal income tax purposes, if our Managing General Partner believes at the time of such investment that such investment would generate income treated as effectively connected with a U.S. trade or business. If, as anticipated, our partnership is not treated as engaged in a U.S. trade or business or as deriving income which is treated as effectively connected with a U.S. trade or business, and provided that you are not yourself engaged in a U.S. trade or business, you will not be subject to U.S. tax return filing requirements and generally will not be subject to U.S. federal income tax on interest and dividends from non-U.S. sources and gains from the sale or other disposition of securities or of real property located outside of the United States derived by us.

However, there can be no assurance that the law will not change or that the IRS will not challenge our Managing General Partner's position that our partnership is not engaged in a U.S. trade or business. If, contrary to our Managing General Partner's expectations, our partnership is considered to be engaged in a U.S. trade or business, you would be required to file a U.S. federal income tax return even if no effectively connected income is allocable to you. Additionally if our partnership has income that is treated as effectively connected with a U.S. trade or business, you would be required to report that income and would be subject to U.S. federal income tax at the regular graduated rates. In addition, we may be required to withhold U.S. federal income tax on your share of such income. If you are a non-U.S. corporation, you also may be subject to branch profits tax at a rate of 30%, or at a lower treaty rate, if applicable.

In general, even if our partnership is not engaged in a U.S. trade or business, and assuming you are not otherwise engaged in a U.S. trade or business, you will nonetheless be subject to a withholding tax of 30% on the gross amount on certain U.S.-source income which is not effectively connected with a U.S. trade or business. Income subjected to such a flat tax rate is income of a fixed or determinable annual or periodic nature, including dividends and certain interest income. Such withholding tax may be reduced or eliminated with respect to certain types of income under an applicable income tax treaty between the United States and your country of residence or under the "portfolio interest" rules of the U.S. Internal Revenue Code, provided that you provide proper certification as to your eligibility for such treatment. Notwithstanding the foregoing, and although each non-U.S. Holder is required to provide us with a Form W-8, we nevertheless may be unable to accurately or timely determine the tax status of our investors for purposes of establishing whether reduced rates of withholding apply to some or all of our investors. In such a case, your allocable share of distributions of U.S.-source dividend and interest income will be subject to U.S. withholding tax at a rate of 30%. As such, if you would not be subject to U.S. tax based on your tax status or are eligible for a reduced rate of U.S. withholding, you may need to take additional steps to receive a credit or refund of any excess withholding tax paid on your account, which may include the filing of a non-resident U.S. income tax return with the IRS. Among other limitations applicable to claiming treaty benefits, if you reside in a treaty jurisdiction which does not treat our partnership as a pass-through entity, you may not be eligible to receive a refund or credit of excess U.S. withholding taxes paid on your account. In the event you transfer or otherwise dispose of some or all of your units, special rules may apply for purposes of determining whether you or the transferee of such units are subject to U.S. withholding taxes in respect of income allocable to, or distributions made on account of, such units and/or entitled to refunds of any such taxes withheld. See "—Administrative Matters—Certain Effects of a Transfer of units". Additionally, under recently enacted U.S. legislation, certain payments of U.S. source income made after December 31, 2012, (including payments attributable to dispositions of property which produced (or could produce) certain U.S. source income) made to us or by us to or through non-U.S. financial institutions or non-U.S. entities, could be subject to a 30% withholding tax unless (a) the non-U.S. financial institution enters into an agreement with the IRS to provide to the IRS information concerning its direct and certain indirect U.S. account holders, or (b) in the case of other non-U.S. entities, such entity provides to the withholding agent similar information concerning its substantial U.S. beneficial owners. These rules do not apply with respect to payments from obligations that are outstanding as of March 18, 2012. You should consult your own tax advisors regarding the treatment of U.S. withholding taxes in general and the application of the recently enacted legislation to your particular circumstances.

The disposition of our units on an established securities market by a non-U.S. Holder will not be subject to U.S. federal income tax, so long as (i) such non-U.S. Holder does not own (and is not deemed to own) more than 5% of our units, and (ii) for the calendar quarter during which such disposition occurs, our units are regularly quoted by brokers and dealers making a market in our units. Our Managing General Partner does not intend to list our units for trading on any exchange if such listing would adversely affect the tax consequences from disposing of the units as described above.

A non-U.S. Holder who holds more than 5% of our units may be subject to special rules under the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA. For purposes of determining whether a non-U.S. Holder holds more than 5% of our units, special attribution rules apply. Where a non-U.S. person who holds (or is deemed to hold) more than 5% of our units disposes of units at a time when our partnership is a U.S. Real Property Holding Corporation, or USRPHC, (which determination includes a five year look back period) any gain will be subject to U.S. taxation at 35%, and such non-U.S. person will have a U.S. tax return filing obligation. Our Managing General Partner does not believe that our partnership is currently, or has been, a USRPHC. Our partnership is not under any obligation to avoid becoming a USRPHC or to notify unitholders in the event that our Managing General Partner determines it becomes a USRPHC. If any unitholder is a non-U.S. person and owns or anticipates owning more than 5% of our units, such person should consult their tax advisors. The application of the FIRPTA rules to a non-U.S. Holder who holds (or is deemed to hold) more than 5% of our units would result in such non-U.S. Holder being liable for FIRPTA tax if such non-U.S. Holder disposes of our units at a time when we are a USRPHC or have at any time been a

USRPHC within the shorter of such non-U.S. Holder's holding period or five years preceding the disposition.

A non-U.S. tax-exempt entity generally could be subject to taxation in the U.S. on its U.S. source unrelated business taxable income and on certain trade or business income that is effectively connected with the conduct of any trade or business of our partnership or Brookfield Infrastructure in the United States. Our Managing General Partner and the Infrastructure General Partner intend to use commercially reasonable efforts to structure the activities of our partnership and Brookfield Infrastructure to avoid generating income treated as effectively connected with the conduct of a U.S. trade or business, but do expect our partnership and Brookfield Infrastructure to realize some U.S. source investment income, which, if debt-financed, would constitute unrelated business taxable income. A non-U.S. tax-exempt entity should consult its own tax advisor to determine the U.S. federal income tax consequences with respect to an investment in our units.

The U.S. federal estate tax treatment of our units with regard to the estate of a non-citizen who is not a resident of the United States is not entirely clear. If our units are includable in the U.S. gross estate of such person, then a U.S. federal estate tax might be payable in connection with the death of such person. Individual non-U.S. Holders who are non-citizens and not residents of the United States should consult their own tax advisors concerning the potential U.S. federal estate tax consequences with regards to our units.

**Administrative Matters**

***Tax Matters Partner***

Our Managing General Partner will act as our partnership's "tax matters partner." As the tax matters partner, our Managing General Partner will have the authority, subject to certain restrictions, to act on our behalf in connection with any administrative or judicial review of our items of income, gain, loss, deduction or credit.

***Information Returns***

We have agreed to use commercially reasonable efforts to furnish to you, within 90 days after the close of each calendar year, tax information (including Schedule K-1), which describes on a U.S. dollar basis your share of our partnership's income, gain, loss and deduction for our preceding taxable year. In preparing this information, we will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine your share of income, gain, loss and deduction. The IRS may successfully contend that certain of these reporting conventions are impermissible, which could result in an adjustment to your income or loss.

We may be audited by the IRS. Adjustments resulting from an IRS audit may require you to adjust a prior year's tax liability, and possibly may result in an audit of your own tax return. Any audit of your tax return could result in adjustments not related to our tax returns as well as those related to our tax returns.

***Foreign Bank and Financial Account Reporting***

U.S. persons having a financial interest in or signature authority over a financial account in a foreign country may be required to file annually with the IRS a "Report of Foreign Bank and Financial Accounts", or an FBAR. The IRS has recently issued guidance on the scope of the FBAR requirement. While individual stocks are not considered "financial accounts", commingled funds, such as mutual funds, are considered "financial accounts" for FBAR reporting purposes. As part of the recently issued guidance, the IRS requested comments on whether an ownership interest in a PFIC should create an FBAR filing requirement. It is not clear that an interest in our partnership will be considered an interest in a commingled fund requiring an FBAR, or that an ownership interest in a PFIC will create an FBAR reporting obligation. However, you are urged to consult your tax advisors regarding the applicability of any such reporting requirement.

### *Tax Shelter Regulations and Related Reporting Requirements*

If we were to engage in a "reportable transaction", we (and possibly you and others) would be required to make a detailed disclosure of the transaction to the IRS in accordance with recently issued regulations governing tax shelters and other potentially tax-motivated transactions. A transaction may be a reportable transaction based upon any of several factors, including the fact that it is a type of tax avoidance transaction publicly identified by the IRS as a "listed transaction", or as a "transaction of interest", or that it produces certain kinds of losses in excess of $2 million (or, in the case of certain foreign currency transactions, losses in excess of $50,000). An investment in us may be considered a "reportable transaction" if, for example, we recognize certain significant losses in the future. In certain circumstances, a unitholder who disposes of an interest in a transaction resulting in the recognition by such holder of significant losses in excess of certain threshold amounts may be obligated to disclose its participation in such transaction. Our participation in a reportable transaction also could increase the likelihood that our U.S. federal income tax information return (and possibly your tax return) would be audited by the IRS. Certain of these rules are currently unclear, and the scope of reportable transactions can change retroactively, and, therefore, it is possible that they may be applicable in situations other than significant loss transactions.

Moreover, if we were to participate in a reportable transaction with a significant purpose to avoid or evade tax, or in any listed transaction, you may be subject to (i) significant accuracy-related penalties with a broad scope, (ii) for those persons otherwise entitled to deduct interest on federal tax deficiencies, non-deductibility of interest on any resulting tax liability, and (iii) in the case of a listed transaction, an extended statute of limitations. We do not intend to participate in any reportable transaction with a significant purpose to avoid or evade tax, nor do we intend to participate in any listed transactions. However, no assurances can be made that the IRS will not assert that we have participated in such a transaction.

You should consult your own tax advisors concerning any possible disclosure obligation under the regulations governing tax shelters with respect to the disposition of our units held by you.

### *Taxable Year*

Our partnership currently intends to use the calendar year as its taxable year for U.S. federal income tax purposes. Under certain circumstances which we currently believe are unlikely to apply, a taxable year other than the calendar year may be required for such purposes.

### *Constructive Termination*

Subject to the electing large partnership rules described below, our partnership will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of our units within a 12-month period.

A termination of our partnership would result in the close of its taxable year for all holders of our units. If you report on a taxable year other than a fiscal year ending on our partnership's year-end, and you are otherwise subject to U.S. federal income tax, the closing of our partnership's taxable year may result in more than 12 months of our partnership's taxable income or loss being includable in your taxable income for the year of termination. Our partnership would be required to make new tax elections after a termination, including a new Section 754 Election. A termination could also result in penalties and other adverse tax consequences if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

***Elective Procedures for Large Partnerships***

The U.S. Internal Revenue Code allows large partnerships to elect streamlined procedures for income tax reporting. This election would reduce the number of items that must be separately stated on the Schedules K-1 that are issued to the holders of our units, and such Schedules K-1 would have to be provided to holders on or before the first March 15 following the close of each taxable year. In addition, this election would prevent our partnership from suffering a "technical termination" (which would close our taxable year and require that we make a new Section 754 Election) if, within a 12-month period, there is a sale or exchange of 50% or more of our total units. Despite the foregoing benefits, there are also costs and administrative burdens associated with such an election. Consequently, as of this time, our partnership has not elected to be subject to the reporting procedures applicable to large partnerships.

***Backup and Other Administrative Withholding Issues***

For each calendar year, we will report to you and to the IRS the amount of distributions that we pay, and the amount of tax (if any) that we withhold on these distributions. Under the backup withholding rules, you may be subject to backup withholding tax (at the applicable rate, currently 28%) with respect to distributions paid unless: (i) you are a corporation or come within another exempt category and demonstrate this fact when required or (ii) you provide a taxpayer identification number, certify as to no loss of exemption from backup withholding tax and otherwise comply with the applicable requirements of the backup withholding tax rules. If you are an exempt holder, you should indicate your exempt status on a properly completed IRS Form W-9. A Non-U.S. Holder may qualify as an exempt recipient by submitting a properly completed IRS Form W-8BEN. Backup withholding is not an additional tax; the amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund from the IRS.

If you do not timely provide us with IRS Form W-8, or W-9, as applicable, or such form is not properly completed, we may become subject to U.S. "backup" withholding taxes in excess of what would have been imposed had our partnership received certifications from all investors. For administrative reasons, and in order to maintain fungibility of our units, such excess U.S. "backup" withholding taxes, and if necessary similar items, may be treated by our partnership as an expense that will be borne by all unitholders on a pro rata basis (e.g., since it may be impractical for us to allocate any such excess withholding tax cost to the unitholders that failed to timely provide the proper U.S. tax certifications). Additionally, under recently enacted U.S. legislation, certain payments of U.S. source income made after December 31, 2012, (including payments attributable to dispositions of property which produced (or could produce) certain U.S. source income) made to us or by us to or through non-U.S. financial institutions or non-U.S. entities, could be subject to a 30% withholding tax unless (a) the non-U.S. financial institution enters into an agreement with the IRS to provide to the IRS information concerning its direct and certain indirect U.S. account holders, or (b) in the case of other non-U.S. entities, such entity provides to the withholding agent similar information concerning its substantial U.S. beneficial owners. These rules do not apply with respect to payments from obligations that are outstanding as of March 18, 2012. You should consult your own tax advisors regarding the treatment of U.S. withholding taxes in general and the application of the recently enacted legislation to your particular circumstances.

***Recently Enacted Legislation Affecting Disclosure Obligations for U.S. Individuals***

United States legislation was enacted on March 18, 2010, that generally imposes new U.S. return disclosure obligations (and related penalties for failure to disclose) on U.S. individuals that hold certain specified foreign financial assets. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. Unitholders are urged to consult their own tax advisors regarding the possible implications of this recently enacted legislation on their investment in the units.

*Certain Effects of a Transfer of Units*

Our partnership may allocate items of income, gain, loss, deduction and credit using a monthly or other convention, whereby any such items recognized in a given month by our partnership are allocated to our unitholders as of a specified date of such month. Any U.S. withholding taxes applicable to dividends received by Brookfield Infrastructure (and, in turn, our partnership) will generally be withheld by our partnership only when such dividends are paid. Because our partnership generally intends to distribute amounts received in respect of dividends shortly after receipt of such amounts, it is generally expected that any U.S. withholding taxes withheld by our partnership on such amounts will correspond to our unitholders who were allocated income and who received the distributions in respect of such amounts. Brookfield Infrastructure may invest in debt obligations or other securities for which the accrual of interest or income thereon is not matched by a contemporaneous receipt of cash. Any such accrued interest or other income would be allocated pursuant to the monthly convention described above. Consequently, our unitholders may recognize income in excess of cash distributions received from our partnership, and any income so included by a unitholder would increase the basis such unitholder has in our units and would offset any gain (or increase the amount of loss) realized by such unitholder on a subsequent disposition of its units. In addition, U.S. withholding taxes generally would be withheld by our partnership only on the payment of cash in respect of such accrued interest or other income, and, therefore, it is possible that some unitholders would be allocated income which may be distributed to a subsequent unitholder and such subsequent unitholder would be subject to withholding at the time of distribution. Consequently, the subsequent unitholder, and not the unitholder who was allocated income, would be entitled to claim any available credit with respect to such withholding.

Brookfield Infrastructure has invested and will continue to invest in certain Holding Entities and operating entities organized in non-U.S. jurisdictions, and income and gains from such investments may be subject to withholding and other taxes in such jurisdictions. If any such non-U.S. taxes are imposed on income allocable to a U.S. Holder, and thereafter, such U.S. Holder disposed of its units prior to the date distributions are made in respect of such income, under applicable provisions of the U.S. Internal Revenue Code and U.S. Treasury Regulations, our unitholder to whom such income was allocated (and not our unitholder to whom distributions were ultimately made) would, subject to other applicable limitations, be the party permitted to claim a credit for such non-U.S. taxes for U.S. federal income tax purposes. Complex rules may, depending on a unitholder's particular circumstances, limit the availability or use of foreign tax credits, and investors are urged to consult their own tax advisors regarding all aspects of foreign tax credits.

*Nominee Reporting*

Persons who hold an interest in our partnership as a nominee for another person are required to furnish to us:

(a) the name, address and taxpayer identification number of the beneficial owner and the nominee;

(b) whether the beneficial owner is (1) a person that is not a U.S. person, (2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (3) a tax-exempt entity;

(c) the amount and description of units held, acquired or transferred for the beneficial owner; and

(d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the U.S. Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of our units with the information furnished to us.

***New Legislation or Administrative or Judicial Action***

The U.S. federal income tax treatment of our unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules, particularly those applicable to partnerships, are constantly under review (including currently) by the Congressional tax-writing committees and other persons involved in the legislative process, the IRS, the U.S. Treasury Department, and the courts, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations, any of which could adversely affect the value of our units and be effective on a retroactive basis. For example, changes to the U.S. federal tax laws and interpretations thereof could adversely affect the U.S. federal income tax treatment of publicly traded partnerships, including changes that make it more difficult or impossible for our partnership (or Brookfield Infrastructure) to meet the Qualifying Income Exception so as to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, changes that recharacterize a partner's share of capital gain, "qualified dividend" and portfolio interest income as ordinary income with possible withholding tax consequences and adverse federal income tax consequences, and changes that reduce the net amount of distributions available to our unitholders. (See, for example, the discussion of pending legislation, H.R. 4213, under Item 10.E "Taxation—Certain Material U.S. Tax Considerations—Partnership Status of our partnership and Brookfield Infrastructure," above.) Such changes could also affect or cause us to change the way we conduct our activities, affect the tax considerations of an investment in our partnership, change the character or treatment of portions of our partnership's income (including changes that recharacterize certain allocations as potentially non-deductible fees) and adversely affect an investment in our units.

Our partnership's organizational documents and agreements permit our Managing General Partner to modify our limited partnership agreement from, time-to-time, without the consent of our unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation or to elect to treat our partnership as a corporation for U.S. tax purposes. In some circumstances, such revisions could have a material adverse impact on some or all of our unitholders.

THE FOREGOING DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. THE TAX MATTERS RELATING TO US AND OUR UNITHOLDERS ARE COMPLEX AND ARE SUBJECT TO VARYING INTERPRETATIONS. MOREOVER, THE EFFECT OF EXISTING INCOME TAX LAWS, THE MEANING AND IMPACT OF WHICH IS UNCERTAIN AND OF PROPOSED CHANGES IN INCOME TAX LAWS WILL VARY WITH THE PARTICULAR CIRCUMSTANCES OF EACH UNITHOLDER AND IN REVIEWING THIS ANNUAL REPORT ON FORM 20-F THESE MATTERS SHOULD BE CONSIDERED. UNITHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE

U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF ANY INVESTMENT IN OUR UNITS.

**CERTAIN MATERIAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is a fair summary of the principal Canadian federal income tax consequences of the holding and disposition of units in our partnership generally applicable to a holder who, for purposes of the Tax Act and at all relevant times, holds our units as capital property and deals at arm's length and is not affiliated with our partnership, Brookfield Infrastructure, the Managing General Partner, the Infrastructure General Partner, the Infrastructure GP LP and their respective affiliates. Generally, our units will be considered to be capital property to a holder, provided that the holder does not hold our units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade.

This summary is not applicable to (i) a holder that is a "financial institution" as defined in the Tax Act for purposes of the "mark-to-market" rules, (ii) a holder that is a "specified financial institution" as defined in the Tax Act, (iii) a holder who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act, or (iv) a holder an interest in which would be a "tax shelter investment" as defined in the Tax Act, or who acquires a unit as a tax shelter investment (and this summary assumes that no such persons hold our units). Any such holders should consult their own tax advisors with respect to an investment in our units.

This summary is based on the current provisions of the Tax Act, the regulations thereunder, or the Regulations, all specific proposals to amend the Tax Act or the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, or the Tax Proposals, and the current published administrative and assessing policies and practices of the CRA. This summary assumes that all Tax Proposals will be enacted in the form proposed but no assurance can be given that the Tax Proposal will be enacted in the form proposed or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, administrative or legislative decision or action or changes in CRA's administrative and assessing policies and practices, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from those described herein. This summary is not exhaustive of all possible Canadian federal income tax consequences that may affect holders and prospective holders.

This summary assumes that neither our partnership nor Brookfield Infrastructure will be considered to carry on business in Canada. Our Managing General Partner and the Infrastructure General Partner have advised that they intend to conduct the affairs of each of these entities, to the extent possible, so that none of these entities should be considered to carry on business in Canada for purposes of the Tax Act. However, no assurance can be given in this regard.

This summary also assumes that neither our partnership nor Brookfield Infrastructure is a "tax shelter" or "tax shelter investment", each as defined in the Tax Act. However, no assurance can be given in this regard.

This summary also assumes that neither our partnership nor Brookfield Infrastructure will be a "SIFT partnership" as defined in subsection 197(1) of the Tax Act at any relevant time for purposes of the SIFT Rules on the basis that neither our partnership nor Brookfield Infrastructure will be a "Canadian resident partnership" as defined in subsection 248(1) of the Tax Act at any relevant time. However, there can be no assurance that the SIFT Rules will not be revised or amended such that the SIFT Rules will apply.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of our units, and no representation with respect to the Canadian federal income tax consequences to any particular holder is made. Consequently, holders of**

**our units and prospective holders of our units are advised to consult their own tax advisors with respect to their particular circumstances. See also "Risk Factors—Risks Relating to Taxation.**

## TAXATION OF CANADIAN RESIDENT LIMITED PARTNERS

The following is a discussion of the consequences under the Tax Act to holders who at all relevant times are resident or deemed to be resident in Canada under the Tax Act, or Canadian Limited Partners.

*Computation of Income or Loss*

Each Canadian Limited Partner is required to include (or, subject to the "at-risk rules" discussed below, entitled to deduct) in computing his or her income for a particular taxation year the Canadian Limited Partner's pro rata share of the income (or loss) of our partnership for its fiscal year ending in, or coincidentally with, the Canadian Limited Partner's taxation year end, whether or not any of that income is distributed to the Canadian Limited Partner in the taxation year and regardless of whether our units were held throughout such year.

Our partnership will not itself be a taxable entity and is not expected to be required to file an income tax return in Canada. However, the income (or loss) of our partnership for a fiscal period for purposes of the Tax Act will be computed as if it were a separate person resident in Canada and our partners will be allocated a share of that income (or loss) in accordance with our limited partnership agreement. The income (or loss) of our partnership will include our share of the income (or loss) of Brookfield Infrastructure for a fiscal year determined in accordance with Brookfield Infrastructure's limited partnership agreement. For this purpose, our partnership's fiscal year end and that of Brookfield Infrastructure will be December 31.

The income for tax purposes of our partnership for a given fiscal year of our partnership will be allocated to each unitholder in an amount calculated by multiplying such income that is allocable to unitholders by a fraction, the numerator of which is the sum of the distributions received by such unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of the distributions made by our partnership to unitholders with respect to such fiscal year. Generally, the source and character of items of income allocated to a unitholder with respect to a fiscal year of our partnership will be the same source and character as the cash distributions received by such unitholder with respect to such fiscal year.

If, with respect to a given fiscal year, no distribution is made by our partnership to unitholders or our partnership has a loss for tax purposes, one quarter of the income, or loss, as the case may be, for tax purposes of our partnership for such fiscal year that is allocable to unitholders, will be allocated to the unitholders of record at the end of each calendar quarter ending in such fiscal year in the proportion that the number of units held at each such date by a unitholder is of the total number of units that are issued and outstanding at each such date. Generally, the source and character of such income or loss allocated to a unitholder at the end of each calendar quarter will be the same source and character as the income or loss earned or incurred by our partnership in such calendar quarter.

The income of our partnership as determined for purposes of the Tax Act may differ from its income as determined for accounting purposes and may not be matched by cash distributions. In addition, for purposes of the Tax Act, all income of our partnership and Brookfield Infrastructure must be calculated in Canadian currency. Where our partnership (or Brookfield Infrastructure) holds investments denominated in U.S. dollars or other foreign currencies, gains and losses may be realized by our partnership as a consequence of fluctuations in the relative values of the Canadian and foreign currencies.

In computing the income (or loss) of our partnership, deductions may be claimed in respect of reasonable administrative costs, interest and other expenses incurred by our partnership for the purpose of earning income, subject to the relevant provisions of the Tax Act. Our partnership may also deduct from its income for the year a portion of the reasonable expenses, if any, incurred by our partnership to issue units. The portion of such issue expenses deductible by our partnership in a taxation year is 20% of such issue expenses, pro-rated where our partnership's taxation year is less than 365 days. Our partnership and Brookfield Infrastructure may be required to withhold and remit Canadian federal withholding tax on any management or administration fees or charges paid or credited to a non-resident person, to the extent that such management or administration fees or charges are deductible in computing our partnership's or Brookfield Infrastructure's income from a source in Canada.

In general, a Canadian Limited Partner's share of any income (or loss) from our partnership from a particular source will be treated as if it were income (or loss) of the Canadian Limited Partner from that source, and any provisions of the Tax Act applicable to that type of income (or loss) will apply to the Canadian Limited Partner. Our partnership will invest in limited partnership units of Brookfield Infrastructure. In computing our partnership's income (or loss) under the Tax Act, Brookfield Infrastructure will itself be deemed to be a separate person resident in Canada which computes its income (or loss) and allocates to its partners their respective share of such income (or loss). Accordingly, the source and character of amounts included in (or deducted from) the income of Canadian Limited Partners on account of income (or loss) earned by Brookfield Infrastructure generally will be determined by reference to the source and character of such amounts when earned by Brookfield Infrastructure.

The characterization by CRA of gains realized by our partnership or Brookfield Infrastructure on the disposition of investments as either capital gains or income gains will depend largely on factual considerations, and no conclusions are expressed herein.

A Canadian Limited Partner's share of taxable dividends received or considered to be received by our partnership in a fiscal year from a corporation resident in Canada will be treated as a dividend received by the Canadian Limited Partner and will be subject to the normal rules in the Tax Act applicable to such dividends, including the enhanced dividend gross up and tax credit for eligible dividends when the dividend received by Brookfield Infrastructure is designated as an eligible dividend.

Foreign taxes paid by our partnership or Brookfield Infrastructure and taxes withheld at source (other than for the account of a particular Canadian Limited Partner) will be allocated pursuant to the governing partnership agreement. Each Canadian Limited Partner's share of the business-income tax and non-business-income tax paid in a foreign country for a year will be creditable against its Canadian federal income tax liability to the extent permitted by the detailed rules contained in the Tax Act. Although the foreign tax credit provisions are designed to avoid double taxation, the maximum credit is limited. Because of this, and because of timing differences in recognition of expenses and income and other factors, there is a risk of double taxation.

Our partnership and Brookfield Infrastructure will be deemed to be a non-resident person in respect of certain amounts paid or credited to them by a person resident or deemed to be resident in Canada, including dividends or interest. Dividends or interest (other than interest exempt from Canadian federal withholding tax) paid by a person resident or deemed to be resident in Canada to Brookfield Infrastructure will be subject to withholding tax under Part XIII of the Tax Act at the rate of 25%. However, the CRA's administrative practice in similar circumstances is to permit the rate of Canadian federal withholding tax applicable to such payments to be computed by looking through the partnership and taking into account the residency of the partners (including partners who are resident in Canada) and any reduced rates of Canadian federal withholding tax that any non-resident partners may be entitled to under an applicable income treaty or convention, provided that the residency status and entitlement to the treaty benefits can be established. In determining the rate of Canadian federal withholding tax applicable to amounts paid by the Holding Entities to Brookfield Infrastructure, we expect the Holding Entities to look-through Brookfield Infrastructure and our partnership to the residency of the partners of our partnership (including partners who are residents of Canada) and to take into account any reduced rates of Canadian federal withholding tax that non-resident partners may be entitled to under an applicable income tax treaty or convention in order to determine the appropriate amount of Canadian federal withholding tax to withhold from dividends or interest paid to Brookfield Infrastructure. However, there can be no assurance that CRA would apply its administrative practice in this context. Under the Canada-U.S. Tax Treaty, a Canadian resident payer may be required to look-through fiscally transparent partnerships such as our partnership and Brookfield Infrastructure to the residency of limited partners of the partnership who are entitled to relief under that treaty and take into account reduced rates of Canadian federal withholding tax that such limited partners may be entitled to under that treaty.

If our partnership incurs losses for tax purposes, each Canadian Limited Partner will, subject to the REOP Proposals discussed below, be entitled to deduct in the computation of income for tax purposes the Canadian Limited Partner's pro rata share of any net losses for tax purposes of our partnership for its fiscal year to the extent that the Canadian Limited Partner's investment is "at-risk" within the meaning of the Tax Act. The Tax Act contains "at-risk rules" which may, in certain circumstances, restrict the deduction of a limited partner's share of any losses of a limited partnership. Our Managing General Partner and the Infrastructure General Partner do not anticipate that our partnership or Brookfield Infrastructure will incur losses but no assurance can be given in this regard. Accordingly, Canadian Limited Partners should consult their own tax advisors for specific advice with respect to the potential application of the "at-risk rules".

On October 31, 2003, the Department of Finance released the REOP Proposals for public comment. Under the REOP Proposals, a taxpayer would be considered to have a loss from a source that is a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit (excluding capital gains or losses) from the business or property during the period that the business is carried on or that the property is held. In general, these proposals may deny the realization of losses by Canadian Limited Partners from their investment in our partnership in a particular taxation year, if, in the year the loss is claimed, it is not reasonable to expect that an overall cumulative profit would be earned from the investment in our partnership for the period in which the Canadian Limited Partner has held and can reasonably be expected to hold the investment. Our Managing General Partner and the Infrastructure General Partner do not anticipate that the activities of our partnership and Brookfield Infrastructure will, in and of themselves, generate losses, but no assurance can be given in this regard. However, unitholders may incur expenses in connection with an acquisition of units in our partnership that could result in a loss that could be affected by the REOP Proposals. The REOP Proposals have been the subject of a number of submissions to the Minister of Finance (Canada). As part of the 2005 federal budget, the Minister of Finance (Canada) announced that an alternative proposal to reflect the REOP Proposals would be released for comment at an early opportunity. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect Canadian Limited Partners, or that any revised proposals may not differ significantly from the REOP Proposals described herein.

On March 4, 2010, the Minister of Finance (Canada) announced as part of the 2010 Canadian Federal Budget that the outstanding Tax Proposals regarding investments in "foreign investment entities" would be replaced with revised Tax Proposals under which the existing rules in section 94.1 of the Tax Act relating to investments in "offshore investment fund property" would remain in place subject to certain limited enhancements. The Minister of Finance (Canada) also indicated that legislation to implement the revised Tax Proposals will be released for public consultation. Existing section 94.1 of the Tax Act contains rules relating to investments in non-resident entities that could in certain circumstances cause income to be imputed to Canadian Limited Partners, either directly or by way of allocation of such income imputed to our partnership or to Brookfield Infrastructure. These rules would apply if it is reasonable to conclude, having regard to all the circumstances, that one of the main reasons for the Canadian Limited Partner, our partnership or Brookfield Infrastructure acquiring or holding an investment in a non-resident entity is to derive a benefit from portfolio investments in such a manner that taxes under the Tax Act on income, profits and gains for any year are significantly less than they would have been if such income, profits and gains had been earned directly. In determining whether this is the case, the Tax Act provides that consideration must be given to, among other factors, the extent to which the income, profits and gains for any fiscal period are distributed in that or the immediately following fiscal period. If, having regard to the particular circumstances, it is reasonable to conclude that one of the main reasons for the acquisition or holding of our units by the Canadian Limited Partner, of units of Brookfield Infrastructure by our partnership, or of interests in non-resident entities (other than a controlled foreign affiliate as defined in the Tax Act, or CFA) by Brookfield Infrastructure, is as stated above, income will be imputed directly to the Canadian Limited Partner or to our partnership or Brookfield Infrastructure and allocated to the Canadian Limited Partner in accordance with the rules in the Tax Act. However, the precise nature of the revised Tax Proposals is uncertain as proposed legislation to implement them is not yet available. There can be no assurance that the revised Tax Proposals will be enacted as proposed or at all. The rules in section 94.1 of the Tax Act are complex and Canadian Limited Partners should consult their own tax advisors regarding the application these rules, including the revised Tax Proposals, to them in their particular circumstances.

Dividends paid by the CFAs to Brookfield Infrastructure will be included in computing the income of Brookfield Infrastructure. To the extent that any of the CFAs or any direct or indirect subsidiary thereof earns income that is characterized as FAPI, in a particular taxation year of the CFA, the FAPI allocable to Brookfield Infrastructure must be included in computing the income of Brookfield Infrastructure for Canadian federal income tax purposes for the fiscal period of Brookfield Infrastructure in which the taxation year of that CFA ends, whether or not Brookfield Infrastructure actually receives a distribution of that FAPI. If an amount of FAPI is included in computing the income of Brookfield Infrastructure for Canadian federal income tax purposes, an amount may be deductible in respect of the "foreign accrual tax" as defined in the Tax Act applicable to the FAPI. Any amount of FAPI included in income net of the amount of any deduction in respect of foreign accrual tax will increase the adjusted cost base to Brookfield Infrastructure of its shares of the particular CFA in respect of which the FAPI was included. At such time as Brookfield Infrastructure receives a dividend of this type of income that was previously treated as FAPI, that dividend will effectively not be taxable to Brookfield Infrastructure and there will be a corresponding reduction in the adjusted cost base to Brookfield Infrastructure of the particular CFA shares.

*Disposition of Our Units*

The disposition by a Canadian Limited Partner of a unit of our partnership will result in the realization of a capital gain (or capital loss) by such limited partner. The amount of such capital gain (or capital loss) will generally be the amount, if any, by which the proceeds of disposition of a unit, less any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base of such unit. In general, the adjusted cost base of a Canadian Limited Partner's units will be equal to: (i) the actual cost of the units (excluding any portion thereof financed with limited recourse indebtedness); plus (ii) the pro rata share of the income of our partnership allocated to the Canadian Limited Partner for the fiscal years of our partnership ending before the relevant time; less (iii) the aggregate of the pro rata share of losses of our partnership allocated to the Canadian Limited Partner (other than losses which cannot be deducted because they exceed the Canadian Limited Partner's "at-risk" amount) for the fiscal years of our partnership ending before the relevant time; and less (iv) the Canadian Limited

Partner's distributions from our partnership made before the relevant time. The adjusted cost base of each of our units will be subject to the averaging provisions contained in the Tax Act.

Where a Canadian Limited Partner disposes of all of its units, such person will no longer be a partner of our partnership. If, however, a Canadian Limited Partner is entitled to receive a distribution from our partnership after the disposition of all such units, then the Canadian Limited Partner will be deemed to dispose of the units at the later of: (i) the end of the fiscal year of our partnership during which the disposition occurred; and (ii) the date of the last distribution made by our partnership to which the Canadian Limited Partner was entitled. Pursuant to the Tax Proposals, the pro rata share of the income (or loss) for tax purposes of our partnership for a particular fiscal year which is allocated to a Canadian Limited Partner who has ceased to be a partner will generally be added (or deducted) in the computation of the adjusted cost base of the Canadian Limited Partner's units at the time of the disposition. These rules are complex and Canadian Limited Partners should consult their own tax advisors for advice with respect to the specific tax consequences to them of disposing of units of our partnership.

A Canadian Limited Partner will realize a deemed capital gain if, and to the extent that, the adjusted cost base of the Canadian Limited Partner's units is negative at the end of any fiscal year of our partnership. In such a case, the adjusted cost base of the Canadian Limited Partner's units will be nil at the beginning of the next fiscal year of our partnership.

In general, one-half of a capital gain realized by a Canadian Limited Partner must be included in computing such limited partner's income as a taxable capital gain. One-half of a capital loss is deducted as an allowable capital loss against taxable capital gains realized in the year and any remainder may be deducted against taxable capital gains in any of the three years preceding the year or any year following the year to the extent and under the circumstances described in the Tax Act.

Where a Canadian Limited Partner disposes of units to a tax-exempt person, more than one-half of such capital gain may be treated as a taxable capital gain if any portion of the gain is attributable to an increase in value of depreciable property held by Brookfield Infrastructure. Canadian Limited Partners contemplating such dispositions should consult their own tax advisors. The Infrastructure General Partner has advised that it does not expect that Brookfield Infrastructure will hold any depreciable property and therefore expects that only one-half of any capital gains arising from a disposition of our units should be treated as taxable capital gains.

A Canadian Limited Partner that is throughout the relevant taxation year a "Canadian-controlled private corporation" as defined in the Tax Act may be liable to pay an additional refundable tax of 6⅔% on its "aggregate investment income", as defined in the Tax Act, for the year, which is defined to include taxable capital gains.

*Eligibility for Investment*

Provided that our units are listed on a designated stock exchange under the Tax Act (which includes the TSX and the NYSE), our units will be "qualified investments" under the Tax Act for a trust governed by a registered retirement saving plan, deferred profit sharing plan, registered retirement income fund, registered education saving plan, registered disability saving plan, and a tax-free savings account. There can also be no assurance that tax laws relating to qualified investments will not be changed. Taxes may be imposed in respect of the acquisition or holding of non-qualified investments by registered plans and certain other taxpayers and with respect to the acquisition or holding of prohibited investments by a tax-free savings account.

Our units will not be a "prohibited investment" (within the meaning of the Tax Act) for a tax-free savings account, provided that the holder of such account deals at arm's length with our partnership for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in our partnership or in a corporation, partnership or trust with which our partnership does not deal at arm's length for purposes of the Tax Act.

## TAXATION OF NON-CANADIAN LIMITED PARTNERS

The following summary applies to holders who at all relevant times are not resident and are not deemed to be resident in Canada for purposes of the Tax Act and who do not acquire or hold their investment in our partnership in connection with a business carried on, or deemed to be carried on, in Canada, each a Non-Canadian Limited Partner. The following summary assumes that our units are not "taxable Canadian property" as defined in the Tax Act and that our partnership and Brookfield Infrastructure generally will not dispose of properties that are taxable Canadian property (which, subject to the proposed amendments to the definition of "taxable Canadian property" announced in the 2010 Canadian Federal Budget, includes, but is not limited to, property that is used or held in a business carried on in Canada, shares of corporations resident in Canada that are not listed on a designated stock exchange and listed shares where the number of shares owned exceeds prescribed amounts). Our units will be taxable Canadian property if, at any time within the 60-month period ending at the time of disposition or deemed disposition, the fair market value of all of the properties of our partnership that were taxable Canadian property, certain types of resource properties, income interests in trusts resident in Canada or interests in or options in respect thereof, was greater than 50% of the fair market value of all of its properties. Under the Tax Proposals announced by the Department of Finance (Canada) on March 4, 2010 as part of the 2010 Canadian Federal Budget, the definition of "taxable Canadian property" will be amended such that our units will not be taxable Canadian property at the time of a disposition or deemed disposition unless, at any time during the 60-month period preceding the disposition, more than 50% of the fair market value of our units was derived, directly or indirectly, from one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of or interests or civil law rights in such property. Legislation to implement these Tax Proposals is contained in Bill C-9 which received second reading in the House of Commons on April 19, 2010. Our Managing General Partner and the Infrastructure General Partner advise that our units are not expected to be taxable Canadian property and that our partnership and Brookfield Infrastructure are not expected to dispose of taxable Canadian property. However, no assurance can be given in this regard.

*Taxation of Income or Loss*

A Non-Canadian Limited Partner will not be subject to Canadian federal income tax under Part I of the Tax Act on its share of income from a business carried on by our partnership (or Brookfield Infrastructure) outside Canada or the non-business income earned by our partnership (or Brookfield Infrastructure) from sources in Canada. However, a Non-Canadian Limited Partner may be subject to Canadian federal withholding tax under Part XIII of the Tax Act, as described below. Our Managing General Partner and the Infrastructure General Partner, as the case may be, have advised that they intend to organize and conduct the affairs of our partnership or Brookfield Infrastructure such that Non-Canadian Limited Partners should not be considered to be carrying on business in Canada solely by virtue of their investment in our partnership. However, no assurance can be given in this regard.

Our partnership and Brookfield Infrastructure will be deemed to be a non-resident person in respect of certain amounts paid or credited to them by a person resident or deemed to be resident in Canada, including dividends or interest. Dividends or interest (other than interest exempt from Canadian federal withholding tax) paid by a person resident or deemed to be resident in Canada to Brookfield Infrastructure will be subject to withholding tax under Part XIII of the Tax Act at the rate of 25%. However, the CRA's administrative practice in similar circumstances is to permit the rate of Canadian federal withholding tax applicable to such payments to be computed by looking through the partnership and taking into account the residency of the partners (including partners who are resident in Canada) and any reduced rates of Canadian federal withholding tax that any non-resident partners may be entitled to under an applicable income tax treaty or convention, provided that the residency status and entitlement to the treaty benefits can be established. In determining the rate of Canadian federal withholding tax applicable to amounts paid by the Holding Entities to Brookfield Infrastructure, we expect the Holding Entities to look-through Brookfield Infrastructure and our partnership to the residency of the partners of our partnership (including partners who are residents of Canada) and to take into account any reduced rates of Canadian federal withholding tax that non-resident partners may be entitled to under an applicable income tax treaty or convention in order to determine the appropriate amount of Canadian federal withholding tax to withhold from dividends or interest paid to Brookfield Infrastructure. However, there can be no assurance that the CRA would apply its administrative practice in this context. Under the Canada-U.S. Tax Treaty, a Canadian resident payer may be required to look through fiscally transparent partnerships such as our partnership and Brookfield Infrastructure to the residency of limited partners of our partnership who are entitled to relief under the treaty and take into account reduced rates of Canadian federal withholding tax that such limited partners may be entitled to under that treaty.

### BERMUDA TAX CONSIDERATIONS

In Bermuda there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory to pay dividends. As "exempted undertakings", exempted partnerships and overseas partnerships are entitled to apply for (and will ordinarily receive) an assurance pursuant to the Exempted Undertakings Tax Protection Act 1966 that, in the event that legislation introducing taxes computed on profits or income, or computed on any capital asset, gain or appreciation, is enacted, such taxes shall not be applicable to the partnership or any of its operations until March 28, 2016. Such an assurance may include the assurance that any tax in the nature of estate duty or inheritance tax shall not be applicable to the units, debentures or other obligations of the partnership.

Exempted partnerships and overseas partnerships fall within the definition of "international businesses" for the purposes of the Stamp Duties (International Businesses Relief) Act 1990, which means that instruments executed by or in relation to an exempted partnership or an overseas partnership are exempt from stamp duties (such duties were formerly applicable under the Stamp Duties Act 1976). Thus, stamp duties are not payable upon, for example, an instrument which effects the transfer or assignment of a unit in an exempted partnership or an overseas partnership, or the sale or mortgage of partnership assets; nor are they payable upon the partnership capital.

### 10.F DIVIDENDS AND PAYING AGENTS

Not applicable.

### 10.G STATEMENT BY EXPERTS

Not applicable.

### 10.H DOCUMENTS ON DISPLAY

Any statement in this Form 20-F about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Form 20-F the contract or document is deemed to modify the description contained in this Form 20-F. You must review the exhibits themselves for a complete description of the contract or document.

Brookfield Asset Management and our partnership are both subject to the information filing requirements of the Exchange Act, and accordingly are required to file periodic reports and other information with the SEC. As a foreign private issuer under the SEC's regulations, we file annual reports on Form 20-F and other reports on Form 6-K. The information disclosed in our reports may be less extensive than that required to be disclosed in annual and quarterly reports on Forms 10-K and 10-Q required to be filed with the SEC by U.S. issuers.

Moreover, as a foreign private issuer, we are not subject to the proxy requirements under Section 14 of the Exchange Act, and our directors and principal shareholders are not subject to the insider short swing profit reporting and recovery rules under Section 16 of the Exchange Act. Our and Brookfield Asset Management's SEC filings are available at the SEC's website at www.sec.gov. You may also read and copy any document we or Brookfield Asset Management files with the SEC at the public reference facilities maintained by the SEC at SEC Headquarters, Public Reference Section, 100 F Street, N.E., Washington D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330.

In addition, Brookfield Asset Management and our partnership are required to file documents required by Canadian securities laws electronically with Canadian securities regulatory authorities and these filings are available on our or Brookfield Asset Management's SEDAR profile at www.sedar.com. Written requests for such documents should be directed to our Corporate Secretary at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

### 10.I SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT NON-PRODUCT RELATED MARKET RISK

See the information contained in this Form 20-F under Item 5 "Operating and Financial Review and Prospects."

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

# PART II

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

At the special meeting of our unitholders held on November 16, 2009, our unitholders approved an amendment to our limited partnership agreement reducing the quorum requirement for meetings of the limited partners from 50% to 20%. As such, 20% of the outstanding units of the class or classes for which a meeting has been called (including our units held by the Managing General Partner) represented in person or by proxy shall constitute a quorum at a meeting of limited partners of such class or classes unless any such action by the limited partners requires approval by limited partners holding a greater percentage of the voting power of such units, in which case the quorum shall be such greater percentage.

## ITEM 15. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

As of December 31, 2009, an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934, or the Exchange Act) was carried out under the supervision and with the participation of persons performing the functions of principal executive and principal financial officers for us and our Manager. Based upon that evaluation, the persons performing the functions of principal executive and principal financial officers for us have concluded that, as of December 31, 2009, our disclosure controls and procedures were effective: (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the persons performing the functions of principal executive and principal financial officers for us, to allow timely decisions regarding required disclosure.

It should be noted that while our management, including persons performing the functions of principal executive and principal financial officers for us, believe our disclosure controls and procedures provide a reasonable level of assurance that such controls and procedures are effective, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including persons performing the functions of principal executive and principal financial officers for us, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Report of Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, who has also audited the financial statements of the partnership, as stated in their reports which are included herein.

**Changes in Internal Control**

There was no change in our internal control over financial reporting during the year ended December 31, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Managing General Partner's board of directors has determined that Jonathan Hagger possesses specific accounting and financial management expertise and that he is an audit committee financial expert as defined by the U.S. Securities and Exchange Commission and is independent within the meaning of the rules of the NYSE. Our Managing General Partner's Board has also determined that other members of the Audit Committee have sufficient experience and ability in finance and compliance matters to enable them to adequately discharge their responsibilities.

## ITEM 16B. CODE OF ETHICS

On December 4, 2007, our Managing General Partner adopted a Code of Conduct and Ethics, or the Code, that applies to the members of the board of directors of the Managing General Partner, our partnership and any officers or employees of the Managing General Partner. We have posted a copy of the Code on our website at www.brookfieldinfrastructure.com/aboutus/governance.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our Managing General Partner has retained Deloitte & Touche LLP to act as our partnership's and Brookfield Infrastructure's independent registered chartered accountants.

The table below summarizes the fees for professional services rendered by Deloitte & Touche LLP for the audit of our annual financial statements for the periods ended December 31, 2008 and 2009.

| | **December 31, 2009** | | December 31, 2008 | |
|---|---|---|---|---|
| **THOUSANDS** | **USD** | **%** | USD | % |
| Audit fees[1] | **$ 2,255** | **100%** | $878 | 100% |
| Tax fees[2] | **—** | **—** | — | — |
| Audit-related fees[3] | **—** | **—** | — | — |
| Total | **$ 2,255** | **100%** | $878 | 100% |

(1) *Audit fees relate to annual fees for our partnership and Brookfield Infrastructure.*

(2) *Audit-related fees include general audit related accounting advice and fees charged in respect of the Transaction.*

(3) *Tax fees relate to annual tax compliance fees for our partnership and Brookfield Infrastructure.*

The audit committee of the Managing General Partner pre-approves all audit and non-audit services provided to our partnership and Brookfield Infrastructure by Deloitte & Touche LLP. In connection with the original registration statement all fees paid to Deloitte & Touche LLP were paid by Brookfield Asset Management Inc., and as such have not been disclosed by our partnership.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

None.

## ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASER

Our partnership may from time-to-time, subject to applicable law, purchase our units for cancellation in the open market, provided that any necessary approval has been obtained.

Brookfield has also advised our partnership that it may from time-to-time, subject to applicable law, purchase our units in the market without making an offer to all unitholders.

In November 2008, our partnership implemented a unit repurchase program for the 12 months ended November 9, 2009 to purchase up to $25 million of our units though the facilities of NYSE for cancellation, subject to a regulatory limit of 1,167,043 of our units in the aggregate. All such purchases were subject to compliance with applicable United States federal securities laws, including Rule 10b-18 under the United States Securities Exchange Act of 1934, as amended, as well as applicable Canadian securities laws.

In the year ended December 31, 2009, 674,000 of our units were repurchased and cancelled under this program at an average price of $11.48 per unit. During the unit repurchase program, 854,602 of our units were repurchased and cancelled at an average price of $11.39 per unit. The following table sets forth the number of units of our partnership purchased and cancelled pursuant to the above program for the periods indicated.

| Period | Total number of units purchased | Average price paid per unit (US$) | Total number of units purchased as part of publicly announced plans or programs |
|---|---|---|---|
| January 1, 2009 to January 31, 2009 | Nil | N/A | Nil |
| February 1, 2009 to February 28, 2009 | 91,100 | $12.80 | 91,100 |
| March 1, 2009 to March 31, 2009 | 582,900 | $11.28 | 582,900 |
| April 1, 2009 to April 30, 2009 | Nil | N/A | Nil |
| May 1, 2009 to May 31, 2009 | Nil | N/A | Nil |
| June 1, 2009 to June 30, 2009 | Nil | N/A | Nil |
| July 1, 2009 to July 31, 2009 | Nil | N/A | Nil |
| August 1, 2009 to August 31, 2009 | Nil | N/A | Nil |
| September 1, 2009 to September 31, 2009 | Nil | N/A | Nil |
| October 1, 2009 to October 31, 2009 | Nil | N/A | Nil |
| November 1, 2009 to November 30, 2009 | Nil | N/A | Nil |
| Total | 674,000 | $11.48 | 674,000 |

## ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable

## ITEM 16G. CORPORATE GOVERNANCE

Our corporate practices are not materially different than those required of domestic companies under the NYSE listing standards.

# PART III

## ITEM 17 FINANCIAL STATEMENTS

Not applicable.

## ITEM 18. FINANCIAL STATEMENTS

See the list of financial statements on page F-1 which are filed as part of this annual report on Form 20-F.

## ITEM 19. EXHIBITS

| Number | Description |
| --- | --- |
| 1.1 | Certificate of registration of Brookfield Infrastructure Partners L.P., registered as of May 29, 2007—incorporated by reference to Exhibit 1.1 to our Partnership's Registration Statement on Form 20-F filed July 31, 2007. (With regard to applicable cross-references in this report, our Partnership's registration statement was filed with the SEC under File No. 1-33632). |
| 1.2 | Amended and Restated Limited Partnership Agreement of Brookfield Infrastructure Partners L.P., dated December 4, 2007—incorporated by reference to Exhibit 1.2 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 2.1 | Equity Commitment, dated December 4, 2007, by and among Brookfield Asset Management Inc., Brookfield Infrastructure Partners L.P. and Brookfield Infrastructure L.P.—incorporated by reference to Exhibit 2.1 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.1 | Second Amended and Restated Limited Partnership Agreement for Brookfield Infrastructure L.P., dated December 4, 2007—incorporated by reference to Exhibit 4.1 to our Partnership's Registration Statement on Form 20-F/A filed December 18, 2007. |
| 4.2 | Master Services Agreement, dated December 4, 2007, by and among Brookfield Asset Management Inc., Brookfield Infrastructure Partners L.P., Brookfield Infrastructure L.P., Brookfield Infrastructure Holdings (Canada) Inc. and Brookfield Asset Management Barbados Inc. and others—incorporated by reference to Exhibit 4.2 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.3 | Relationship Agreement, dated December 4, 2007, by and among Brookfield Infrastructure Partners L.P., Brookfield Infrastructure Group Inc., Brookfield Infrastructure L.P., Brookfield Infrastructure Group Corporation and Brookfield Asset Management Inc. and others—incorporated by reference to Exhibit 4.3 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.4 | Registration Rights Agreement, dated December 4, 2007, between Brookfield Infrastructure Partners L.P. and Brookfield Asset Management Inc.—incorporated by reference to Exhibit 4.4 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.5 | Trademark Sublicense Agreement, effective as of May 21, 2007, between Brookfield Infrastructure Partners L.P. and Brookfield Global Asset Management Inc.—incorporated by reference to Exhibit 4.5 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.6 | Trademark Sublicense Agreement, effective as of August 17, 2007, between Brookfield Infrastructure L.P. and Brookfield Global Asset Management Inc.—incorporated by reference to Exhibit 4.8 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |

| Number | Description |
| --- | --- |
| 4.7 | Securities Purchase Agreement, dated November 19, 2007, between Brookfield Asset Management Inc. and Brookfield Infrastructure Holdings (Canada) Inc.—incorporated by reference to Exhibit 4.9 to our Partnership's Registration Statement on Form 20-F/A filed December 13, 2007. |
| 4.8 | Amendment to Second Amended and Restated Limited Partnership Agreement of Brookfield Infrastructure L.P. dated June 13, 2008 by Brookfield Infrastructure General Partner Limited—incorporated by reference to Exhibit 4.17 to our Partnership's Annual Report on Form 20-F filed June 30, 2008. |
| 4.9 | Amendment to Amended and Restated Limited Partnership Agreement, dated June 13, 2008 by Brookfield Infrastructure Partners L.P.—incorporated by reference to Exhibit 4.18 to our Partnership's Annual Report on Form 20-F filed June 30, 2008. |
| 4.10 | Amended and Restated Credit Agreement, dated June 16, 2009, between Brookfield Infrastructure L.P. and Citibank, N.A., Credit Suisse, Toronto Branch, HSBC Bank Canada, HSBC Bank U.S.A., N.A., Toronto Branch, Royal Bank of Canada and The Royal Bank of Scotland plc.—incorporated by reference to Exhibit 4.10 to our Partnership's Form 6-K dated June 17, 2009. |
| 4.11 | Implementation Agreement, dated October 8, 2009, between Prime Infrastructure, Brookfield Infrastructure L.P. and Brookfield Asset Management Inc.—incorporated by reference to Exhibit 10.1 to our Partnership's Report of Foreign Private Issuer on Form 6-k filed October 22, 2009. |
| 4.12 | Amended and Restated Allocation Agreement, dated October 20, 2009 between Brookfield Asset Management Inc., Brookfield Infrastructure L.P. and BIP Bermuda Holdings I Limited—incorporated by reference to Exhibit 10.2 to our Partnership's Report of Foreign Private Issuer on Form 6-k filed October 22, 2009. |
| 4.13 | Amendment dated November 16, 2009 to the Amended and Restated Limited Partnership Agreement dated as of December 4, 2007, as amended as of June 13, 2008 of Brookfield Infrastructure Partners L.P.—incorporated by reference to Exhibit 99.1 to our Partnership's Report of Foreign Private Issuer on Form 6-k filed March 10, 2010. |
| 12.1 | Certification of Samuel Pollock, Chief Executive Officer, Brookfield Infrastructure Group Corporation, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.* |
| 12.2 | Certification of John Stinebaugh, Chief Financial Officer, Brookfield Infrastructure Group Corporation, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.* |
| 13.1 | Certification of Samuel Pollock, Chief Executive Officer, Brookfield Infrastructure Group Corporation, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes Oxley Act of 2002.* |
| 13.2 | Certification of John Stinebaugh, Chief Financial Officer, Brookfield Infrastructure Group Corporation, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes Oxley Act of 2002.* |
| 15.1 | Consent of Deloitte & Touche LLP relating to the incorporation of the following into this Annual Report on Form 20-F: the financial statements of Brookfield Infrastructure Partners L.P., the consolidated and combined financial statements of Brookfield Infrastructure L.P., the balance sheet of Brookfield Infrastructure Partners Limited, the consolidated financial statements of Island Timberlands Limited Partnership and the combined financial statements of Brookfield Global Timber Fund.* |
| 15.2 | Consent of Deloitte & Touche LLP relating to the incorporation of the consolidated financial statements of Longview Timber Holdings, Corp. into this Annual Report on Form 20-F.* |
| 15.3 | Consent of Ernst & Young Ltda. relating to the incorporation of the consolidated financial statements and schedules of ETC Holdings Ltd. into this Annual Report on Form 20-F.* |

* *Filed electronically herewith.*

## SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Dated: June 1, 2010

BROOKFIELD INFRASTRUCTURE PARTNERS L.P. by its general partner, Brookfield Infrastructure Partners Limited

By: /s/ ALEX ERSKINE

Name: Alex Erskine
Title: Director

# BROOKFIELD INFRASTRUCTURE PARTNERS L.P.

## INDEX TO FINANCIAL STATEMENTS

**BROOKFIELD INFRASTRUCTURE PARTNERS L.P.**

**As of December 31, 2009 and 2008 for the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007**

## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Partners of Brookfield Infrastructure Partners L.P.

We have audited the accompanying balance sheets of Brookfield Infrastructure Partners L.P. (the "Partnership") as of December 31, 2009 and 2008, and the related statements of operations, other comprehensive (loss) income, accumulated other comprehensive income, partnership capital and of cash flows for the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Brookfield Infrastructure Partners L.P. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 26, 2010 expressed an unqualified opinion on the Partnership's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
May 26, 2010

## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Partners of Brookfield Infrastructure Partners L.P.

We have audited the internal control over financial reporting of Brookfield Infrastructure Partners L.P. (the "Partnership") as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements as of and for the years ended December 31, 2009 and 2008, and for the period from May 21, 2007 (inception) to December 31, 2007 of the Partnership and our report dated May 26, 2010 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
May 26, 2010

## BROOKFIELD INFRASTRUCTURE PARTNERS L.P.

**As of December 31, 2009 and 2008**

## BALANCE SHEETS

| US$ MILLIONS | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Equity accounted investment (Note 3) | **$1,074.1** | $546.5 |
| Total assets | **1,074.1** | 546.5 |
| **Liabilities and partnership capital** | | |
| Accumulated other comprehensive income | **0.8** | 8.6 |
| Partnership capital (63,155,680 (2008—23,160,269) units issued and outstanding) | **1,073.3** | 537.9 |
| Total liabilities and partnership capital | **$1,074.1** | $546.5 |

The accompanying notes are an integral part of these financial statements.

## BROOKFIELD INFRASTRUCTURE PARTNERS L.P.

**For the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007**

## STATEMENTS OF OPERATIONS

| US$ MILLIONS (EXCEPT PER UNIT INFORMATION) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Earnings from equity accounted investment | **$28.2** | $16.8 | $0.7 |
| Net income | **$28.2** | $16.8 | $0.7 |
| Earnings per unit (Note 5) | | | |
| Basic and diluted | **$0.98** | $0.72 | $ — |

The accompanying notes are an integral part of these financial statements.

## BROOKFIELD INFRASTRUCTURE PARTNERS L.P.

**For the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007**

### STATEMENTS OF OTHER COMPREHENSIVE (LOSS) INCOME

| US$ MILLIONS | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net income | **$ 28.2** | $ 16.8 | $0.7 |
| Other comprehensive income (loss) | | | |
| Foreign currency translation gain (loss) | **25.7** | (42.2) | 1.3 |
| Net (loss) gain on related hedging items | **(33.5)** | 49.5 | — |
| Other comprehensive (loss) income | **(7.8)** | 7.3 | 1.3 |
| Comprehensive income | **$ 20.4** | $ 24.1 | $2.0 |

### STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

| US$ MILLIONS | 2009 | 2008 | 2007 |
|---|---|---|---|
| Accumulated other comprehensive income, opening | **$ 8.6** | $1.3 | $ — |
| Other comprehensive (loss) income | **(7.8)** | 7.3 | 1.3 |
| Accumulated other comprehensive income, closing | **$ 0.8** | $8.6 | $1.3 |

### STATEMENTS OF PARTNERSHIP CAPITAL

| US$ MILLIONS | 2009 | 2008 | 2007 |
|---|---|---|---|
| Partnership capital, opening | **$ 537.9** | $543.4 | $542.7 |
| Repurchase of units during the period | **(7.6)** | (2.0) | — |
| Distributions to unitholders | **(34.8)** | (20.3) | — |
| Issuance of new units | **549.6** | — | — |
| Net income for the period | **28.2** | 16.8 | 0.7 |
| Partnership capital, closing | **$1,073.3** | $537.9 | $543.4 |

The accompanying notes are an integral part of these financial statements.

**BROOKFIELD INFRASTRUCTURE PARTNERS L.P.**

**For the year ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007**

## STATEMENTS OF CASH FLOWS

| US$ MILLIONS | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | **$ 28.2** | $ 16.8 | $ 0.7 |
| Distributions from equity accounted investment | **42.4** | 22.3 | — |
| Adjustments for non-cash items: | | | |
| Earnings from equity accounted investment | **(28.2)** | (16.8) | (0.7) |
| Cash from operating activities | **$ 42.4** | $ 22.3 | $ — |
| **Investment activities** | | | |
| Investment in Brookfield Infrastructure (Note 3) | **$(549.6)** | $ — | $ — |
| Cash used in investment activities | **$(549.6)** | $ — | $ — |
| **Financing activities** | | | |
| Distributions to unitholders | **$ (34.8)** | $(20.3) | $ — |
| Issuance of new units (Note 4) | **549.6** | — | — |
| Repurchase of units during the period | **(7.6)** | (2.0) | — |
| Cash used in financing activities | **$ 507.2** | $(22.3) | $ — |
| **Cash and equivalents** | | | |
| Change during the period | **—** | — | — |
| Balance, beginning of period | **—** | — | — |
| Balance, end of period | **$ —** | $ — | $ — |

The accompanying notes are an integral part of these financial statements.

**BROOKFIELD INFRASTRUCTURE PARTNERS L.P.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2008 and for the period from May 21, 2007 (inception) to December 31, 2007**

## 1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Brookfield Infrastructure Partners L.P. (the "Partnership" or "BIP") was formed as a limited partnership established under the laws of Bermuda, pursuant to a limited partnership agreement dated May 21, 2007 as amended and restated. BIP holds a 59% interest in Brookfield Infrastructure L.P. ("Brookfield Infrastructure"), a partnership that has interests in utilities and energy, transportation, timber and social infrastructure operations in North and South America, Australasia and Europe. Effective January 31, 2008, BIP's limited partnership units have traded under the symbol "BIP" on the NYSE. In addition, in September 2009, BIP's limited partnership units began trading on the Toronto Stock Exchange under the symbol BIP.UN.

## 2. SUMMARY OF ACCOUNTING POLICIES

### Basis of Presentation

The accompanying financial statements represent the financial position and results of operations for BIP on the basis that its investment in Brookfield Infrastructure is accounted for on an equity accounting basis as it is an entity which the Partnership does not control but over which the Partnership has the ability to exert significant influence.

These financial statements are prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

All figures are presented in millions of United States dollars unless otherwise noted.

### Recently Issued Accounting Pronouncements

In May 2009, the FASB issued ASC 855, Subsequent Events ("ASC 855") (formerly SFAS No. 165 Subsequent Events), which defines subsequent events as transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance defines two types of subsequent events: (i) events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and (ii) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, non-recognized subsequent events). The guidance in ASC 855 is effective for periods ending after June 15, 2009. The adoption of ASC 855 did not have a material impact on BIP's financial statements.

### Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts will differ from those estimates used in the preparation of these financial statements. Investment valuation and income taxes are the primary areas management has made estimates and assumptions.

### Investments

Investments in operations in which the Partnership does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method. Under the equity method, investments are stated at cost and are adjusted for the Partnership's proportional share of undistributed equity earnings or losses of the investment and distributions received from the investment.

The Partnership accounts for its investment in Brookfield Infrastructure, over which it has significant influence, under the equity method.

### Investment Valuation

The Partnership recognizes an impairment charge, if any, when a decline in the fair value of its investments below their carrying values is judged to be other-than-temporary. The Partnership considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Partnership's cost basis, the financial condition and near-term prospects of the investee, and the Partnership's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

### Foreign Currency Translation and Transactions

The U.S. dollar is the Partnership's functional and reporting currency.

### Cash and Cash Equivalents

The Partnership considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

## 3. EQUITY ACCOUNTED INVESTMENTS

The Partnership's net investment in equity accounted entities includes the following:

| | | Book Value December 31 | |
|---|---|---|---|
| **US$ MILLIONS** | Ownership % | **2009** | 2008 |
| Brookfield Infrastructure L.P. | 59% | **$1,074.1** | $546.5 |

In November 2009, the Partnership made an additional investment in Brookfield Infrastructure for $549.6 million.

The following table presents certain summarized financial information for the Partnership's investment in Brookfield Infrastructure L.P., on a 100% ownership interest in the entity:

| US$ MILLIONS | For the years ended December 31 **2009** | 2008 | 2007 |
|---|---|---|---|
| Revenue | **$ 29.8** | $ 32.9 | $33.1 |
| Cost of revenue (exclusive of depreciation expense) | **(7.5)** | (7.3) | (1.1) |
| Depreciation expense | **(7.5)** | (7.7) | (7.2) |
| Gross margin | **14.8** | 17.9 | 24.8 |
| Selling, general and administrative expenses | **(16.6)** | (14.0) | (4.4) |
| Dividend income | **3.5** | 14.3 | 0.5 |
| Gain on sale of investment | **86.8** | — | — |
| Other income | **(0.5)** | 0.9 | (0.4) |
| | **88.0** | 19.1 | 20.5 |
| Interest expense | **(14.5)** | (12.9) | (6.9) |
| Net income before below noted items | **73.5** | 6.2 | 13.6 |
| Income tax expense | **(19.9)** | (1.5) | (4.4) |
| Deferred tax recovery (expense) | **4.2** | (1.9) | 10.6 |
| (Losses) earnings from equity accounted investments | **(10.0)** | 25.2 | (7.8) |
| Net income | **$ 47.8** | $ 28.0 | $12.0 |

| US$ MILLIONS | As at December 31 **2009** | 2008 |
|---|---|---|
| Current assets | **$ 76.5** | $ 62.8 |
| Non-current assets | **1,886.4** | 1,111.5 |
| Total assets | **$1,962.9** | $1,174.3 |
| Current liabilities | **$ 21.9** | $ 6.9 |
| Non-current liabilities not including redeemable preferred shares | **121.5** | 247.5 |
| Preferred shares | **20.0** | 20.0 |
| Total liabilities | **$ 163.4** | $ 274.4 |

## 4. PARTNERSHIP CAPITAL

As at December 31, 2009 the number of issued and outstanding Partnership units changed as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| US$ MILLIONS (EXCEPT FOR UNIT INFORMATION) | Book Value | Units | Book Value | Units |
| Outstanding at beginning of year | $ 537.9 | 23,160,269 | | |
| Issuance of new units | 549.6 | 40,669,411 | $543.4 | 23,340,871 |
| Distributions to unitholders | (34.8) | — | (2.0) | (180,602) |
| Net income for the period | 28.2 | — | (20.3) | — |
| Repurchase of units during the year | (7.6) | (674,000) | 16.8 | — |
| Outstanding at end of year | $1,073.3 | 63,155,680 | $537.9 | 23,160,269 |

In November 2009, the partnership issued $549.6 million of units on the New York and Toronto Stock Exchanges.

## 5. EARNINGS PER UNIT

The components of basic and diluted earnings per unit are summarized in the following table:

| US$ MILLIONS (EXCEPT FOR UNIT INFORMATION) | 2009 | 2008 |
|---|---|---|
| Net income | $ 28.2 | $ 16.8 |
| Weighted average units outstanding—basic | 28,827,168 | 23,330,630 |
| Weighted average units outstanding—diluted | 28,827,168 | 23,330,630 |

## 6. FAIR VALUE MEASUREMENTS

ASC 820—Fair Value Measurements and Disclosure (“ASC 820”), formerly SFAS 157 “Fair Value Measurements”, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Partnership adopted ASC 820 on January 1, 2008, on a prospective basis, as required for financial assets and financial liabilities. The Partnership currently does not have any assets or liabilities that are measured at fair value.

**BROOKFIELD INFRASTRUCTURE L.P.**

**As of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009**

## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Partners of Brookfield Infrastructure L.P.:

We have audited the accompanying consolidated and combined balance sheets of Brookfield Infrastructure L.P. and subsidiaries (the "Partnership") as of December 31, 2009 and 2008, and the related consolidated and combined statements of operations, other comprehensive (loss) income, accumulated other comprehensive income, retained (deficit) earnings and of cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the financial position of Brookfield Infrastructure L.P. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
May 26, 2010

## BROOKFIELD INFRASTRUCTURE L.P.

### As of December 31, 2009 and 2008

### CONSOLIDATED AND COMBINED BALANCE SHEETS

| US$ MILLIONS | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 58.3** | $ 9.2 |
| Accounts receivable and other | **18.2** | 53.6 |
| Total current assets | **76.5** | 62.8 |
| Cost accounted investment | **—** | 195.2 |
| Equity accounted investments (Note 3) | **1,664.9** | 716.8 |
| Property, plant and equipment (Note 4) | **204.7** | 174.0 |
| Other assets | **3.8** | 12.5 |
| Deferred taxes | **13.0** | 13.0 |
| | **$1,962.9** | $1,174.3 |
| **Liabilities and partnership capital** | | |
| Current liabilities | | |
| Accounts payable and other liabilities | **$ 21.9** | $ 6.9 |
| Total current liabilities | **21.9** | 6.9 |
| Corporate borrowings (Note 13) | **—** | 139.5 |
| Non-recourse borrowings (Note 6) | **114.0** | 97.6 |
| Deferred tax liabilities | **7.5** | 10.4 |
| Preferred shares (Note 12) | **20.0** | 20.0 |
| | **163.4** | 274.4 |
| Redeemable partnership units (Note 7) (42,470,220 (2008—15,112,744) units issued and outstanding) | **710.6** | 169.3 |
| **Partnership capital** | | |
| Retained (deficit) earnings | **(27.7)** | 157.0 |
| Accumulated other comprehensive income | **20.3** | 33.6 |
| Partnership units (64,222,608 (2008—23,548,726) units issued and outstanding) | **1,096.3** | 540.0 |
| | **$1,962.9** | $1,174.3 |

The accompanying notes are an integral part of these financial statements.

## BROOKFIELD INFRASTRUCTURE L.P.

## CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

| US$ MILLIONS | For the years ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | | (Note 2) | (Note 2) |
| Revenue | **$ 29.8** | $ 32.9 | $33.1 |
| Cost of revenue (exclusive of depreciation expense) | **(7.5)** | (7.3) | (5.5) |
| Depreciation expense | **(7.5)** | (7.7) | (7.2) |
| Gross margin | **14.8** | 17.9 | 20.4 |
| Selling, general and administrative expenses | **(16.6)** | (14.0) | — |
| Dividend income | **3.5** | 14.3 | 0.5 |
| Gain on sale of investment (Note 11) | **86.8** | — | — |
| Other (expense) income | **(0.5)** | 0.9 | (0.4) |
| | **88.0** | 19.1 | 20.5 |
| Interest expense | **(14.5)** | (12.9) | (6.9) |
| Net income before below noted items | **73.5** | 6.2 | 13.6 |
| Income tax expense | **(19.9)** | (1.5) | (4.4) |
| Deferred tax recovery (expense) | **4.2** | (1.9) | 10.6 |
| (Losses) earnings from equity accounted investments | **(10.0)** | 25.2 | (7.8) |
| Net income | **$ 47.8** | $ 28.0 | $12.0 |

The accompanying notes are an integral part of these financial statements.

## BROOKFIELD INFRASTRUCTURE L.P.

## CONSOLIDATED AND COMBINED STATEMENTS OF OTHER COMPREHENSIVE (LOSS) INCOME

| US$ MILLIONS | For the years ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 (Note 2) | 2007 (Note 2) |
| Net income | **$ 47.8** | $ 28.0 | $12.0 |
| Other comprehensive income (loss) | | | |
| Foreign currency translations gains (losses) on the net investment in foreign operations | **43.5** | (70.4) | 12.7 |
| Net (loss) gains on related hedging items | **(56.8)** | 82.5 | — |
| Other comprehensive (loss) income | **(13.3)** | 12.1 | 12.7 |
| Comprehensive income | **$ 34.5** | $ 40.1 | $24.7 |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED AND COMBINED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

| US$ MILLIONS | For the years ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 (Note 2) | 2007 (Note 2) |
| Accumulated other comprehensive income, opening | **$ 33.6** | $21.5 | $ 8.8 |
| Other comprehensive (loss) income | **(13.3)** | 12.1 | 12.7 |
| Accumulated other comprehensive income, closing | **$ 20.3** | $33.6 | $21.5 |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED AND COMBINED STATEMENTS OF RETAINED (DEFICIT) EARNINGS

| US$ MILLIONS | For the years ended December 31 | | |
|---|---|---|---|
| | **2009** | 2008 (Note 2) | 2007 (Note 2) |
| Retained earnings, opening | **$ 157.0** | $ 22.4 | $14.2 |
| Net income | **47.8** | 28.0 | 12.0 |
| Fair value adjustment on redeemable partnership units (Note 7) | **(168.1)** | 184.9 | — |
| Distributions to unitholders | **(58.6)** | (33.9) | — |
| Adjustment related to acquired entity (Note 7) | **(5.8)** | (44.4) | — |
| Distribution from operations | **—** | — | (3.8) |
| Retained (deficit) earnings, closing | **$ (27.7)** | $157.0 | $22.4 |

The accompanying notes are an integral part of these financial statements.

## BROOKFIELD INFRASTRUCTURE L.P.

## CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

| US$ MILLIONS | Years Ended December 31 2009 | 2008 (Note 2) | 2007 (Note 2) |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | **$ 47.8** | $ 28.0 | $ 12.0 |
| Adjustment for non-cash items: | | | |
| Gain on sale of investments, net of tax | **(68.2)** | — | — |
| Losses (earnings) from equity accounted investments in excess of distributions received | **10.0** | (25.2) | 7.8 |
| (Payments) proceeds from hedge settlement, net (Note 11) | **(8.5)** | 26.8 | — |
| Depreciation | **7.5** | 7.7 | 7.2 |
| Deferred tax recovery | **(4.2)** | 1.9 | (10.6) |
| Change in non-cash working capital | **23.7** | (6.6) | (0.4) |
| Cash from operating activities | **8.1** | 32.6 | 16.0 |
| **Investing activities** | | | |
| Acquisition of interest in Prime | **(666.4)** | — | — |
| Proceeds on sale of cost accounted investment | **243.5** | — | — |
| Acquisition of interest in Brookfield sponsored infrastructure fund | **(122.4)** | — | — |
| Acquisition of direct investment in DBCT | **(85.5)** | — | — |
| Acquisition of direct investment in PD Ports | **(53.1)** | — | — |
| Additions to property, plant and equipment | **(6.0)** | (8.2) | (16.8) |
| Acquisition of PPP assets (Note 8) | **(2.9)** | (12.3) | — |
| Additional investment in Transelec (Note 8) | **—** | (134.9) | — |
| Acquisition of Ontario Transmission (Note 8) | **—** | (93.6) | — |
| Investment in Brookfield sponsored timber fund (Note 8) | **(2.1)** | (92.8) | — |
| Additional investment in Longview | **(4.9)** | (10.5) | — |
| Proceeds on sale of direct investment in DBCT | **9.5** | — | — |
| Increase in non-recourse borrowings | **—** | 4.0 | — |
| Cash used in investing activities | **(690.3)** | (348.3) | (16.8) |
| **Financing activities** | | | |
| Issuance of units | **937.0** | — | — |
| Repayments of corporate borrowings | **(139.5)** | — | — |
| Corporate borrowings | **—** | 139.5 | — |
| Distributions to unitholders | **(58.6)** | (33.9) | — |
| Repurchase of units (Note 7) | **(7.6)** | (2.0) | — |
| Cash contribution upon spin off | **—** | — | 197.9 |
| Issuance of preferred shares | **—** | — | 20.0 |
| Cash from financing activities | **731.3** | 103.6 | 217.9 |
| Cash and cash equivalents | | | |
| Change during the year | **$ 49.1** | $(212.1) | $217.1 |
| Balance, beginning of year | **9.2** | 221.3 | 4.2 |
| Balance, end of year | **$ 58.3** | $ 9.2 | $221.3 |
| Cash interest paid | **$ 6.8** | $ 12.4 | $ 7.1 |

The accompanying notes are an integral part of these financial statements.

**BROOKFIELD INFRASTRUCTURE L.P.**

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009, 2008 and 2007**

## 1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Brookfield Infrastructure L.P. ("Brookfield Infrastructure" or the "Partnership") was formed as a limited partnership established under the laws of Bermuda, pursuant to a limited partnership agreement dated May 17, 2007 as amended and restated. Brookfield Infrastructure consists of interests in utilities and energy, transportation and timber and social infrastructure operations in North and South America, Australasia and Europe.

In May 2007, Brookfield Asset Management Inc. ("Brookfield") announced its intention to spin-off a portion of its infrastructure assets through a special dividend to the holders of its Class A limited voting shares and Class B limited voting shares (the "Spin-off"). Prior to the Spin-off, Brookfield restructured its infrastructure division so that portions of its operations were owned by Brookfield Infrastructure. At the time of the reorganization, Brookfield owned approximately 61% of the limited partnership units of Brookfield Infrastructure directly, and a wholly owned subsidiary of Brookfield owned exchangeable units of Brookfield Infrastructure representing approximately 39% of the limited partnership units of Brookfield Infrastructure. Brookfield transferred 60% of the limited partnership units of Brookfield Infrastructure that it owned to Brookfield Infrastructure Partners L.P. ("BIP"), a limited partnership, in consideration for units of BIP. These BIP units were then distributed by Brookfield to holders of its Class A limited voting shares and Class B limited voting shares as a special dividend on January 31, 2008.

## 2. SUMMARY OF ACCOUNTING POLICIES

### Basis of Presentation

The audited annual consolidated and combined financial statements of Brookfield Infrastructure have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), for the preparation of financial information. We evaluate events and transactions that occur after the balance sheet date as potential subsequent events. We perform this evaluation through May 26, 2010 the date on which our financial statements were available to be issued.

The accompanying financial statements reflect Brookfield Infrastructure's accounting for the following investments on the equity accounting basis:

- 17.8% interest in Transelec Chile S.A. (ETC Holdings), or Transelec, the Chilean transmission operations, which were acquired by Brookfield in June 2006;
- 39.9% interest in Prime Infrastructure Holdings, or Prime, the Australian based infrastructure operations acquired by Brookfield Infrastructure in November 2009;
- 45.5% interest in a Brookfield sponsored infrastructure fund, which is a fund established by Brookfield in March 2009;
- 15.5% direct interest in DBCT, the Australian transportation operations, which were acquired by Brookfield Infrastructure in November 2009;
- 30.9% direct interest in PD Ports, the UK transportation operations, which were acquired by Brookfield Infrastructure in November 2009;

- 23% interest in Longview Timber Holdings Corp., or Longview, the US timber operations, which were acquired by Brookfield in April 2007;
- 37.5% interest in Island Timberlands Limited Partnership, or Island, the Canadian timber operations, which were acquired by Brookfield in May 2007;
- 9.1% interest in a Brookfield sponsored timber fund, which is a fund established by Brookfield in November 2008, whose sole material asset is an investment in Longview;
- 30% interest in Peterborough Hospital, UK, and a 50% interest in each of Long Bay Forensic and Prison Hospitals and Royal Melbourne Showgrounds, both in Australia. All three assets are Public Private Partnerships ("PPP") and were acquired by Brookfield Infrastructure from a Brookfield company;

On March 12, 2008, Brookfield Infrastructure acquired 100% of the assets and liabilities of the transmission division of Great Lakes Power Limited (GLPL), ("the Ontario Transmission" operations) which was an entity owned and controlled by Brookfield at the time of the acquisition by Brookfield Infrastructure. This transaction constituted a reorganization of entities under common control, and has been accounted for in a manner similar to a pooling of interests, resulting in the 2008 and 2007 financial statements being prepared on a combined basis. Accordingly, these financial statements have been presented giving retroactive effect to the transaction described above using historical carrying costs of the assets and liabilities of the Ontario Transmission operations for all periods presented.

The following table illustrates our policy used to account for our significant investments:

| METHOD OF ACCOUNTING AT DECEMBER 31, 2009 | Ownership % | Method |
|---|---|---|
| Prime | 39.9% | Equity |
| Transelec | 17.8% | Equity |
| Longview | 23.0% | Equity |
| Island Timberlands | 37.5% | Equity |
| Brookfield sponsored infrastructure fund | 45.5% | Equity |
| Brookfield sponsored timber fund | 9.1% | Equity |
| DBCT | 15.5% | Equity |
| PD Ports | 30.9% | Equity |
| Ontario Transmission | 100.0% | Consolidation |
| PPP | 30-50% | Equity |

All figures are presented in millions of United States Dollars unless otherwise noted.

**Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts will differ from those estimates used in the preparation of these financial statements. Investment valuation and income taxes are the primary areas where management has made estimates and assumptions.

### Investments

Investments in operations in which Brookfield Infrastructure does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Under the equity method, investments are stated at cost and are adjusted for Brookfield Infrastructure's proportional share of undistributed equity earnings or losses of the investment and distributions received from the investment.

### Investment Valuation

Brookfield Infrastructure recognizes an impairment charge, if any, when a decline in the fair value of its investments below the carrying value is judged to be other-than-temporary. Brookfield Infrastructure considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than Brookfield Infrastructure's cost basis, the financial condition and near-term prospects of the investee, and Brookfield Infrastructure's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

### Income Taxes

Income taxes are recognized using the asset and liability approach. Income tax expense is based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against the net deferred tax assets. Brookfield Infrastructure accounts for deferred taxes in accordance with ASC 740—Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

### Foreign Currency Translation and Transactions

The U.S. dollar is Brookfield Infrastructure's functional currency. Foreign currency denominated monetary assets and liabilities of Brookfield Infrastructure where the functional currency is other than the U.S. dollar, are translated at the rate of exchange prevailing at period-end and revenues and expenses at average rates during the period. Gains or losses on the translation of these items are included in the statement of operations.

The Ontario Transmission business' functional currency is the Canadian dollar. Ontario Transmission's monetary assets and liabilities are translated at the rate of exchange prevailing at period-end and revenues and expenses at average rates during the period. Gains or losses on the translation of these items are included in the statement of operations.

### Cash and Cash equivalents

Brookfield Infrastructure considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Revenue Recognition**

Dividend income is recognized on the ex-dividend date.

The Ontario Transmission operations business recognizes revenue on an accrual basis, when electricity is wheeled, at the regulated rate established by the Ontario Electricity Board.

**Derivative Financial Instruments**

Brookfield Infrastructure selectively utilizes derivative financial instruments to manage financial risks primarily relating to foreign exchange risks. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flows or fair value. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. Once discontinued, the cumulative change in fair value of a derivative that was previously deferred by the application of hedge accounting is recognized in income over the remaining term of the original hedging relationship. Realized and unrealized gains and losses on foreign exchange forward contracts designated as hedges of currency risks are included in other comprehensive income when the currency risk relates to a net investment in a foreign subsidiary and are otherwise included in income in the same period as when the underlying asset, liability or anticipated transaction affects income.

Derivative financial instruments that are not designated as hedges are carried at estimated fair value, and gains and losses arising from changes in fair value are recognized in income in the period the changes occur.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost, including costs of acquisition incurred by the Ontario Transmission operations business, less accumulated depreciation. The cost of the property, plant and equipment is depreciated over the estimated service lives of the assets as follows:

| | Method | Rate |
|---|---|---|
| Buildings | Straight-line | 40 years |
| Transmission stations, towers and related fixtures | Straight-line | 25 to 40 years |
| Other equipment | Straight-line | 5 to 40 years |

Construction work in progress is not depreciated until the assets are put into service.

**Capitalization of Interest**

Interest on funds used in construction is charged to construction work in progress at the prescribed rate of return applicable to the rate base.

**Recently Adopted Accounting Standards**

ASC 815—Derivatives and Hedging (“ASC 815”) (formerly SFAS 161, “Disclosures about Derivative Instruments and Hedging Activities, and Amendment of FASB Statement No. 133”) enhances disclosures for derivative instruments and hedging activities and their effects on an entity’s financial position, financial performance and cash flows. Under ASC 815, an entity is required to disclose the objectives for using derivative instruments in terms of underlying risk and accounting designation; the fair values, gains and losses of derivatives; as well as credit-risk-related contingent features in derivative agreements. ASC 815 is effective for fiscal years and interim periods beginning after November 15, 2008. The Partnership has adopted this standard effective January 1, 2009 (see Note 11).

**Recently Issued Accounting Pronouncements**

In May 2009, the FASB issued ASC 855, Subsequent Events ("ASC 855") (formerly SFAS No. 165 Subsequent Events), which defines subsequent events as transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance defines two types of subsequent events: (i) events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and (ii) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, non-recognized subsequent events). In addition, this guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance in ASC 855 is effective for periods ending after June 15, 2009. The adoption of ASC 855 did not have a material impact on Brookfield Infrastrucure's financial statements.

## 3. EQUITY ACCOUNTED INVESTMENTS

Brookfield Infrastructure's net investment in equity accounted entities includes the following:

| | | Book Value | |
|---|---|---|---|
| **US$ MILLIONS** | Ownership % | **December 31, 2009** | December 31, 2008 |
| Prime | 39.9% | **$ 664.6** | $ — |
| Transelec | 17.8% | **256.5** | 222.9 |
| Longview | 23.0% | **195.3** | 205.9 |
| Island Timberlands | 37.5% | **183.4** | 182.8 |
| Brookfield sponsored infrastructure fund | 45.5% | **117.6** | — |
| Brookfield sponsored timber fund | 9.1% | **83.7** | 92.6 |
| Direct interest in DBCT | 15.5% | **82.0** | — |
| Direct interest in PD Ports | 30.9% | **50.6** | — |
| PPP | 30%-50% | **31.2** | 12.6 |
| | | **$1,664.9** | $716.8 |

The following tables presents certain summarized financial information in total, for all investments in equity accounted affiliates based on a 100% ownership interest in each entity:

| | Years ended December 31 | | |
|---|---|---|---|
| US$ MILLIONS | **2009** | 2008 | 2007 |
| Gross revenue | **$ 650.1** | $ 706.7 | $ 39.3 |
| Costs and expense applicable to gross revenue | **(281.8)** | (294.1) | (20.1) |
| | **368.3** | 412.6 | 19.2 |
| Investment income | **13.4** | 8.3 | 16.5 |
| Cash taxes | **0.6** | (1.4) | — |
| Equity accounted for investments | **5.9** | — | — |
| Interest expense | **(178.3)** | (176.5) | (29.6) |
| Depreciation, depletion and amortization | **(156.7)** | (180.6) | (12.9) |
| Deferred taxes and other | **(103.3)** | 51.5 | (27.0) |
| Net (loss) income | **$ (50.1)** | $ 113.9 | $ 33.8 |

| | As at December 31 | |
|---|---|---|
| US$ MILLIONS | **2009** | 2008 |
| Current assets | **$ 2,923.2** | $ 596.9 |
| Non-current assets | **12,348.2** | 6,299.8 |
| Total assets | **$15,271.4** | $6,896.7 |
| Current liabilities | **$ 2,297.1** | $ 193.2 |
| Non-current liabilities | **6,803.1** | 4,339.1 |
| Total liabilities | **$ 9,100.2** | $4,532.3 |

## 4. PROPERTY, PLANT AND EQUIPMENT

| | | | **December 31, 2009** | December 31, 2008 |
|---|---|---|---|---|
| US$ MILLIONS | Cost | Accumulated Depreciation | **Net Book Value** | Net Book Value |
| Land | $ 0.9 | $ — | **$ 0.9** | $ 0.5 |
| Buildings | 14.5 | 4.3 | **10.2** | 8.4 |
| Transmission stations, towers and related fixtures | 257.3 | 67.4 | **189.9** | 163.3 |
| Other equipment | 3.7 | — | **3.7** | 1.8 |
| | $276.4 | $71.7 | **$204.7** | $174.0 |

## 5. FAIR VALUE OF FINANCIAL ASSETS AND U.S. GAAP LIABILITIES

ASC 820—Fair Value Measurements and Disclosure ("ASC 820"), formerly SFAS 157 "Fair Value Measurements", defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Based on quoted market prices in active markets for identical assets or liabilities.

Level 2: Based on observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table presents additional information about the Partnership's financial assets and liabilities which are measured at fair value on a recurring basis as of December 31, 2009.

| | Recurring Fair Value Measurement | |
|---|---|---|
| **US$ MILLIONS** | **Level 2** | **Total** |
| Redeemable Partnership units | 710.6 | 710.6 |

The fair value of the Redeemable Partnership Units is based on the market value of the traded securities for which the partnership units my be redeemed. At December 31, 2009, the securities, traded under the symbol "BIP" on the New York Stock Exchange, closed trading at $16.77 per unit. These securities also trade on the Toronto Stock Exchange, under the symbol "BIP.UN" and closed trading on December 31, 2009 at C$17.59 per unit.

### 6. NON—RECOURSE BORROWINGS

| **US$ MILLIONS** | **December 31, 2009** | December 31, 2008 |
|---|---|---|
| Series 1 First Mortgage Bonds | **$114.0** | $97.6 |

The Series 1 Bonds bear interest at the rate of 6.6%. Semi-annual payments of interest only are due and payable on June and December 16 each year until and including June 16, 2013. Equal blended semi-annual payments of principal and interest on the Series 1 Bonds will commence on December 16, 2013 and will continue until and including June 16, 2023. The remaining principal balance of the Series 1 Bonds will be fully due on June 16, 2023. The Series 1 Bonds are secured by a charge on generation and transmission present and future real property assets of Ontario Transmission's operations. Interest on the Series 1 Bonds is expensed in accordance with the interest rate prescribed by regulation. In 2009, the interest rate was 6.6% (2008—6.6%). The fair market value of the Series 1 Bonds is $133.9 million (2008—$90.9 million) based on current market prices for debt with similar terms.

## 7. PARTNERSHIP CAPITAL AND REDEEMABLE PARTNERSHIP UNITS

As at December 31, total number of units outstanding were comprised as follows:

| | 2009 | 2008 |
|---|---|---|
| General partnership units | **1,066,928** | 388,457 |
| Limited partnership units | **63,155,680** | 23,160,269 |
| Redeemable partnership units | **42,470,220** | 15,112,744 |
| Total | **106,692,828** | 38,661,470 |

During 2009 and 2008, the number of issued and outstanding Partnership units changed as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **US$ MILLIONS (EXCEPT UNIT INFORMATION)** | **Book Value** | **Units** | Book Value | Units |
| Outstanding at beginning of year | **540.0** | **23,548,726** | 586.4 | 23,729,328 |
| Other adjustment related to acquired entity | **(5.8)** | | (44.4) | — |
| Units issued | **569.7** | **41,347,882** | — | — |
| Units repurchased | **(7.6)** | **(674,000)** | (2.0) | (180,602) |
| Outstanding at end of year | **1,096.3** | **64,222,608** | 540.0 | 23,548,726 |

Brookfield Infrastructure has issued redeemable partnership units that may, at the request of the holder, require Brookfield Infrastructure to redeem all or a portion of the holder's units of Brookfield Infrastructure at the market price for cash. This right is subject to BIP's right of first refusal which entitles it, at its sole discretion, to elect to acquire any unit so presented to Brookfield Infrastructure in exchange for one of BIP's units (subject to certain customary adjustments). Brookfield's aggregate limited partnership interest in Brookfield Infrastructure would be 39% if Brookfield exercised its redemption right in full and BIP fully exercised its right of first refusal. The units are classified as temporary equity and are measured at their redemption amount which also equals their fair value. As of December 31, 2009 and 2008, fair value of these units were valued at $710.6 million and $169.3 million respectively, and the fair value adjustment during the year, which was recorded in retained earnings.

During 2009 and 2008, the number of issued and outstanding redeemable Partnership units changed as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **US$ MILLIONS (EXCEPT UNIT INFORMATION)** | **Book Value** | **Units** | Book Value | Units |
| Outstanding at beginning of year | **169.3** | **15,112,744** | 354.2 | 15,112,744 |
| Units issued | **367.4** | **27,357,476** | — | — |
| Revaluation of redeemable partnership units | **173.9** | **—** | (184.9) | — |
| Outstanding at end of year | **710.6** | **42,470,220** | 169.3 | 15,112,744 |

## 8. ACQUISITIONS AND DIVESTITURES

On November 20, 2009, Brookfield Infrastructure invested $941.0 million to acquire a 40% interest in Prime, direct interests in two assets from Prime: DBCT and PD Ports, and an interest in a Brookfield sponsored fund. The acquisition was funded with the proceeds from issuance of partnership units.

The following table outlines sources and uses of cash for our participation in the recapitalization of Prime:

| | As at November 20 2009 |
|---|---|
| Cash | **$941.0** |
| Comprised of: | |
| Investment in Prime | **$666.4** |
| Investment in PD Ports | **102.9**(1) |
| Investment in DBCT | **165.7**(1) |
| Transaction costs | **6.0** |
| Total | **$941.0** |

(1) *A portion of our direct investment is held through a Brookfield sponsored infrastructure fund.*

On December 31, 2009, the Brookfield sponsored infrastructure partnership, through which a portion of Brookfield Infrastructure's interest in PD Ports is held, admitted a new limited partner resulting in the reduction of Brookfield Infrastructure's ownership interest in this asset. In conjunction with the transaction, we received $9.5 million, representing the original cost of the investment plus a notional interest charge and Brookfield Infrastructure's pro-rata ownership interest was reduced from 55.6% to 45.5%.

On June 30, 2009, Brookfield Infrastructure completed the sale of our minority interest in TBE for after-tax proceeds of $275 million, including proceeds from foreign exchange currency hedges. The sale resulted in the recognition of a $68.2 million after-tax gain over book value. A portion of the proceeds was used to repay corporate borrowings in full, with the balance available to fund growth capital investments and acquisitions, as well as for general corporate working capital purposes.

On February 3, 2009, Brookfield Infrastructure completed the acquisition from Brookfield of a 50% interest in the Royal Melbourne Showgrounds PPP project for a purchase price of $2.9 million.

On December 5, 2008, Brookfield Infrastructure acquired from Brookfield a 30% interest in the Peterborough Hospital and a 50% interest in the Long Bay Forensic and Prison Hospitals PPP projects for a purchase price of $12.3 million.

On November 4, 2008, Brookfield Infrastructure invested $102.8 million directly and indirectly (through the Brookfield sponsored timber fund) into Longview to maintain Brookfield Infrastructure interest at the 30% level. The proceeds were used to partially fund the add-on acquisition of a tree farm in Washington State and repay Longview's outstanding bridge loan.

On April 3, 2008, Brookfield Infrastructure acquired an additional 7.1% interest in Transelec for $134.9 million, increasing Brookfield Infrastructure's total ownership interest to 17.8%.

## 9. INCOME TAXES

Included in the net deferred tax recovery amount of $10.6 million for 2007, is $8.4 million representing the net of $13.0 million deferred tax assets, and $4.6 million deferred tax liability that arose as a result of the initial tax costs in certain subsidiaries being higher or lower then the initial book value of the investments that arose on the formation of Brookfield Infrastructure.

## 10. RELATED PARTY TRANSACTIONS

In the normal course of operations, Brookfield Infrastructure entered into the transactions described below on market terms with related parties. These transactions have been measured at exchange value and are recognized in the financial statements.

Brookfield Infrastructure has placed funds on deposit with its parent. The interest earned on the deposits are at market terms. At December 31, 2009, the partnership's deposit balance with its parent was $49.9 million (December 31, 2008 $nil), and earned interest of $0.1 million for the year ($ nil million for the year ended December 31, 2008), at a rate of 0.625%.

Ontario Transmission has provided advances to and received advances from related parties in the normal course of operations. Ontario Transmission has also provided advances to and received advances from other divisions of Great Lakes Power Limited ("GLPL"). These advances are non-interest bearing, unsecured and due on demand.

At year end no amounts were due from related parties (as at December 31, 2008—nil) and $0.1 million was due to related parties (as at December 31, 2008—$1.7 million).

## 11. TBE DIVESTITURE and DERIVATIVES AND HEDGING

In September 2008, Brookfield Infrastructure exercised an option to sell its minority interest in Transmissoras Brasileiras De Energia ("TBE") to a Brazilian state owned utility. On June 30, 2009, the sale of the TBE interests was completed and Brookfield Infrastructure received proceeds of $245.2 million. Brookfield Infrastructure had entered into a foreign exchange hedge to lock in the projected proceeds in U.S. dollars in the prior year. During the year, Brookfield Infrastructure recorded a loss of $8.5 million from hedge settlements; however, since inception of the hedge program a total gain of $18.2 million was recorded within equity. The sale of TBE resulted in the recognition of a $68.2 million after tax gain on sale over book value, which includes gains recorded on the foreign exchange hedge which were released from accumulated other comprehensive income.

Brookfield Infrastructure also hold certain instruments, primarily foreign currency forward contracts, for risk management purposes but without electing any form of hedge accounting.

Brookfield Infrastructure had in place a forward contract to buy a notional amount of approximately £8 million as a hedge against its future additional investment in the Peterborough Hospital in the United Kingdom. Brookfield Infrastructure recorded a loss of $0.3 million as a current mark-to-market on the contract in the statement of operations for the year ended December 31, 2009 (2008—$0.3 million).

## 12. PREFERRED SHARES

The preferred shareholders are entitled to receive a preferential dividend equal to 6% of the preferred shares redemption value and are redeemable, in whole or in part, at an amount equal to their redemption value plus accrued and unpaid dividends at any time after the tenth anniversary of their issuance.

## 13. CORPORATE BORROWINGS

Brookfield Infrastructure has a $200 million senior secured revolving credit facility used for general working capital including acquisitions. The facility is available on a revolving basis for one year unless extended in accordance with the terms of the credit agreement. All amounts outstanding under this facility will be repayable on June 13, 2011. All obligations of Brookfield Infrastructure under the facility are guaranteed by certain subsidiaries of Brookfield Infrastructure and are secured by all of the asset so Brookfield Infrastructure and the guarantors. Loans under this facility accrue interest at a floating rate based on LIBOR plus 3.5%. Brookfield Infrastructure is required to pay an unused commitment fee under the facility equal to 35% of the applicable margin per annum. As at December 31, 2009, $ nil was drawn on the credit facility (December 31, 2008—$139.5 million).

## 14. SEGMENTED INFORMATION

Brookfield Infrastructure's operating segments are utilities, fee for service and timber. A key measure most often used by the Chief Operating Decision Maker in assessing performance and in making resource allocation decisions is adjusted net operating income (ANOI) a non-GAAP measure, which enables the determination of cash return on equity deployed. ANOI is defined as net income excluding the impact of depreciation, depletion and amortization, deferred taxes and other non-cash items. The following table provides each segment's results based on the format that management organizes its segments in order to make operating decisions and assess performance. Each segment is presented on both a 100% basis and a proportional basis, taking into account Brookfield

Infrastructure's ownership interest in operations accounted for using the consolidation and equity methods. For cost accounted investments, the segment results reflect dividend income.

| FOR THE YEAR ENDED DECEMBER 31, 2009 US$ MILLIONS | Utilities | | Fee for Service | | Timber | | | |
|---|---|---|---|---|---|---|---|---|
| | 100% | Partnership Share | 100% | Partnership Share | 100% | Partnership Share | Corporate | Total[1] |
| Revenues | $ 434.2 | $116.7 | $ 289.6 | $ 56.9 | $ 226.7 | $ 77.4 | $ — | |
| Cost attributed to revenues | (103.3) | (31.0) | (158.7) | (32.5) | (162.9) | (56.2) | (18.0) | |
| Dividend income | 3.5 | 3.5 | — | — | — | — | 1.7 | |
| Net operating income | 334.4 | 89.2 | 130.9 | 24.4 | 63.8 | 21.2 | (16.3) | |
| Other income (expenses) | 8.5 | 1.9 | (6.7) | (1.6) | 7.0 | 1.7 | 0.4 | |
| Gain on sale of investment (after-tax) | 68.2 | 68.2 | — | — | — | — | — | |
| Interest expense | (107.5) | (29.6) | (48.3) | (8.8) | (79.1) | (25.7) | (5.4) | |
| Cash taxes | (1.0) | (1.0) | (13.3) | (1.4) | 0.6 | 0.2 | — | |
| Adjusted net operating income (ANOI) | 302.6 | 128.7 | 62.6 | 12.6 | (7.7) | (2.6) | (21.3) | |
| Depreciation, depletion and amortization | (83.7) | (23.3) | (19.7) | (4.0) | (84.4) | (26.3) | (0.4) | |
| Premium on refinancing | (15.7) | (2.8) | — | — | — | — | 0.5 | |
| Unrealized (losses) gains on derivative instruments | (108.3) | (23.1) | — | — | — | — | 2.4 | |
| Unrealized loss on investment | — | — | — | — | (39.6) | (11.9) | — | |
| Deferred taxes and other items | (19.5) | (9.1) | (31.6) | (8.7) | 44.7 | 14.8 | 22.3 | |
| Net income (loss) | $ 75.4 | $ 70.4 | $ 11.3 | $ (0.1) | $ (87.0) | $(26.0) | $ 3.5 | $47.8 |

| FOR THE YEAR ENDED DECEMBER 31, 2008 US$ MILLIONS | Utilities | | Timber | | | |
|---|---|---|---|---|---|---|
| | 100% | Partnership Share | 100% | Partnership Share | Corporate | Total[1] |
| Revenue | $367.7 | $ 86.4 | $ 368.4 | $124.8 | $ — | |
| Costs attributed to revenue | (59.0) | (15.8) | (239.0) | (81.8) | (14.0) | |
| Dividend income | 14.3 | 14.3 | — | — | — | |
| Net operating income | 323.0 | 84.9 | 129.4 | 43.0 | (14.0) | |
| Other income (expense) | 9.5 | 1.6 | (1.2) | (0.5) | 1.2 | |
| Interest expense | (93.2) | (21.1) | (90.6) | (29.0) | (4.3) | |
| Cash taxes | (1.4) | (1.4) | (1.4) | (0.7) | — | |
| Adjusted net operating income (ANOI) | 237.9 | 64.0 | 36.2 | 12.8 | (17.1) | |
| Depreciation, depletion and amortization | (70.5) | (17.6) | (117.8) | (36.7) | — | |
| Deferred taxes and other items | (41.7) | (6.5) | 91.3 | 30.6 | (1.5) | |
| Net income (loss) | $125.7 | $ 39.9 | $ 9.7 | $ 6.7 | $(18.6) | $28.0 |

(1) *The majority of Brookfield Infrastructure's investments are accounted for using the equity method or cost method of accounting in accordance with U.S. GAAP (note 2). This results in the earnings from these investments being presented in one line on the Statement of Operations. The above tables presents the detailed components making up net income for investments accounted for using the consolidation, equity and cost methods in a more fulsome manner. Accordingly, with the exception of net income, the totals of each line item in the above table will not agree to the Statement of Operations.*

| FOR THE YEAR ENDED DECEMBER 31, 2007 US$ MILLIONS | Utilities 100% | Utilities Partnership Share | Timber 100% | Timber Partnership Share | Corporate | Total[1] |
|---|---|---|---|---|---|---|
| Revenue | $ 54.3 | $35.5 | $ 18.1 | $ 6.1 | $ — | |
| Dividend income | 0.6 | 0.5 | — | — | — | |
| Costs attributed to revenue | (9.6) | (6.4) | (16.9) | (5.6) | — | |
| Net operating income | 45.2 | 29.6 | 1.2 | 0.5 | — | |
| Other income (expense) | 3.0 | 0.3 | (5.1) | (1.9) | — | |
| Interest expense | (17.7) | (8.0) | (8.6) | (2.7) | — | |
| Cash taxes | (4.5) | (4.5) | — | — | — | |
| Adjusted net operating income (ANOI) | 26.0 | 17.4 | (12.5) | (4.1) | — | |
| Depreciation, depletion and amortization | (14.4) | (8.0) | (5.8) | (1.8) | — | |
| Deferred taxes and other items | (16.0) | 0.4 | (0.5) | (0.3) | 8.4 | |
| Net (loss) income | $ (4.4) | $ 9.8 | $(18.8) | $(6.2) | $8.4 | $12.0 |

## 15. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, Ontario Transmission operations executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents Ontario Transmission operations from making a reasonable estimate of the maximum potential amount Ontario Transmission operations could be required to pay third parties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, Ontario Transmission operations has not made significant payments under such indemnification agreements.

The payments for interest in respect of the First Mortgage Bonds for the next 5 years are as follows:

| US$ MILLIONS | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| | $6.5 | $6.5 | $6.5 | $6.5 | $6.5 |

In the normal course of operations, Ontario Transmission operations has committed as at December 31, 2009 to spend approximately $50.0 million on capital projects in future years.

Ontario Transmission operations may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the ordinary course of business which Ontario Transmission operations believes would not reasonably be expected to have a material adverse effect on the financial condition of Ontario Transmission operations.

There are no specified decommissioning costs relating to the Ontario Transmission operations assets. Ontario Transmission operations has a comprehensive repair and capital expenditure program to ensure that its transmission lines are maintained to optimum industry standards. Replacement of the assets occur in accordance with a long term capital plan and would involve typical costs of removal as part of that process. In the circumstance where a portion of a line or other assets were removed completely, there may be some contractual obligations under private or crown easements or other land rights which require the transmission owner to reinstate the land to a certain standard, typically the shape it was prior to the construction of the transmission assets. As well, certain environmental, land use and/or utility legislation, regulations and policy may apply in which Ontario Transmission would have to comply with remediation requirements set by the government. The requirements will typically depend on the specific property characteristics and what criteria the government determines to be appropriate to meet safety and environmental concerns. These asset lives are indeterminate given their nature. As the individual assets or components reach the end of their useful lives, they are retired and replaced. Historically, certain asset components have been replaced a number of times, thus creating a perpetual asset with an indeterminate life. As such, the retirement date for these lines cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be determined at this time. As a result, no liability has been accrued in these financial statements.

Brookfield Infrastructure acquired an interest in the Peterborough Hospital PPP project in the United Kingdom in 2008. The project is in the construction phase with construction expected to be complete in late 2011. Brookfield Infrastructure has a commitment to fund its share of the additional equity investment in the project totalling approximately £8 million, or $12 million.

## 16. SUBSEQUENT EVENTS

On January 28, 2010, subsequent to year end, the Brookfield sponsored infrastructure partnership, through which a portion of Brookfield Infrastructure's interests in DBCT and PD Ports is held, admitted a new limited partner resulting in the reduction in our ownership interest in these assets. In addition, Brookfield Infrastructure sold a 1.4% interest in DBCT to the new limited partner. In conjunction with the transaction, Brookfield Infrastructure received proceeds of $21.5 million, representing the original cost of these investments plus a notional interest charge.

**BROOKFIELD INFRASTRUCTURE PARTNERS LIMITED**

**As of December 31, 2009**

## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Directors of
BROOKFIELD INFRASTRUCTURE PARTNERS LIMITED:

We have audited the accompanying balance sheet of Brookfield Infrastructure Partners Limited (the "Company") as of December 31, 2009. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Brookfield Infrastructure Partners Limited as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Ontario

May 26, 2010

## BROOKFIELD INFRASTRUCTURE PARTNERS LIMITED

## BALANCE SHEET

### As of December 31, 2009

| | 2009 |
|---|---|
| **Assets** | |
| Cash | $ 12,455 |
| Investment in Brookfield Infrastructure Partners L.P. | 1 |
| Receivables and other | 299,595 |
| Total assets | $312,051 |
| **Liabilities and shareholders capital** | |
| Accounts payable | $334,904 |
| Shareholders' deficit | |
| Share capital | 100 |
| Retained earnings | (22,953) |
| Total liabilities and shareholders' deficit | $312,051 |

The accompanying notes are an integral part of these financial statements.

# BROOKFIELD INFRASTRUCTURE PARTNERS LIMITED
## NOTES TO BALANCE SHEET

### 1. ORGANIZATION

Brookfield Infrastructure Partners Limited (the "Company") was formed as a company limited by shares under the Companies Act 1981 of Bermuda pursuant to a memorandum of association dated May 17, 2007. The Company issued four shares of par value $1.00 each upon incorporation. The Company was incorporated to serve as the general partner of Brookfield Infrastructure Partners L.P.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The balance sheet has been prepared in accordance with accounting principles generally accepted in the United States of America.

In May 2009, the FASB issued ASC 855, Subsequent Events ("ASC 855") (formerly SFAS No. 165 Subsequent Events), which defines subsequent events as transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance defines two types of subsequent events: (i) events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and (ii) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, non-recognized subsequent events). In addition, this guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance in ASC 855 is effective for periods ending after June 15, 2009. The adoption of ASC 855 did not have a material impact on the Company's financial statements.

We evaluate events and transactions that occur after the balance sheet date as potential subsequent events. We perform this evaluation through May 26, 2010 the date on which our financial statements were available to be issued.

### 3. ACTIVITIES OF THE ENTITY

The Company has receivables and payables incurred in the normal course of operations in its capacity as the general partner of Brookfield Infrastructure Partners L.P.

**Consolidated financial statements of**

# ISLAND TIMBERLANDS LIMITED PARTNERSHIP

As of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009

# ISLAND TIMBERLANDS LIMITED PARTNERSHIP

## Table of contents

## Report of Independent Registered Chartered Accountants

To the Partners of
Island Timberlands Limited Partnership

We have audited the consolidated balance sheets of Island Timberlands Limited Partnership (the "Partnership") as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income and accumulated other comprehensive income, partners' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Partnership's internal control over financial reporting. Accordingly, we express no such opinion.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
January 22, 2010

## ISLAND TIMBERLANDS LIMITED PARTNERSHIP
## CONSOLIDATED STATEMENTS OF OPERATIONS
### Years ended December 31, 2009, 2008 and 2007
### (Expressed in thousands of U.S. dollars)

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| **Sales** | **135,617** | 192,657 | 212,775 |
| Operating costs and expenses | | | |
| Manufacturing and production costs | **91,740** | 128,269 | 139,576 |
| Depreciation, depletion and amortization | **12,238** | 18,437 | 20,263 |
| Shipping and handling | **11,317** | 8,412 | — |
| Selling, general and administrative | **7,807** | 8,944 | 9,001 |
| | **123,102** | 164,062 | 168,840 |
| Operating income | **12,515** | 28,595 | 43,935 |
| Other expenses (income) | | | |
| Interest expense | **25,119** | 26,979 | 26,451 |
| Other (income) expenses (Note 11) | **(2,968)** | 1,108 | (3,859) |
| Gain on sale of assets (Note 6) | **(2,562)** | (5,631) | (7,432) |
| Gains on sale of assets in Strathcona Helicopters Ltd. (Note 1) | **(559)** | (223) | — |
| Management fee—performance bonus (Note 4) | **(12,375)** | (35,923) | 8,298 |
| | **6,655** | (13,690) | 23,458 |
| **Net income for the year** | **5,860** | 42,285 | 20,477 |
| Allocated as follows: | | | |
| Limited Partners interests | **5,860** | 42,285 | 20,477 |
| General Partner interest | **—** | — | — |
| | **5,860** | 42,285 | 20,477 |

See accompanying notes to the consolidated financial statements.

# ISLAND TIMBERLANDS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

**Years ended December 31, 2009, 2008 and 2007**
**(Expressed in thousands of U.S. dollars)**

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| **Net income** | **5,860** | 42,285 | 20,477 |
| Other comprehensive (loss) income | | | |
| Amortization of gain on fair values of derivatives designated as cash flow hedges | **(77)** | (77) | (107) |
| Effect of foreign currency translation of foreign operation | **18** | (30) | 15 |
| Other comprehensive loss | **(59)** | (107) | (92) |
| **Comprehensive income** | **5,801** | 42,178 | 20,385 |
| **Accumulated other comprehensive income, beginning of year** | **5,269** | 5,376 | 5,468 |
| Other comprehensive loss | **(59)** | (107) | (92) |
| **Accumulated other comprehensive income, end of year** | **5,210** | 5,269 | 5,376 |

See accompanying notes to the consolidated financial statements.

## ISLAND TIMBERLANDS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

### Years ended December 31, 2009, 2008 and 2007
### (Expressed in thousands of U.S. dollars)

| | Limited Partners | General Partner | 2009 Total | 2008 Total | 2007 Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Partners' equity, beginning of year** | 470,450 | 6 | **470,456** | 433,394 | 452,128 |
| Net income | 5,860 | — | **5,860** | 42,285 | 20,477 |
| Transitional adjustment | — | — | **—** | — | (23) |
| Distribution of proceeds from Strathcona Helicopters Ltd. | (559) | — | **(559)** | (223) | — |
| Distributions | — | — | **—** | (5,000) | (39,188) |
| | 475,751 | 6 | **475,757** | 470,456 | 433,394 |
| Accumulated other comprehensive income | 5,210 | — | **5,210** | 5,269 | 5,376 |
| **Partners' equity, end of year** | 480,961 | 6 | **480,967** | 475,725 | 438,770 |

See accompanying notes to the consolidated financial statements.

## ISLAND TIMBERLANDS LIMITED PARTNERSHIP

## CONSOLIDATED BALANCE SHEETS

### As at December 31, 2009 and 2008
### (Expressed in thousands of U.S. dollars)

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **2,487** | 6,998 |
| Short-term investment | **8,000** | — |
| Accounts receivable | **1,622** | 2,077 |
| Inventories (Note 5) | **23,315** | 26,984 |
| Prepaid expenses | **926** | 750 |
| | **36,350** | 36,809 |
| Property, plant and equipment (Note 6) | **106,384** | 106,797 |
| Timberlands and logging roads (Note 7) | **747,351** | 754,099 |
| Long-term receivable (Note 4) | **20,080** | 7,705 |
| | **910,165** | 905,410 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **16,262** | 16,718 |
| Performance bonus—interest payable | **—** | 1,073 |
| | **16,262** | 17,791 |
| Other liabilities (Note 8) | **4,743** | 4,020 |
| | **21,005** | 21,811 |
| Long-term debt (Note 9) | **410,000** | 410,000 |
| Less: Debt issue costs | **(1,807)** | (2,126) |
| | **408,193** | 407,874 |
| | **429,198** | 429,685 |
| **Partners' equity** | **480,967** | 475,725 |
| | **910,165** | 905,410 |

Contingencies (Note 14)
Commitments (Note 16)

See accompanying notes to the consolidated financial statements.

# ISLAND TIMBERLANDS LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**Years ended December 31, 2009, 2008 and 2007**
**(Expressed in thousands of U.S. dollars)**

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| **Operating activities** | | | |
| Net income for the year | **5,860** | 42,285 | 20,477 |
| Items not involving cash | | | |
| Depreciation, depletion and amortization | **12,238** | 18,437 | 20,263 |
| Amortization of debt issue costs | **319** | 319 | 346 |
| Return of investment (Note 1) | **(559)** | (223) | — |
| Gain on sale of assets | **(2,562)** | (5,631) | (7,432) |
| Change in non-cash operating items | | | |
| Accounts receivable | **455** | 183 | 487 |
| Management fee—performance bonus payable | **(12,375)** | (50,353) | 2,648 |
| Inventories | **3,669** | 1,898 | (5,821) |
| Prepaid expenses | **(176)** | 274 | (84) |
| Accounts payable and accrued liabilities | **(1,529)** | (6,288) | 3,794 |
| Other liabilities | **664** | (3,229) | 355 |
| | **6,004** | (2,328) | 35,033 |
| **Investing activities** | | | |
| Acquisition of Timberland assets purchase price adjustment | **—** | — | 5,188 |
| Additions to property, plant and equipment, and timberlands and logging roads (Note 5) | **(6,316)** | (7,702) | (8,769) |
| Proceeds from sale of property and equipment | **3,801** | 7,564 | 14,529 |
| Proceeds from sale of assets in Strathcona Helicopters Ltd. (Note 1) | **559** | 223 | — |
| | **(1,956)** | 85 | 10,948 |
| **Financing activities** | | | |
| Distributions to limited partners | **—** | (5,000) | (39,188) |
| Distribution of proceeds from Strathcona Helicopters Ltd. (Note 1) | **(559)** | (223) | — |
| | **(559)** | (5,223) | (39,188) |
| Increase (decrease) in cash | **3,489** | (7,466) | 6,793 |
| Cash, beginning of year | **6,998** | 14,464 | 7,671 |
| **Cash, end of year** | **10,487** | 6,998 | 14,464 |
| Cash consists of | | | |
| Cash on hand on deposits | **2,487** | 6,998 | 14,464 |
| Short-term investments | **8,000** | — | |
| | **10,487** | 6,998 | 14,464 |
| Supplemental cash flow information Interest paid | **25,876** | 26,869 | 24,858 |

See accompanying notes to the consolidated financial statements.

**ISLAND TIMBERLANDS LIMITED PARTNERSHIP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009 and 2008**
**(Expressed in thousands of U.S. dollars)**

## 1. PRIMARY BUSINESS ACTIVITY

Island Timberlands Limited Partnership ("Island" or the "Partnership") was formed pursuant to a limited partnership agreement (the "Agreement") made as of March 23, 2005 and as amended and restated as of May 27, 2005 for the purpose of carrying on the business of investment in, and management, operation, and disposition of timberlands in British Columbia, Canada and such other locales as may be approved in accordance with the Agreement.

Island's assets consist primarily of timberlands, land, logging roads and equipment, and for part of the year, a 50% interest in Strathcona Helicopters Ltd. ("Strathcona"). All of the assets are located in the coastal region of British Columbia, Canada. The Partnership's principal business is growing and harvesting timber, and selling logs to worldwide markets. Island's secondary business interest is real estate development and sales.

Island's interest in Strathcona was fully dissolved in November 2009 as a result of the winding up of this company which began in 2008. The decision by the Strathcona board was the result of Island and Western Forest Products Ltd. ("Western") being able to access equivalent services more cost effectively elsewhere in the marketplace.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which in these circumstances conform, in all material respects, with United States generally accepted accounting principles ("US GAAP"), except as described in Note 19.

*(a) Basis of presentation*

The consolidated financial statements include the accounts of the Partnership and its interest in Strathcona through use of the proportionate consolidation method until the winding up of Strathcona was completed in November 2009, and all intercompany transactions and balances had been eliminated. These statements do not include all the assets, liabilities, revenues and expenses of Island's partners as Island is unincorporated.

The functional currency of Island is the U.S. dollar.

All currency amounts in these consolidated financial statements are in United States dollars ("U.S. dollars") unless otherwise stated.

*(b) Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the period-end exchange rates. Non-monetary assets and liabilities are translated at exchange rates in effect when the assets are acquired or liabilities are incurred. Revenue and expense items denominated in foreign currencies are translated at average rates of exchange prevailing during the period. Exchange gains and losses arising from translation are included in operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*(c) Measurement uncertainties*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. On an ongoing basis management reviews its estimates based on currently available information. Actual results could differ from those estimates. Significant estimates used in the preparation of these consolidated financial statements include, among other things, but not limited to, the recoverability of accounts receivable, the estimated net realizable value of inventories, the expected economic lives of and the estimated future operating results and net cash flows from the timberlands and property, plant and equipment, the anticipated costs and timing of asset retirement obligations, and the valuation calculations which form the basis of Management Fee—Performance Bonus amounts (Note 4) to Brookfield Timberlands Management (“BTM”), an entity under common control.

Asset retirement obligations are recognized in the period in which they arise and are stated as the fair value of estimated future costs. These estimates require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices.

*(d) Short-term investments*

Short-term investments are recorded at fair value and consist of term deposits held by a related party with initial terms to maturity of less than 90 days (Note 12 (ii)).

*(e) Accounts receivable*

Accounts receivable are stated net of an allowance for doubtful accounts, which are $Nil as at December 31, 2009 (2008—$24).

*(f) Inventories*

Logs and boomsticks are valued at the lower of average cost and net realizable value. Materials and supplies are valued at the lower of average cost and replacement cost.

Island values log inventories at the lower of cost and net realizable value which is based on pooling logs as an aggregate product. The cost basis for produced logs is a weighted twelve month rolling average, one month in arrears, and adjusted as required for extraordinary events such as a market closure. Purchased logs are valued on a boom by boom basis at the lower of acquired cost and the net realizable value.

*(g) Financial instruments*

Private enterprises are not required to apply the following sections of the Canadian Institute of Chartered Accountants (“CICA”) Handbook: 1530, 3862 and 3863 which would otherwise have been applied to the consolidated financial statements of the Partnership for the year

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ended December 31, 2009. The Partnership has elected to use this exemption but will continue to apply the requirements of CICA Sections 1530, 3855 and 3865.

*(h) Property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated depreciation. Plant and equipment are depreciated on a straight-line basis at rates that reflect the economic lives of the assets resulting in the following annual rates:

| | |
|---|---|
| Buildings | 3%-5% |
| Plant and equipment | 10%-20% |

Property, plant and equipment includes land that has been designated as having a higher value to non-timberland owners ("HBU land"). HBU land is not depreciated. Betterments to HBU land are capitalized and included as part of the special project or parcel of land until it is sold.

The Partnership reviews for the impairment of property, plant, and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the expected undiscounted future cash flows from its use and eventual disposition. The amount of any impairment loss is determined as the excess of the carrying value of the asset over its fair value.

*(i) Timberlands and logging roads*

Timberlands and logging roads are carried at cost less accumulated depletion and amortization. Site preparation and planting costs are capitalized as reforestation. Reforestation is transferred to a merchantable timber classification after 30 years.

Depletion of the timberlands is based on the volume of timber harvested in relation to the estimated timber to be available over the harvest cycle.

Amortization of logging roads occurs as timber is harvested and is based upon rates determined with reference to the volume of the timber estimated to be removed using these roads.

Timberlands and logging roads are tested for impairment in value whenever events or changes in circumstances indicate their carrying value may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. The amount of any impairment loss is determined as the excess of the carrying value of the asset over its fair value.

*(j) Asset retirement obligations*

Obligations associated with the retirement of tangible long-lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liabilities initially measured at fair value. These obligations are capitalized to the book value of the related

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

long-lived assets and are depreciated over the useful life of the asset. The obligation is accreted over time to the estimated amount ultimately payable, through charges to operations.

*(k) Debt issue costs*

Debt issue costs related to long-term debt are deferred and amortized over the respective terms of the debt to maturity.

*(l) Revenue recognition*

Revenue is derived primarily from the sale of logs and related products and services. The Partnership recognizes sales to external customers when significant risks and rewards of ownership are transferred, which is generally when the product is shipped and title passes, and collectibility is reasonably assured.

*(m) Shipping and handling costs*

Island classifies shipping and handling costs in cost of products sold in the consolidated statement of operations.

*(n) Income taxes*

The partners are individually liable for any taxes related to their respective shares of the Partnership's taxable income. Accordingly, no provision for income taxes is required, except for the Partnership's share of the provision for income taxes of Strathcona.

*(o) Future accounting changes*

Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be complete by 2011. The Partnership has elected the option to early adopt IFRS and as a result will be accounting and preparing statements in accordance with those reporting standards beginning January 1, 2010.

## 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, Island adopted the following new accounting standards and recommendations issued by the CICA.

*(a) Capital disclosures*

Island adopted the recommendations of CICA Handbook Section 1535, *Capital Disclosures*. This section requires the disclosure of information about externally imposed capital requirements. The required disclosures are included in Note 17. The adoption of this section had no impact on the consolidated financial statements.

## 3. CHANGES IN ACCOUNTING POLICIES (Continued)

*(b) Goodwill and intangible assets*

Section 3064, *Goodwill and Intangible Assets*, replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new standard does not have a material impact on Island's consolidated financial statements.

## 4. MANAGEMENT FEE—PERFORMANCE BONUS

Pursuant to the terms of the Management Agreement (the "Agreement") between Island and BTM, management fees are payable to BTM as compensation for the services provided by BTM on behalf of Island. These fees are comprised of a base management fee which is payable quarterly, and a performance fee which becomes payable annually upon the achievement of specified performance thresholds.

The performance bonus is calculated annually based on cash distributed by the business combined with independent valuation reports. The final calculation of the annual amount owing with respect to the performance fee is subject to a clawback calculation for every five year period starting in 2011 and every fifth year thereafter. In accordance with the terms of this clawback clause, if Island has paid BTM annual performance fees which are in excess of the amount that would have been paid if the performance fee had been calculated for each five year period, rather than annually, the excess amount will be repaid by BTM to Island.

In May 2007, the 2006 performance fee payable to BTM was finalized at $39.5 million. This fee was payable in installments over a 7 year-period, bearing interest at a rate of 6.02%. The performance fee payment in the year ended December 31, 2008 for the second instalment of the 2006 performance fee was $5.7 million (2007—$5.7 million for the first instalment of the 2006 performance fee) along with a performance fee interest payment of $2.0 million during the year.

In 2007 an additional performance fee payable was calculated. It was finalized and fully paid during 2008 in the amount of $8.8 million.

In 2008, as a result of a change in management's estimates in the fee payable based on cash distributions and independent business valuations a total of $35.9 million was recorded as an accrued clawback. The clawback provision resulted in an estimated long-term receivable of $7.7 million at December 31, 2008.

During the year ended December 31, 2009, the accrued clawback was increased by $12.4 million resulting in a long-term receivable of $20.1 million. The final performance bonus will be calculated on December 31, 2010 and will be settled in 2011.

Any obligation is considered subordinate to the Senior Bonds, and accordingly would not be included in calculating compliance with the covenants of the Trust Indenture. As long as the

(Expressed in thousands of U.S. dollars)

## 4. MANAGEMENT FEE—PERFORMANCE BONUS (Continued)

Partnership remains in compliance with the covenants stated in the Trust Indenture, payments may be made on the management fee payable should such an obligation exist.

## 5. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Logs and boomsticks | **22,030** | 25,642 |
| Materials and supplies | **1,285** | 1,342 |
| | **23,315** | 26,984 |

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated depreciation | **2009** **Net book value** | 2008 Net book value |
|---|---|---|---|---|
| | $ | $ | **$** | $ |
| HBU and other land | 104,006 | — | **104,006** | 103,852 |
| Buildings | 1,134 | 613 | **521** | 711 |
| Plant and equipment | 4,721 | 2,864 | **1,857** | 2,234 |
| | 109,861 | 3,477 | **106,384** | 106,797 |

In the year ended December 31, 2009, Island sold HBU and other land for net proceeds of $3,241 (2008—$5,983, 2007—$14,446), realizing a gain of $2,058 (2008—$4,112, 2007—$7,349). Island also sold plant and equipment for net proceeds of $560 (2008—$1,581, 2007—$83) and realized a gain of $504 (2008—$1,519, 2007—$83).

## 7. TIMBERLANDS AND LOGGING ROADS

| | Cost | Accumulated depletion and amortization | **2009** **Net book value** | 2008 Net book value |
|---|---|---|---|---|
| | $ | $ | **$** | $ |
| Timberlands | 790,068 | 62,725 | **727,343** | 736,975 |
| Reforestation | 16,722 | — | **16,722** | 14,016 |
| Logging roads | 21,990 | 18,704 | **3,286** | 3,108 |
| | 828,780 | 81,429 | **747,351** | 754,099 |

(Expressed in thousands of U.S. dollars)

## 8. OTHER LIABILITIES

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Restructuring liabilities | **4,220** | 3,636 |
| Asset retirement obligations | **523** | 384 |
| | **4,743** | 4,020 |

Pursuant to the timberland acquisition from Weyerhaeuser Company Limited ("WYL"), Island was obligated to reimburse Cascadia Forest Products Ltd. ("Cascadia") (now Western, a company under common control of one of the limited partners) for certain restructuring and severance costs related to closure activities. That obligation was settled in 2008 with a final payment of $0.3 million.

At the time of acquisition, Island also assumed responsibility for certain property subdivisions and environmental obligations that could potentially arise pursuant to the subdivision process. In 2009, no revisions were made to the estimated future cost. The projected obligations are measured in Canadian dollars, the change in balance sheet amounts is wholly a factor of change in foreign exchange from year to year.

## 9. DEBT

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| U.S. secured bonds repayable on August 30, 2015, interest at 5.58% | **100,000** | 100,000 |
| U.S. secured bonds repayable on August 30, 2025, interest at 6.17% | **210,000** | 210,000 |
| U.S. secured bonds repayable on August 30, 2030, interest at 6.27% | **100,000** | 100,000 |
| | **410,000** | 410,000 |

The bonds are payable to Island Timberlands Finance Corp. ("IT Finance"), an entity under common control. The bonds are secured by a fixed and floating charge over the Partnership assets and covenants exist that restrict the Partnership's ability to create additional encumbrances and incur further debt. A debt service reserve account equal to six months' interest has been guaranteed by issuing two secured irrevocable letters of credit aggregating $12,382. The fair value of the long-term debt at December 31, 2009 has been estimated by management at $359,677 (2008—$417,987).

The Partnership maintains a $30 million demand secured operating credit facility. There were no borrowings on the facility at December 31, 2009. At December 31, 2009, the Partnership had six letters of credit totaling $12.5 million outstanding under the credit facility.

(Expressed in thousands of U.S. dollars)

## 10. PARTNERS' EQUITY

| | Number of units authorized and issued | Participation % |
|---|---|---|
| Limited Partners interests | 53,168,984 | 99.999 |
| General Partner interest | 1 | 0.001 |

## 11. OTHER NON-OPERATING EXPENSES/(INCOME)

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| Interest income | **(73)** | (298) | (733) |
| Statutory right of way sale | **(1,671)** | — | — |
| Financing fees | **499** | 210 | — |
| Foreign exchange (gain) loss | **(2,035)** | 2,458 | (2,702) |
| Remediation costs | **—** | 208 | — |
| Severance | **323** | 287 | (181) |
| Changes in estimated restructuring liabilities (Note 8) | **—** | (1,647) | — |
| Other | **(11)** | (110) | (243) |
| | **(2,968)** | 1,108 | (3,859) |

## 12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere, the Partnership had the following transactions with related parties which have been recorded at the exchange amounts agreed to by the parties:

(i) Island engages in various transactions with Western, an entity under common control. During the year, each entity purchased and sold logs, as well as boom gear, to each other. These transactions were recorded at the exchange amount determined with reference to current market pricing. As well, certain overhead and administrative fees were charged between Island and Western for services that are provided from one entity to the other. During the year, Island billed $18,848 (2008—$21,376, 2007—$16,041) to Western and recognized billings from Western in the amount of $923 (2008—$1,618, 2007—$8,644).

(ii) Pursuant to the WYL asset purchase agreement, the Partnership provided a limited guarantee in favour of WYL of the obligations of Western under the WYL asset purchase agreement (the "Island Guarantee"). Western has agreed to indemnify the Partnership in respect of any liability that it incurs under the Island Guarantee. As security for the indemnity, Western has assumed responsibility for a debenture, originally issued by Cascadia, in the amount of $100,000 in favour of the Partnership, which charges all of Western's purchased Cascadia real property and grants a security interest over all such present and after-acquired personal property. The debenture places certain restrictions on Western of the type typically found in

(Expressed in thousands of U.S. dollars)

## 12. RELATED PARTY TRANSACTIONS (Continued)

grants of security of this nature, including restrictions on the ability to make distributions to its shareholders without the consent of the Partnership.

(iii) Island engaged BTM for management services pursuant to the Agreement. During the year, Island was billed $1,971 (2008—$2,273, 2007—$2,316) for these services. The 2009 billings exclude any performance bonus related charges identified in Note 4.

(iv) Under a loan agreement with IT Finance, Island incurred interest payments in the amount of $24,807 (2008—$24,807, 2007—$24,807).

(v) Under an agreement with Brookfield, on the sale of Cascadia in 2006, Island received an amount equivalent to the excess of the sale proceeds over $100,00 plus carrying costs from May 26, 2005. Along with the estimate of $4,649 recorded at December 31, 2006, an additional excess amount of $539 was recorded in 2007 as a reduction of the purchase price paid by Island for the acquisition of the Timberland assets. The full amount of $5,188 was received by Island during 2007.

(vi) The wind up of Strathcona was completed in November 2009 and as a result Island did not utilize Strathcona for helicopter transport services in 2009 (2008—$239, 2007—$1,079).

(vii) Island engaged a Brookfield Asset Management, Inc. ("Brookfield") affiliate, Carma Developers LP ("Carma"), to assist in advancing various HBU development opportunities. During the year, Island was billed $1,321 (2008—$845, 2007—$501) by Carma for their direct services plus the costs of external consultants engaged by Carma on Island's behalf. All costs were capitalized to HBU and other land.

(viii) At December 31, 2009, Island had two term deposits bearing interest at 0.8%, maturing on January 11, 2010, held by Brookfield, 50% partner of Island.

(ix) The following receivable (payable) balances with entities under common control are outstanding at the end of the year:

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| Western | **39** | (15) |
| Carma | **(70)** | (83) |
| Brookfield | **28,080** | 6,632 |
| IT Finance | **(8,262)** | (8,269) |
| Strathcona | **—** | — |
| | **19,787** | (1,735) |

## 13. EMPLOYEE BENEFIT PLANS

Island maintains a defined contribution employee pension plan for salaried employees and contributes to an industry plan for hourly employees. Pension expense for the year was $669 (2008—$757, 2007—$701).

(Expressed in thousands of U.S. dollars)

## 14. CONTINGENCIES

Island is subject to legal claims in the ordinary course of its business. Although there can be no assurance as to the disposition of these matters, it is the opinion of Island's management, based upon the information currently available, that the expected outcome of these matters, individually or in aggregate, will not have a material adverse effect on the results of operations or financial condition of the Partnership.

## 15. SEGMENT INFORMATION

Island manages its business as a single operating segment (Note 1). All of the operations and assets are located in British Columbia.

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| **Sales by location of customer** | | | |
| Canada | **41,126** | 67,416 | 73,365 |
| United States | **16,349** | 33,587 | 72,152 |
| Asia | **78,142** | 91,654 | 67,258 |
| | **135,617** | 192,657 | 212,775 |
| **Sales by product line** | | | |
| Logs and related service | **135,617** | 192,690 | 212,280 |
| Other | **—** | (33) | 495 |
| | **135,617** | 192,657 | 212,775 |

## 16. COMMITMENTS

At December 31, 2009, the Partnership was committed to payments under operating leases for equipment and office premises through to 2013. Annual future minimum payments over the term of these commitments are as follows:

| | $ |
|---|---|
| 2010 | 3,689 |
| 2011 | 2,350 |
| 2012 | 1,485 |
| 2013 | 1,054 |
| | 8,578 |

## 17. CAPITAL DISCLOSURES

The Partnership is subject to externally imposed capital requirements pursuant to its debt financing with a financial institution. Prior to declaring or making distributions to partners, the debt financing requires the Partnership to maintain certain bank covenant ratio requirements as specified in the loan agreement with the financial institution (Note 9).

## 18. FINANCIAL INSTRUMENTS

*(a) Fair values*

The Partnership's financial instruments consists of cash, short-term investments, accounts receivable, accounts payable and long-term debt. The carrying values of short-term investments, accounts receivable and accounts payable approximate their fair values due to the short term to maturity of these instruments. The estimated fair value of the long-term debt is disclosed in Note 9.

*(b) Credit risk*

Island is exposed to credit risk on accounts receivable, which are primarily from certain customers granted payment terms. To manage its credit risk, Island regularly reviews credit limits and account balances. With most customers, possession, title, and risk pass after receipt of payment which further reduces credit risk.

*(c) Foreign exchange risk*

The majority of the Partnership's operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar increases the expense in US dollar terms.

## 19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Partnership's consolidated financial statements have been prepared in accordance with Canadian GAAP, which differs in some respects from US GAAP. There are no material measurement differences that would affect these financial statements had they been prepared in accordance with US GAAP. The following are the significant differences in accounting principles as they pertain to the consolidated financial statements.

*(a) Joint ventures*

The Partnership accounts for its investments in Strathcona using the proportionate consolidation method. Under US GAAP, this investment would be accounted for using the equity method. This difference does not affect net income (loss).

(Expressed in thousands of U.S. dollars)

## 19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

The following summarizes the Partnership's proportionate interest in Strathcona including intercompany revenue and expenses.

| | **2009** | 2008 | 2007 |
|---|---|---|---|
| | **$** | $ | $ |
| Income (loss) | | | |
| Revenues | **—** | (33) | 496 |
| Expenses | **(436)** | (398) | 497 |
| Net income | **436** | 365 | (1) |
| Cash flows (used in) provided by | | | |
| Operating activities | **82** | (911) | 22 |
| Investing activities | **477** | 1,404 | (22) |
| Financing activities | **(559)** | (493) | — |

(b) *Consolidated cash flows*

Under US GAAP, the consolidated cash flows would not be significantly different from the presentation under Canadian GAAP, except that the interest in Strathcona would be shown as an equity investment and not proportionately consolidated.

(c) *Presentation of consolidated financial statements*

Under US GAAP, certain presentation adjustments would be required. Within the statement of operations, the following items include other expense (income), gain on sale of assets and management fee—performance bonus would be presented as an operating item. These adjustments have no impact on partners' equity or net income.

(d) *Fair value measurement*

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 ("SFAS No. 157"), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Partnership has adopted the provisions of SFAS No. 157 as of January 1, 2008, for financial instruments. Although the adoption of SFAS No. 157 did not materially impact its financial condition, results of operations, or cash flow, the Partnership is now required to provide additional disclosures as part of its financial statements.

SFAS No. 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are

## 19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The Partnership's financial assets and liabilities which required fair value measurement consisted of short-term investments, all of which used Level 2 inputs to measure fair value, and cash which was measured using Level 1 inputs. No Level 3 inputs were used to measure fair value of the Partnership's financial assets or liabilities.

*(e) Recent accounting pronouncements—US GAAP*

*The Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). This statement gives entities the option to measure certain financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS 159 is effective for fiscal year beginning January 1, 2008. The adoption of SFAS 159 did not have a material impact on its financial condition or results of operations.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Partnership believes the adoption of SFAS 162 will not have a material impact on its financial condition, results of operations or cash flows.

In May 2009, the FASB issued guidance intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance requires disclosure of the date through which the Partnership has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. This guidance is included in ASC 855, *Subsequent Events*, and was effective for the Partnership in the third quarter of fiscal 2009 (June 30, 2009). The adoption of this guidance had no impact on the Island's financial condition and results of operations.

**LONGVIEW TIMBER HOLDINGS, CORP.**

Consolidated Financial Statements as of December 31, 2009 and 2008, and for the years ended December 31, 2009 and 2008, and for the period April 20 to December 31, 2007, and Independent Auditors' Report

## LONGVIEW TIMBER HOLDINGS, CORP.

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of
Longview Timber Holdings, Corp.
Longview, Washington

We have audited the accompanying consolidated balance sheets of Longview Timber Holdings, Corp. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity, and cash flows for the years ended December 31, 2009 and 2008, and the period April 20 to December 31, 2007. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations, equity, and its cash flows for the years ended December 31, 2009 and 2008, and for the period April 20 to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 26, 2010

# LONGVIEW TIMBER HOLDINGS, CORP.

## CONSOLIDATED BALANCE SHEETS

**As of December 31, 2009 and 2008**
**(Dollars in thousands)**

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | **$ 23,398** | $ 23,682 |
| Accounts and notes receivable—net | **3,528** | 5,296 |
| Deferred tax assets (Note 7) | **425** | 1,303 |
| Inventories (Note 2) | **5,097** | 6,582 |
| Prepaid expenses and other current assets | **693** | 2,331 |
| Total current assets | **33,141** | 39,194 |
| PROPERTY, PLANT, AND EQUIPMENT—Net (Note 3) | **2,708** | 3,446 |
| TIMBER, TIMBERLANDS, AND LOGGING ROADS—Net (Note 4) | **1,856,295** | 1,923,849 |
| INVESTMENT (Note 5) | **705** | 705 |
| DEFERRED DEBT ISSUANCE COSTS (Note 6) | **10,457** | 12,734 |
| TOTAL | **$1,903,306** | $1,979,928 |
| **LIABILITIES AND EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | **$ 1,988** | $ 3,462 |
| Accounts payable—related party (Note 11) | **3,656** | 2,212 |
| Other tax payable | **1,641** | 765 |
| Other accrued liabilities (Note 8) | **11,580** | 12,197 |
| Other accrued liabilities—related party (Note 11) | **—** | 1,801 |
| Total current liabilities | **18,865** | 20,437 |
| LONG-TERM DEBT (Note 9) | **1,070,000** | 1,070,000 |
| LONG-TERM DEBT—Related party (Note 11) | **—** | 220,575 |
| Total liabilities | **1,088,865** | 1,311,012 |
| EQUITY: | | |
| Non-controlling interests (Note 13) | **9,856** | 10,679 |
| Shareholders' equity (Note 14) | **804,585** | 658,237 |
| Total equity | **814,441** | 668,916 |
| TOTAL | **$1,903,306** | $1,979,928 |

See notes to consolidated financial statements.

## LONGVIEW TIMBER HOLDINGS, CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS

**For the Years Ended December 31, 2009 and 2008**
**and the Period April 20 to December 31, 2007**
**(Dollars in thousands)**

| | **For the Year Ended Dec. 31, 2009** | For the Year Ended Dec. 31, 2008 | For the period Apr. 20, 2007 to Dec. 31, 2007 |
|---|---|---|---|
| NET SALES | **$ 102,966** | $ 174,225 | $121,224 |
| COSTS AND EXPENSES: | | | |
| Cost of goods sold | **55,794** | 91,934 | 60,976 |
| Depletion, depreciation, and amortization | **72,223** | 99,380 | 67,609 |
| GROSS LOSS | **(25,051)** | (17,089) | (7,361) |
| SELLING, ADMINISTRATIVE AND GENERAL EXPENSES | **17,995** | 22,766 | 15,182 |
| OPERATING LOSS | **(43,046)** | (39,855) | (22,543) |
| OTHER INCOME (EXPENSE): | | | |
| Interest income | **470** | 763 | 3,078 |
| Interest expense | **(75,827)** | (80,935) | (76,987) |
| Other income—net | **145** | 5,494 | 491 |
| Loss on sale of assets | **(133)** | (797) | — |
| Gain (loss) on sale of higher and better use lands | **944** | (1,398) | — |
| Total interest and other expense | **(74,401)** | (76,873) | (73,418) |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | **(117,447)** | (116,728) | (95,961) |
| PROVISION FOR TAXES (NOTE 7): | | | |
| Current | **24** | (1,444) | (34) |
| Deferred | **(945)** | (414) | (189) |
| Total provision for taxes | **(921)** | (1,858) | (223) |
| DISCONTINUED OPERATION: | | | |
| Income from operations (Net of taxes $346) | | | 538 |
| Loss on sale of assets | | | (884) |
| NET LOSS | **(118,368)** | (118,586) | (96,530) |
| Less—net loss attributable to non-controlling interest | **(1,027)** | (957) | (827) |
| NET LOSS ATTRIBUTABLE TO LONGVIEW TIMBER HOLDINGS, CORP. | **$(117,341)** | $(117,629) | $ (95,703) |

See notes to consolidated financial statements.

## LONGVIEW TIMBER HOLDINGS, CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### For the Years Ended December 31, 2009 and 2008 and the Period April 20 to December 31, 2007 (Dollars in thousands)

| | **For the Year Ended Dec. 31, 2009** | For the Year Ended Dec. 31, 2008 | For the period Apr. 20, 2007 to Dec. 31, 2007 |
|---|---|---|---|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | |
| Net loss | **$(118,368)** | $(118,586) | $ (96,530) |
| Adjustments to reconcile net loss to cash (used in) provided by operating activities: | | | |
| Depletion, depreciation, and amortization | **72,223** | 99,380 | 67,609 |
| Amortization of deferred debt issuance costs | **2,233** | 1,425 | — |
| Loss on sale of assets | **133** | 797 | — |
| (Gain) loss on sale of higher and better use lands | **(944)** | 1,398 | — |
| Loss on sale of assets from discontinued operation | **—** | — | 884 |
| Loss on derivative valuation | **4,308** | 3,231 | 10,883 |
| Deferred income taxes | **945** | 414 | 535 |
| Termination of interest rate swap agreements | **—** | (53,447) | — |
| Change in assets and liabilities: | | | |
| Accounts and notes receivable—net | **1,768** | (304) | (4,991) |
| Inventories | **(667)** | 876 | (2,410) |
| Prepaid expenses and other current assets | **580** | 808 | 73 |
| Other non-current assets | **922** | (559) | (1,826) |
| Accounts payable and other accrued liabilities | **(2,091)** | 9,743 | 8,876 |
| Other accrued liabilities—related party | **(357)** | (3,577) | 21,078 |
| Other tax payable | **(69)** | 247 | (2,542) |
| Cash (used in) provided by in operating activities | **(39,384)** | (58,154) | 1,639 |
| CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES: | | | |
| Acquisition, net of cash acquired of $78 | | | (2,226,499) |
| Disposal of Manufacturing Operations, net of cash transferred of $5 | | | 293,318 |
| Additions to capital assets | **(5,227)** | (175,303) | (2,387) |
| Proceeds from the sale of fixed assets—net of selling costs | **5,316** | 7,120 | — |
| Cash provided by (used in) investing activities | **89** | (168,183) | (1,935,568) |

(Continued)

## LONGVIEW TIMBER HOLDINGS, CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

**For the Years Ended December 31, 2009 and 2008**
**and the Period April 20 to December 31, 2007**
**(Dollars in thousands)**

| | **For the Year Ended Dec. 31, 2009** | For the Year Ended Dec. 31, 2008 | For the period Apr. 20, 2007 to Dec. 31, 2007 |
|---|---|---|---|
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES: | | | |
| Repayment of bridge loan | **$ —** | $(1,200,000) | $ (150,000) |
| Proceeds from bridge loan | **—** | — | $1,350,000 |
| Proceeds from long-term debt | **—** | 1,070,000 | — |
| Repayment of short term-borrowings | **—** | — | (14,500) |
| Interest capitalized into principal—related party | **17,043** | — | — |
| Proceeds from long-term debt—related party | **—** | 15,787 | 200,000 |
| Proceeds from bridge loans—related party | **—** | 256,475 | — |
| Repayment of bridge loans—related party | **—** | (256,475) | — |
| Additions to deferred debt issuance costs | **—** | (10,704) | — |
| Issuance of common stock | **21,780** | 330,172 | 835,978 |
| Issuance of preferred stock | | | 85 |
| Non-controlling interest | **204** | 3,460 | 9,003 |
| Dividends | **(16)** | (4,644) | (250,689) |
| Cash provided by financing activities | **39,011** | 204,071 | 1,979,877 |
| CHANGE IN CASH AND CASH EQUIVALENTS | **(284)** | (22,266) | 45,948 |
| CASH AND CASH EQUIVALENTS—Beginning of year | **23,682** | 45,948 | — |
| CASH AND CASH EQUIVALENTS—End of year | **$ 23,398** | $ 23,682 | $ 45,948 |
| SUPPLEMENTAL DISCLOSURES: | | | |
| Cash paid for interest | **$ 54,306** | $ 71,938 | $ 51,837 |
| Cash paid for taxes | **$ 850** | $ 1,500 | $ — |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Long-term debt related party repayment | **$237,617** | $ — | $ — |
| Long-term debt related party interest capitalized into principal | **$ 17,043** | $ 3,788 | $ — |
| Long-term debt related party fee capitalized into principal | **$ —** | $ 1,000 | $ — |

(Concluded)

See notes to consolidated financial statements.

## LONGVIEW TIMBER HOLDINGS, CORP

## CONSOLIDATED STATEMENTS OF EQUITY

### For the years ended December 31, 2009, 2008 and period April 20 to December 31, 2007 (Dollars in thousands)

| | Shareholders' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total |
| | Shares | Amount | Shares | Amount | | | | | |
| Balance—April 20,2007 | — | $ 0 | — | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Issuance of common stock | — | — | 7,765,850 | 78 | 835,900 | | — | 9,003 | 844,981 |
| Issuance of preferred stock | 125 | 125 | | | | (40) | | | 85 |
| Change in fair value of derivative intruments | — | — | — | — | — | — | (21,241) | — | (21,241) |
| Net loss | — | — | — | — | — | (95,703) | — | (827) | (96,630) |
| Comprehensive loss | — | — | — | — | — | — | — | — | (117,771) |
| Dividends | — | — | — | — | — | (250,689) | — | — | (250,689) |
| Balance—December 31, 2007 | 125 | 125 | 7,765,850 | 78 | 835,900 | (346,432) | (21,241) | 8,176 | 476,606 |
| Issuance of common stock | — | — | 3,254,326 | 33 | 330,139 | — | — | 3,625 | 333,797 |
| Change in fair value of derivative intruments | — | — | — | — | — | — | (18,092) | — | (18,092) |
| Net loss | — | — | — | — | — | (117,629) | — | (957) | (118,586) |
| Comprehensive loss | — | — | — | — | — | — | — | — | (136,678) |
| Dividends | — | — | — | — | — | (4,644) | — | (165) | (4,809) |
| Balance—December 31, 2008 | 125 | 125 | 11,020,176 | 111 | 1,166,039 | (468,705) | (39,333) | 10,679 | 668,916 |
| Issuance of common stock | — | — | 3,027,266 | 30 | 259,367 | — | — | 220 | 259,617 |
| Amortization of derivative valuation loss | — | — | — | — | — | — | 4,308 | — | 4,308 |
| Net loss | — | — | — | — | — | (117,341) | — | (1,027) | (118,368) |
| Comprehensive loss | — | — | — | — | — | — | — | — | (114,060) |
| Dividends | — | — | — | — | — | (16) | — | (16) | (32) |
| Balance—December 31, 2009 | **125** | **$125** | **14,047,442** | **$141** | **$1,425,406** | **$(586,062)** | **$(35,025)** | **$ 9,856** | **$ 814,441** |

See notes to consolidated financial statements.

**LONGVIEW TIMBER HOLDINGS, CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2009 and 2008
and for the Years Ended December 31, 2009 and 2008,
and the Period April 20 to December 31, 2007**

## 1. SUMMARY OF ACCOUNTING POLICIES

**Nature of Business:**

**General**—Longview Timber Holdings, Corp. ("Timber") is a real estate investment trust ("REIT") engaged in the ownership and management of timberlands in Oregon and Washington, which principally produce logs for sale. All of the facilities are located in the United States ("U.S."). Timber owns and manages approximately 652,000 acres of valuable timberlands in the Pacific Northwest composed primarily of softwoods.

A REIT is a company that derives most of its income from investments in real estate, which includes timberlands. A corporation that qualifies as a REIT generally will not be subject to corporate taxes on income and gains from investments in real estate to the extent that it distributes such income and gains to its shareholders. The principal REIT qualifying investment of Timber consists of timberlands. As a REIT, Timber will be required to pay federal corporate income tax on earnings from non-real estate investments and on earnings from real estate investments that are not distributed to its shareholders.

**Background**—On February 2, 2007, Brookfield Asset Management Inc. ("Brookfield") and Longview Fibre Company entered into an agreement and plan of merger whereby Brookfield would acquire all of Longview Fibre Company's outstanding common shares for $24.75 per share in cash and would assume all existing debt (the "Acquisition"). The shareholders approved the Acquisition and the sale was closed on April 20, 2007. Brookfield established Timber, Longview Timber Holdings LLC, and Longview Timber LLC, to own the timber operations. Longview Timberlands LLC and Longview Timber, Corp. were established as subsidiaries of Longview Fibre Company. Longview Timberlands LLC and Longview Timber, Corp. were additionally established as subsidiaries of Longview Fibre Company on May 31, 2007. The shares of the wholly-owned subsidiary, Longview Fibre Paper and Packaging, Inc., that conducted the manufacturing operations were sold subsequent to the Acquisition to a related party.

On November 4, 2008, Timber purchased approximately 67,600 acres in Washington from Mid-Valley Resources Inc., a subsidiary of Hampton Affiliates ("Hampton Purchase"), a large timber company, for $163 million.

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

**Ownership Structure**—Following the close of the Acquisition by Brookfield, the following ownership structure was formed:

| Company | Ownership |
|---|---|
| Longview Timber Holdings, Corp. ("Timber") | Longview Timber Holdings, Corp. owns 100% of Longview Timber Holdings LLC |
| Longview Timber Holdings LLC | Longview Timber Holdings LLC owns 99% of Longview Timber LLC |
| | Remaining 1% is owned by a Brookfield subsidiary |
| Longview Timber LLC | Longview Timber LLC owns 100% of Longview Fibre Company—Longview REIT |
| | Longview Timber LLC owns 1% of Longview Timberlands LLC |
| Longview Fibre Company | Longview Fibre Company owns 99% of Longview Timberlands LLC |
| | Longview Fibre Company owns 100% of Longview Timber, Corp—a taxable subsidiary |

Longview Timberlands LLC owns and manages substantially all of the timberlands and properties of Timber. Longview Timber, Corp. owns various harvesting assets and conducts the timber brokerage activities of Timber.

### Purchase Price Allocation of the Acquisition

Brookfield acquired the stock and outstanding debt of Longview Fibre Company on April 20, 2007 for $2,252 million. The purchase was financed with $1,350 million of bridge financing, $200 million of long-term debt from a related party, and $702 million of cash. The total purchase price was allocated between the Timber Operations and the Manufacturing Operations based upon the respective fair values of each operation, as follows:

| (USD million) | April 20, 2007 |
|---|---|
| Timber Operations | $ 1958 |
| Manufacturing Operations | 294 |
| **Total** | $2,252 |

Subsequent to the Acquisition, the Manufacturing Operations were sold to a related party for total proceeds of $253 million, including $92 million of debt (see Note 17). Additionally and immediately after the Acquisition, the Manufacturing Operations sold eight converting facilities located in the central and eastern United States to a third party for net proceeds of $48 million.

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

The purchase price of the Timber Operations was allocated based upon fair values to the following classes of assets and liabilities:

| (USD million) | April 20, 2007 |
|---|---|
| Current assets | $ 23 |
| Capital assets | $1,938 |
| Other non-current assets | $ 10 |
| Current liabilities | $ (10) |
| Other non-current liabilities | $ (3) |
| **Total** | $1,958 |

**Basis of Presentation**—The consolidated financial statements presented herein are those of Timber and its subsidiaries, and are derived from the records of such entities after the elimination of intercompany balances and transactions. Reference to Timber also includes, as applicable, reference directly or indirectly to any of its subsidiaries.

**Cash and Cash Equivalents**—Cash and cash equivalents consist of cash and highly liquid investments purchased with maturities of three months or less at date of acquisition.

**Accounts and Notes Receivable and Allowance for Doubtful Accounts**—Accounts and notes receivable are comprised mainly of trade accounts receivable primarily from the sale of products on credit. Credit is extended to customers based on an evaluation of their financial condition. The adequacy of the allowance for doubtful accounts is based on historical experience and past due status, in addition to management's evaluation of material customer accounts including ability to pay, bankruptcy, payment history, and other factors.

Bad debt expense associated with uncollectible accounts was $292 thousand, $32 thousand, and $61 thousand for the periods ended December 31, 2009, 2008, and 2007 respectively.

**Inventories**—Inventories are stated at the lower of cost or market. If actual demand or market conditions are less favorable than those projected by management, inventory write-downs may be required. Cost is determined on a first-in, first-out basis except for supplies, which are stated using the average cost method.

**Timber, Timberlands, and Logging Roads; Timber Depletion and Logging Roads Amortization**—Timber, timberlands and logging roads are stated at cost, net of accumulated depletion and amortization. Timber, upon reaching the age of 35 years, is considered merchantable and available for harvesting, with all timber younger than 35 years of age being classified as premerchantable. Timber is tracked on a county-by-county basis whereby capital costs and estimated recoverable timber volumes are accumulated in the county in which the related timber is located. Expenditures for reforestation, including costs such as site preparation, tree planting, fertilization and herbicide application for the two years after planting, are capitalized and depleted as timber is harvested. After two years of age,

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

plantation maintenance and tree farm management costs, consisting of recurring items necessary to the ownership and administration of the timber and timberlands, are recorded as a current period expense.

Provision for depletion of merchantable timber represents a charge per unit of production ("depletion rate") applied to actual harvest volumes. A single depletion rate is applied to all merchantable timber regardless of its age, species or quality in any particular case. A separate depletion rate was determined and applied specifically for the timberlands acquired in the Hampton Purchase. The depletion rates are validated to a computer growth index model that tracks the timber volumes through the growth cycle and is based upon actual growth rates from permanent timber growth plots throughout the Pacific Northwest. The depletion rates will be adjusted periodically for timber maturity, estimated growth, and actual harvest volumes and when there is a significant acquisition or disposition.

Direct costs associated with the building of primary and major secondary access logging roads are capitalized and amortized on the straight-line basis over estimated useful lives ranging from 3 to 15 years. Bridges are amortized over an estimated useful life of 35 years. Costs incurred for logging roads that serve short-term harvest needs are expensed as incurred. Costs for road base construction of mainline roads, such as clearing and grading, are not amortized and remain a capitalized cost until disposition as they provide permanent value to the timberlands.

Gains or losses on timberland exchanges are recognized in earnings when the exchange has commercial substance, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 845 *Nonmonetary Transactions* (formerly the Statement of Financial Accounting Standards ("SFAS") No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB No. 29)*. An exchange is considered to have commercial substance when future cash flows are expected to change significantly as a result of the exchange.

**Property, Plant and Equipment, and Depreciation**—Property, plant and equipment are recorded at cost, net of accumulated depreciation. Plant and equipment, include those additions and improvements that add to production capacity or extend useful life. Cost includes interest capitalized during the construction period on all significant asset acquisitions. Impairment is reviewed annually, or whenever events or circumstances indicate that the carrying value of an asset or group of assets may not be recovered pursuant to ASC 360 *Property, Plant and Equipment* (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets)*. Impairment evaluates whether or not the undiscounted future cash flows generated by an asset will exceed its carrying value. If estimated future cash flows indicate the carrying value of an asset or group of assets may not be recoverable, impairment exists, and the asset's net book value is written down to its estimated fair value. When properties are sold or otherwise disposed of, the cost and the related accumulated depreciation are removed from the respective accounts, and the resulting profit or loss is recorded in income. The costs of maintenance and repairs are charged to income when incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of assets range from 40 years for buildings to 4 to 10 years for machinery and equipment.

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

**Revenue Recognition**—Revenues are recognized from sales to customers when title and risk of loss pass to the customer and when the sales price is fixed or determinable. For substantially all sales, ownership transfers upon receipt by customers of logs ("FOB-destination") or upon shipment to customers of logs ("FOB-shipping point").

**Recent Accounting Pronouncements and Developments**—In September 2006, FASB issued ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") (formerly SFAS No. 157, *Fair Value Measurements*), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 does not impose fair value measurements on items not already accounted for at fair value; rather, it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. The provisions of ASC 820 became effective for fiscal years beginning after November 15, 2007. Timber adopted the provisions of ASC 820 for assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008, and the adoption of ASC 820 did not have a material impact on Timber's consolidated financial statements.

In December 2007, the FASB issued authoritative guidance, included in ASC 810, *Consolidations* (formerly SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*) effective for periods beginning on or after December 15, 2008, that establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Timber adopted this guidance during fiscal year 2009. As a result, Timber has presented non-controlling interest as a separate component of equity on the consolidated balance sheets, previously included in long-term liabilities on the consolidated balance sheets. Timber has presented net income attributable to non-controlling interest separately on the consolidated statements of operations; previously these amounts were reported as other income—net on the consolidated statements of operations.

In May 2009, the FASB issued ASC 855, *Subsequent Events* ("ASC 855") (formerly SFAS No. 165 *Subsequent Events*), which defines subsequent events as transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance defines two types of subsequent events: (i) events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and (ii) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, non-recognized subsequent events). In addition, this guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance in ASC 855 is effective for periods ending after June 15, 2009. The adoption of ASC 855 did not have a material impact on Timber's consolidated financial statements.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles,* ("ASC 105") (formerly SFAS No. 168, *Accounting Standards Codification)*. ASC 105 establishes the ASC as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. ASC 105 is effective for interim and annual financial periods ending after September 15, 2009. The adoption of this

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

standard as of January 1, 2009 did not have a material effect on Timber's consolidated financial statements.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Subsequent Events**—Timber has evaluated subsequent events in accordance with ASC 855, *Subsequent Events,* through February 26, 2010, which is the date the consolidated financial statements were issued noting no impact on the consolidated financial statements or disclosures.

**Liquidity Risk**—Timber's objective in managing liquidity risk is to maintain sufficient reserves to meet operational and investing requirements at any point in time. Management assesses the nature and timing of discretionary payments and harvest levels to mitigate any impact on the financial condition or results of operations. Timber expects sufficient liquidity to meet its obligations and has the ability to issue additional shares of common stock to fund operations, if necessary.

## 2. INVENTORIES

Inventories at December 31, 2009 and 2008 consisted of the following (dollars in thousands):

| | **2009** | 2008 |
|---|---|---|
| Logs | **$1,258** | $1,787 |
| Seed, cones, seedling budcaps | **741** | 365 |
| Rock and gravel | **1,436** | 1,411 |
| Nursery bed stock | **1,447** | 2,773 |
| Supplies | **215** | 246 |
| Total inventories | **$5,097** | $6,582 |

## 3. PROPERTY, PLANT AND EQUIPMENT—NET

Property, plant and equipment—net at December 31, 2009 and 2008 consisted of the following (dollars in thousands):

| | 2009 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
| Land | **$1,440** | **$ —** | **$1,440** |
| Buildings | **—** | **—** | **—** |
| Equipment | **2,243** | **(975)** | **1,268** |
| Total property, plant and equipment—net | **$3,683** | **$(975)** | **$2,708** |

| | 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $1,440 | $ — | $1,440 |
| Buildings | 73 | (3) | 70 |
| Equipment | 2,421 | (485) | 1,936 |
| Total property, plant and equipment—net | $3,934 | $(488) | $3,446 |

During the years ended December 31, 2009 and 2008, Timber sold equipment for net proceeds of $111 thousand and $94 thousand realizing a loss of $2 thousand and a gain of $22 thousand, for the years ended 2009 and 2008, respectively. During the period ended December 31, 2007, there were no disposals.

## 4. TIMBER, TIMBERLANDS AND LOGGING ROADS—NET

Timber, timberlands and logging roads—net at December 31, 2009 and 2008 consisted of the following (dollars in thousands):

| | 2009 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Depletion and Amortization** | **Net Book Value** |
| Timber | **$1,883,513** | **$(235,672)** | **$1,647,841** |
| Timberlands | **196,511** | **—** | **196,511** |
| Logging roads | **12,935** | **(992)** | **11,943** |
| Total timber, timberlands and logging roads—net | **$2,092,959** | **$(236,664)** | **$1,856,295** |

## 4. TIMBER, TIMBERLANDS AND LOGGING ROADS—NET (Continued)

| | 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Depletion and Amortization | Net Book Value |
| Timber | $1,744,405 | $(165,546) | $1,578,859 |
| Timberlands | 176,130 | — | 176,130 |
| Hampton Purchase | 161,307 | — | 161,307 |
| Logging roads | 7,980 | (427) | 7,553 |
| Total timber, timberlands and logging roads—net | $2,089,822 | $(165,973) | $1,923,849 |

During the years ended December 31, 2009 and 2008, Timber sold timber and timberlands (including higher and better use lands) for net proceeds of $5 million and $7 million realizing a gain of $1 million and a loss of $2 million, for the years ended 2008 and 2008, respectively. During the period ended December 31, 2007, there were no disposals.

Timber acquired approximately 67,600 acres from Mid-Valley Resources Inc., a subsidiary of Hampton Affiliates on November 4, 2008, for $163 million. The purchase was financed with $70 million of long-term debt, $16 million of long-term debt from a related party, and $77 million of cash. A separate depletion rate was calculated for the acquired merchantable timber. Of the purchase price of $163 million—$1.5 million was recorded as a prepaid timber deed in current assets; $.6 million was recorded as inventories; and the remaining was recorded in long-term capital assets.

## 5. INVESTMENT

Investment of $705 thousand represents Timber's interest in IFA Nurseries Inc., a company which provides various reforestation goods and services. Timber accounts for its investment in IFA Nurseries, Inc., on the cost method.

## 6. DEFERRED DEBT ISSUANCE COSTS

Debt issuance costs of $10.5 million, net of amortization, as of December 31, 2009, and $12.7 million, net of amortization, as of December 31, 2008 relate to the 2008 long-term debt financing and the loan commitment fee paid in 2007. Debt issuance costs are deferred and amortized over the respective terms to maturity.

Amortization expense for the periods ended December 31, 2009, 2008, and 2007 was $2.2 million, $1.4 million, and $.1 million respectively. Amortization expense for the next five years is as follows: 2010 through 2012 of $2.2 million, 2013 of $1.3 million, and $2014 of $1 million.

## 7. INCOME TAXES

Generally, in any year which Timber qualifies as a REIT under the Internal Revenue Code (the "IRC"), it is not subject to federal income tax on that portion of its income that it distributes to members. Timber will, however, be subject to corporate tax on built-in gains (the excess of fair market value over tax basis of property at January 1, 2006, the date of REIT election) on taxable sales of such built-in gain property during the ten years following REIT conversion.

Built-in gain tax from the sale of REIT property may be off-set by utilization of pre-REIT net operating losses or by reinvesting sale proceeds in similar property that qualifies as like-kind under requirements of the IRC.

In order to maintain compliance with REIT tax rules, Timber utilizes a taxable REIT subsidiary for various non-REIT qualifying activities including the harvesting and sale of logs. The taxable REIT subsidiary is consolidated in reporting by Timber.

Accordingly, the provision for corporate income taxes relates to deferred tax on certain property sales (from utilization of pre-REIT net operating losses) and on income from taxable REIT subsidiary operations.

The provision (benefit) for income taxes for the periods ended December 31, 2009, 2008, and 2007 consisted of the following (dollars in thousands):

| | **For the Year Ended Dec. 31, 2009** | For the Year Ended Dec. 31, 2008 | For the period April 20, 2007 to Dec. 31, 2007 |
|---|---|---|---|
| Current federal tax | **$ (24)** | $1,444 | $ 34 |
| Deferred federal tax | **945** | 414 | 535 |
| Total provision for income taxes | **$921** | $1,858 | $569 |

An analysis of the income tax provision (benefit) for the periods ended December 31, 2009, 2008, and 2007 is as follows (dollars in thousands):

| | **For the Year Ended Dec. 31, 2009** | For the Year Ended Dec. 31, 2008 | For the period April 20, 2007 to Dec. 31, 2007 |
|---|---|---|---|
| Expected federal income tax (benefit) at statutory rate | **$(40,747)** | $(40,520) | $(33,297) |
| REIT losses not subject to income taxes | **41,668** | 42,378 | 33,769 |
| Deferred tax expense from non-REIT activities | **—** | — | 97 |
| Total provision for income taxes | **$ 921** | $ 1,858 | $ 569 |

## 7. INCOME TAXES (Continued)

The tax effect of temporary differences giving rise to deferred tax assets at December 31, 2009 and 2008 is as follows (dollars in thousands):

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| REIT net operating loss carry forward from prior years | **$425** | $ 907 |
| Non-REIT operating loss carry forward | **—** | 396 |
| Total deferred tax assets | **$425** | $1,303 |

Timber expects to realize the full benefit of its remaining deferred tax assets during 2010.

The tax years 2006 through 2009 are subject to examination by the tax authorities. With few exceptions, Timber is no longer subject to US federal, state, local examinations by tax authorities for years before 2006.

**Uncertain Tax Positions**—Income tax positions must meet a more likely than not recognition threshold at the effective date to be recognized upon the adoption of ASC 740 *Income Taxes* ("ASC 740") (formerly FASB Interpretation No. 48, "FIN 48") and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the adoption of FIN 48 did not have a material effect on these financial statements.

Timber recognizes tax liabilities in accordance with ASC Topic 740 and adjusts these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Timber does not have any reserves for uncertain tax positions as of December 31, 2009.

## 8. OTHER ACCRUED LIABILITIES

Other accrued liabilities at December 31, 2009 and 2008, consisted of the following (dollars in thousands):

| | 2009 | 2008 |
|---|---|---|
| Workers' payroll and benefit liability | **$ 525** | $ 571 |
| Accrued interest payable—long term debt | **11,055** | 11,626 |
| Total other accrued liabilities | **$11,580** | $12,197 |

## 9. LONG-TERM DEBT

In the prior year Timber had a bridge loan of $1.2 billion with three lenders—Merrill Lynch USA, Royal Bank of Canada and The Bank of Nova Scotia (the "Bridge Loan"). On April 3, 2008, the Bridge Loan was refinanced with a combination of long-term debt of $1.0 billion and a short-term related party bridge loan of $200 million. The long-term debt is provided by Metropolitan Life Insurance Company and a syndicate of lenders. On November 4, 2008, the Hampton Purchase was partially financed with additional long-term debt of $70 million provided by Metropolitan Life Insurance Company and a syndicate of lenders. The long-term debt is collateralized with the timber, timberlands, and logging roads.

The long term debt consists of four fixed interest rate tranches ranging from 4.73% to 6.31%. There are also two variable interest rate tranches ranging from 1.88% to 2.28% at December 31, 2009. The long term debt matures as follows: $453.3 million on April 3, 2013; $308.3 million on April 3, 2015; and $308.3 million on April 3, 2018. Timber intends to refinance the long term debt as it matures with similar long term debt facilities. The related interest expense recorded was $53.7 million and $39.1 million during the years ended December 31, 2009 and 2008 respectively.

Timber's long-term debt agreements contain customary covenants and default provisions, including a covenant not to exceed a specified debt-to-value ratio of 0.60. It also includes a restriction on distributions if the cash coverage ratio is less than 1.25 on a rolling eight quarter basis. As of December 31, 2009, Timber did not meet the cash coverage ratio minimum and therefore only permitted cash distributions will be allowed until such time that Timber's cash coverage ratio is at least 1.25 on a rolling eight quarter basis. As of December 31, 2009, Timber was in compliance with the covenants of its long-term debt agreements.

The Bridge Loan was with three lenders—Merrill Lynch USA, Royal Bank of Canada and the Bank of Nova Scotia. The Bridge Loan was repaid on April 3, 2008, with the proceeds of the long-term debt financing. The related interest expense recorded was $14.0 and $54.3 million during the periods ended December 31, 2008 and December 31, 2007, respectively.

## 10. EMPLOYEE BENEFIT PLANS

Timber has no participation in any retiree medical plans or health care insurance plans. Timber has a defined contribution pension program for its salaried employees and a limited term supplemental defined contribution pension program for some of its employees which concluded in 2009. The amount contributed to the limited term supplemental defined contribution pension program was $101 thousand, $279 thousand, and $251 thousand, for the periods ended December 31, 2009, 2008, and 2007, respectively. Timber also has a matching 401k program. The amount contributed to the 401k program was $290 thousand, $318 thousand, and $92 thousand, for the periods ended December 31, 2009, 2008, and 2007, respectively.

## 11. RELATED PARTIES

The Accounts payable—related party amount of $3.7 million and $2.2 million as of December 31, 2009 and 2008, respectively, is with Longview GP LLC ("LVGP"), a U.S. company indirectly owned by

**11. RELATED PARTIES (Continued)**

Brookfield. Pursuant to the terms of the October 9, 2008 amended and restated management agreement between Longview Timber LLC and LVGP, a special distribution is payable to LVGP as compensation for services provided by LVGP to Longview Timber LLC and its subsidiaries. For the period April 1 to December 31, 2009 the amount is calculated based on 0.65% per annum of the sum of all effective capital contributions to Longview Timberlands, LLC. For the period April 3, 2008 to March 31, 2009 the amount is calculated based on 1.00% of effective capital contributions. The special distribution is payable semi-annually. The special distribution expense was $8.2 million and $7.6 million for the year ended December 31, 2009 and for the period April 3 to December 31, 2008, and $6.0 million for the period ended December 31, 2007, respectively.

Pursuant to the terms of the initial management agreement between Longview Timberlands LLC, a subsidiary of Timber, and Brookfield Timberlands Management (“BTM”), management fees were payable to BTM as compensation for services provided by BTM to Longview Timberlands LLC. The fee was calculated annually using independent timberlands appraisal reports and was paid quarterly to BTM. The management fee expense was $2.8 million for the period January 1 to April 2, 2008. This Agreement concluded on April 2, 2008, and was replaced with the management agreement between Longview Timber LLC and LVGP.

Pulp logs sold to PPI was $2.2 million, $18.9 million, and $3.6 million during the periods ended December 31, 2009, 2008, and 2007, respectively. There was a service agreement between Timber and PPI for various administrative services. The amount paid was $18 thousand and $56 thousand for the periods ended December 31, 2008 and 2007, respectively. The service agreement effectively concluded in June 2008.

Long-term debt—related party at December 31, 2008, reflects debt formerly held by Brascan U.S. Corporation and later transferred to a lending syndicate consisting of Brookfield Global Timber Fund (BGTF) I, LP, BGTF 1 (Norma), LLC, and Brookfield Infrastructure Corporation (BIC) (the “Lending Syndicate”). On November 3, 2008, the Lending Syndicate and Timber agreed to defer payment of accrued interest on the long-term debt—related party from August 20, 2008, until an undetermined future date. A 1% fee based on the principal balance as of August 20, 2008, and a 50 bps increase in the spread was given as consideration for the deferral. The long-term debt—related party as of December 31, 2008 reflects $215.8 million long-term debt; $3.8 million interest payable; and $1 million payment in kind (“PIK”) fee. On December 11, 2009 the long-term debt related party and accrued interest was repaid with the issuance of 2,811,044 common shares of Timber to the Lending Syndicate valued at $84.53 per share for a total value of $237.6 million. The related interest expense recorded was $15.2 million, $15.0 million, and $11.7 million for the periods ended December 31, 2009, 2008, and 2007, respectively. The balance payable was recorded in the amount of $1.8 million as of December 31, 2008, as a current liability in other accrued liabilities—related party account.

On April 3, 2008, Brookfield U.S. Corporation and Trilon Bancorp (Europe) Zrt provided $247.5 million in short-term bridge financing for the purpose of refinancing the Bridge Loan. An additional $8.9 million was drawn between August and September 2008. The principal balance and all accrued interest were fully repaid in a series of transactions between October and November 2008. The related interest expense recorded was $7.3 million during the year ended December 31, 2008.

## 12. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Timber used fixed interest rate swap agreements (“swaps”) to manage changes in cash flow as a result of changes in interest rate movements on certain of the variable rate debt under the Bridge Loan. Timber has designated these swaps as cash flow hedges. To receive hedge accounting treatment, all of the swaps were formally documented at the inception of each hedge and the hedges must be highly effective at swap inception and at least quarterly in offsetting changes to future cash flows on hedged transactions. If the swaps are highly effective, the change in fair value, net of income taxes, is recorded in other comprehensive income or loss, except for any ineffectiveness portion of the fair value change, which is recognized in earnings. If the swaps were not to be highly effective, then Timber would record the change in fair value in earnings.

Timber terminated the swaps in connection with the re-financing of the Bridge Loan. $53.5 million was paid to the counterparties. The loss on termination is reported in the consolidated statement of cash flows in the same category as the nature of the item being hedged, in accordance with ASC 230 *Statement of Cash Flows* (formerly SFAS 104, *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions, an Amendment to FASB Statement No. 95)*.

The accumulated other comprehensive loss recorded was zero and $21.3 million during the years ended December 31, 2009 and 2008, respectively. The expense recorded was $4.3 million, $3.2 million, and $10.9 million, for the periods ended December 31, 2009, 2008, and 2007, respectively.

## 13. NON-CONTROLLING INTERESTS

Non-controlling interests represent the interests of Longview GP, LLC in the equity of Longview Timber LLC. Longview GP, LLC is a U.S. company indirectly owned by Brookfield. Longview GP, LLC’s equity ownership in the net assets of Timber was $9.9 million and $10.7 million as of December 31, 2009 and 2008, respectively, which is recorded as non-controlling interest within equity. The non-controlling interest in the net loss was approximately $1.0 million, $1.0 million, and $800 thousand for the periods ended December 31, 2009, 2008, and 2007, respectively

## 14. SHAREHOLDERS’ EQUITY

**Preferred Stock**—Timber is authorized to issue 125 shares of non-voting preferred stock with a par value of $1 thousand. On May 10, 2007, Timber issued 125 shares of preferred stock to 125 individual stockholders, each stockholder receiving one share. Preferred stock has a par value of $1 thousand per share, with liquidation preference of the same amount. The dividend rate for preferred shares is 12.5%. The shares are callable with a premium of 20% through December 31, 2009. The premium reduces 5% per annum such that there will be no premium after December 31, 2012. Dividends were declared and paid in the amount of $16 thousand for the years ended December 31, 2009 and 2008, respectively. There were no dividends declared or paid in period ended December 31, 2007.

Longview Fibre Company, a subsidiary of Timber, is authorized to issue 125 shares of non-voting preferred stock with a par value of $1 thousand. On May 10, 2007, Longview Fibre Company issued 125 shares of preferred stock to 125 individual stockholders, each stockholder receiving one share.

## 14. SHAREHOLDERS' EQUITY (Continued)

Preferred stock has a par value of $1 thousand per share, with liquidation preference of the same amount. The dividend rate for preferred shares is 12.5%. The shares are callable with a premium of 20% through December 31, 2009. The premium reduces 5% per annum such that there will be no premium after December 31, 2012. These shares are included in non-controlling interests, net of issuance costs.

**Common Stock**—Timber is authorized to issue 15,000,000 shares of common stock with a par value of $0.01.

Timber issued 6,281,592 shares of common stock in total, during the years ended December 31, 2009 and 2008, as follows (dollars in thousands):

| 2009 | Description | Contribution |
|---|---|---|
| July 14, 2009 | **137,596 common shares** | **$ 13,860** |
| October 14, 2009 | **78,626 common shares** | **7,920** |
| December 11, 2009 | **2,811,044 common shares** | **237,617** |
| Total | **3,027,266 common shares** | **$259,397** |
| 2008 | | |
| September 30, 2008 | 8,174 common shares | $ 880 |
| October 14, 2008 | 330,425 common shares | 35,579 |
| October 28, 2008 | 2,109,512 common shares | 212,500 |
| November 3, 2008 | 806,215 common shares | 81,213 |
| Total | 3,254,326 common shares | $330,172 |
| 2007 | | |
| April 20, 2007 | 6,924,280 common shares | $692,428 |
| May 31, 2007 | 70 common shares | 59,400 |
| Oct 31, 2007 | 841,500 common shares | 84,150 |
| Total | 7,765,850 common shares | $835,978 |

Timber's common stock is owned 66.5% by Brookfield Global Timber Fund I, LP, a U.S. company in which Brookfield has indirect ownership; 8.4% by Brookfield PIV LLC, a U.S. company in which Brookfield has indirect ownership; 2.1% Brookfield Global Timber Fund I (Norma) LLC, a U.S. company in which Brookfield has indirect ownership; and 23% by Brookfield Infrastructure Corporation which is 40% owned by Brookfield. There were no significant changes in the common shareholders' ownership percent when the long-term debt related party and accrued interest was repaid with the issuance of common stock on December 11, 2009. Proceeds from the July 14 and October 14, 2009 issuances of common stock were used for operational purposes.

### 14. SHAREHOLDERS' EQUITY (Continued)

**Dividends**—Timber distributed dividends to common shareholders amounting to 0, \$4.6 million, and \$250.7 million for the periods ended December 31, 2009, 2008, and 2007 respectively.

### 15. COMMITMENTS AND CONTINGENCIES

**Legal Matters and Litigation**—Timber is subject to legal proceedings and claims that arise in the ordinary course of the business. Although there can be no assurance as to the disposition of these matters and the proceedings, it is the opinion of Timber's management, based upon the information available at this time, that the expected outcome of these matters, individually or in aggregate, will not have a materially adverse effect on the ongoing results of operations, the financial condition of the business, or cash flows.

### 16. FAIR VALUE MEASUREMENTS

The carrying amounts of Timber's financial assets approximate fair value because of the short-term maturity of the instruments. Timber has \$21,001 thousand and \$24,163 thousand of cash equivalents as of December 31, 2009 and 2008, respectively, which are measured at fair value using inputs from the three levels of the fair value hierarchy. Timber's carrying amounts qualify as level 1 in accordance with ASC 820 as the inputs are unadjusted quoted market prices in active markets for identical assets that Timber has the ability to access at the measurement date.

### 17. DISCONTINUED OPERATIONS

On May 31, 2007, Longview Fibre Company, a subsidiary of Timber, completed the sale of all assets and liabilities (Timber Harvest Assets and Manufacturing Operations) of PPI, a subsidiary of Longview Fibre Company, to Brascan (US) Corporation, a subsidiary of Brookfield, for total proceeds of \$253 million, including \$92 million of the intercompany debt. Subsequently, Longview Timber, Corp and Longview Timberlands LLC, newly-established subsidiaries of Longview Fibre Company, re-acquired the Timber Harvest Assets from PPI in exchange for \$13 million of cash which is equal to the fair market value of the Timber Harvest Assets. This transaction resulted in Longview Fibre Company selling the Manufacturing Operations of PPI for \$240 million, including \$92 million of intercompany debt.

## 17. DISCONTINUED OPERATIONS (Continued)

Details of assets and liabilities sold, net as a result of restructuring transactions are as follows:

| (USD 000's) | As of May 31, 2007 | As of May 31, 2007 |
|---|---|---|
| Assets: | | |
| Current assets | $264,030 | |
| Capital assets | 46,598 | |
| Other assets | 143,710 | $454,338 |
| Less liabilities | | |
| Current liabilities | 100,627 | |
| Long-term liabilities | 205,711 | 306,338 |
| Total | | $148,000 |

The results of operations for the Manufacturing Operations from April 20, 2007 to May 31, 2007 and a loss on sale of assets were reported within discontinued operations in the accompanying consolidated statement of operations. The Consolidated Statement of Cash Flows does not separately report the cash flows of the discontinued operations. Details of revenue and loss from discontinued operations are as follows:

| (USD 000's) | For the period April 20, 2007 to May 31, 2007 |
|---|---|
| Net sales | $75,756 |
| Income from operations (net of taxes of $346) | 538 |
| Loss on sale of assets | (884) |
| Net | $ (346) |

## Consolidated Financial Statements

## ETC HOLDINGS LTD. AND SUBSIDIARIES

**As of December 31, 2009 and 2008 and**
**for each of the three years in the period ended December 31, 2009**

### Index



| | |
|---|---|
| US$: | United States dollars |
| ThUS$: | Thousands of United States dollars |
| Ch$: | Chilean peso |
| UF: | *Unidad de Fomento* or UF, is an inflation-indexed, Chilean-peso denominated monetary unit. The UF is set daily in advance based on the changes in the Chilean Consumer Price Index (CPI) of the previous months. |

## REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
ETC Holdings Ltd.

We have audited the accompanying consolidated balance sheets of ETC Holdings Ltd. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income (loss), comprehensive income (loss), deficit and cash flows for each of the three years in the period ended December 31, 2009. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ETC Holdings Ltd. and subsidiaries as of December 31, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with Canadian generally accepted accounting principles, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 13 to the consolidated financial statements).

Ernst + Young Ltda.

Santiago, Chile
February 5, 2010

## ETC HOLDINGS LTD. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | Note | As of December 31, 2009 ThUS$ | 2008 ThUS$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 2g | **278,371** | 130,344 |
| Trade accounts receivable | | **71,915** | 51,365 |
| Miscellaneous receivables | | **5,469** | 832 |
| Recoverable income taxes | 3 | **4,943** | 3,229 |
| Prepaid expenses | | **1,372** | 149 |
| Future income taxes | 3 | **614** | 239 |
| Other current assets | 4 | **229** | 311 |
| Derivatives | 8 | **231** | 6,740 |
| Total Current Assets | | **363,144** | 193,209 |
| **Property, Plant, and Equipment** | 2h, 5 | | |
| Land | | **33,344** | 26,201 |
| Buildings and infrastructure | | **1,489,592** | 1,106,782 |
| Machinery and equipment | | **629,571** | 484,672 |
| Other property, plant and equipment | | **3,199** | 2,083 |
| Less: Accumulated depreciation | | **(219,397)** | (121,143) |
| Total Property, Plant, and Equipment, net | | **1,936,309** | 1,498,595 |
| **Other Assets** | | | |
| Investments in other companies | | **450** | 501 |
| Goodwill | 2e | **610,151** | 487,927 |
| Long-term receivables | | **2,873** | 2,456 |
| Long-term future income taxes, net | 3 | **111,078** | 103,509 |
| Rights-of-way | 2i | **269,895** | 215,760 |
| Other intangibles | 2i | **16,216** | 17,500 |
| Long-term bank deposit | 12a | **872,064** | 890,064 |
| Derivatives | 8 | **—** | 141,324 |
| Total Other Assets | | **1,882,727** | 1,859,041 |
| Total Assets | | **4,182,180** | 3,550,845 |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

# ETC HOLDINGS LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | Note | As of December 31, 2009 ThUS$ | 2008 ThUS$ |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities** | | | |
| Short-term bank loans | | **1,031** | 1,327 |
| Current portion of long-term bonds payable | 6,8 | **157,193** | 23,381 |
| Derivatives | 8 | **1,738** | 5,099 |
| Accounts payable | | **78,783** | 58,055 |
| Accrued liabilities | 9 | **6,903** | 5,525 |
| Withholdings | | **3,563** | 4,287 |
| Other current liabilities | | **566** | 140 |
| Total Current Liabilities | | **249,777** | 97,814 |
| **Long-term Liabilities** | | | |
| Bonds payable | 6,8 | **1,636,544** | 1,378,623 |
| Bank loans | 7 | **870,303** | 884,741 |
| Derivatives | 8 | **55,872** | 28,819 |
| Provisions | 9 | **8,051** | 3,022 |
| Other long-term liabilities | | **17,413** | 4,626 |
| Total long-term liabilities | | **2,588,183** | 2,299,831 |
| **Contingencies and commitments** | 12 | **—** | — |
| **Non-controlling interest** | | **63** | 270 |
| **Shareholders' Equity:** | 10,11 | | |
| Paid-in capital | | **1,368,379** | 1,368,379 |
| Accumulated other comprehensive income (loss) | | **44,091** | (191,882) |
| Deficit | | **(68,313)** | (23,567) |
| Subtotal: Accumulated other comprehensive income (loss) and Deficit | | **(24,222)** | (215,449) |
| Shareholders' Equity, net | | **1,344,157** | 1,152,930 |
| Total Liabilities and Shareholders' Equity | | **4,182,180** | 3,550,845 |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

## ETC HOLDINGS LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME (LOSS)

| | Note | For the year ended December 31, | | |
|---|---|---|---|---|
| | | **2009** | 2008 | 2007 |
| | | **ThUS$** | ThUS$ | ThUS$ |
| Sales revenue | 2m | **335,303** | 334,794 | 242,303 |
| Cost of sales | | **(50,896)** | (40,948) | (26,461) |
| Depreciation | | **(70,280)** | (62,752) | (59,935) |
| Administrative, selling and other expenses | | **(13,560)** | (10,840) | (14,464) |
| Other expenses, net | | **(3,483)** | (5,251) | (2,345) |
| Income before financing charges and income taxes | | **197,084** | 215,003 | 139,098 |
| Interest income | | **41,448** | 73,319 | 75,561 |
| Interest expense, including: | | **(103,247)** | (228,156) | (251,574) |
| —Interest on long-term debt | | **(101,654)** | (227,661) | (251,067) |
| —Other interest expense | | **(1,593)** | (495) | (507) |
| Foreign exchange gain (loss), net | | **49,084** | (97,233) | 11,774 |
| Unrealized (loss) gain on derivatives | | **(138,814)** | 143,716 | (34,526) |
| Income (loss) before income taxes | | **45,555** | 106,649 | (59,667) |
| Income taxes | 3 | **(33,393)** | (2,515) | 22,170 |
| Non-controlling interest | | **15** | (107) | 30 |
| Net income (loss) for the year | | **12,177** | 104,027 | (37,467) |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

## ETC HOLDINGS LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | **ThUS$** | ThUS$ | ThUS$ |
| Net income (loss) for the year | **12,177** | 104,027 | (37,467) |
| Other comprehensive income (loss): | | | |
| —Translation gains (losses) on the net investment in self-sustaining operation | **306,937** | (313,113) | 98,086 |
| —Net (losses) gains on related hedging items, net of taxes of ThUS$14,251, ThUS$(11,423) and ThUS$6,460 | **(69,578)** | 55,772 | (31,541) |
| —Net losses (gains) on derivatives designated as cash flow hedges net of taxes of ThUS$1,172, ThUS$(841) | **5,723** | (4,106) | — |
| —Reclassification to income of net (gains) losses on cash flow hedges net of taxes of ThUS$1,456 and ThUS$(962) | **(7,109)** | 4,694 | — |
| Comprehensive income (loss) for the year | **248,150** | (152,726) | 29,078 |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

## ETC HOLDINGS LTD. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF DEFICIT

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | **ThUS$** | ThUS$ | ThUS$ |
| Deficit at the beginning of the year | **(23,567)** | (83,866) | (11,232) |
| Distributions | **(56,923)** | (43,728) | (35,167) |
| Net income (loss) for the year | **12,177** | 104,027 | (37,467) |
| Deficit at the end of the year | **(68,313)** | (23,567) | (83,866) |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

## ETC HOLDINGS LTD. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Note | For the year ended December 31, **2009** ThUS$ | 2008 ThUS$ | 2007 ThUS$ |
|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | |
| Net income (loss) | | **12,177** | 104,027 | (37,467) |
| Adjustments for items that do not represent cash flows: | | | | |
| Depreciation | | **70,280** | 62,752 | 59,935 |
| Foreign exchange (gains) losses, net | | **(49,084)** | 97,233 | (11,774) |
| Future income taxes | | **33,393** | 2,515 | (18,829) |
| Accrued interest to be paid | | **10,478** | 52,047 | 48,865 |
| Unrealized (gains) losses on derivatives | | **138,814** | (138,465) | 37,617 |
| Other | | **5,197** | (1,289) | (4,836) |
| Changes in working capital balances: | | | | |
| Trade accounts receivable | | **(25,187)** | (4,208) | (9,741) |
| Prepaid expenses and other assets | | **(1,141)** | 66 | (953) |
| Recoverable taxes | | **(1,714)** | 7,350 | (6,879) |
| Accounts payable and accrued liabilities | | **(9,532)** | (15,526) | 6,394 |
| Net cash provided by operating activities | | **183,681** | 166,502 | 62,332 |
| Cash Flows from Financing Activities: | | | | |
| Capital contributions | | **—** | 160,808 | — |
| Proceeds from bonds | | **430,493** | — | 349,319 |
| Other proceeds | | **3,103** | — | — |
| Proceeds from loans | | **—** | 41,500 | — |
| Long-term bank deposit | | **—** | (41,500) | — |
| Payments of bonds | | **(219,844)** | (2,506) | (357,208) |
| Payments on swap and other contracts | | **(74,236)** | — | — |
| Distributions | | **(56,923)** | (43,728) | (35,167) |
| Net cash provided by (used in) financing activities | | **82,593** | 114,574 | (43,056) |
| Cash Flows from Investing Activities: | | | | |
| Acquisition of business—adjustment to purchase price | | **—** | (160,808) | — |
| Sales of property, plant and equipment | | **—** | 16,329 | 4,381 |
| Purchase of property, plant, and equipment | | **(151,495)** | (69,372) | (52,060) |
| Receipts from (payments on) derivative contracts designated as hedge of net investment | | **—** | 4,328 | (25,924) |
| Net cash flows used in investing activities | | **(151,495)** | (209,523) | (73,603) |
| Effect of exchange rate changes on cash and cash equivalents | | **33,248** | (16,512) | 8,644 |
| Total net cash flows for the period | | **148,027** | 55,041 | (45,683) |
| Cash and cash equivalents, beginning of the period | | **130,344** | 75,303 | 120,986 |
| Cash and cash equivalents, end of the period | 2g | **278,371** | 130,344 | 75,303 |
| Supplemental cash flow information: | | | | |
| Interest paid | | **113,812** | 148,262 | 172,866 |
| Income taxes paid | | **—** | — | 6,015 |

The accompanying notes numbers 1 to 13 are an integral part of these consolidated financial statements.

## NOTE 1—THE COMPANY AND BUSINESS

ETC Holdings Ltd. (the "Company") was formed in Bermuda on June 15, 2006 with an initial share capital of ThUS$ 12. The objective of the Company as per its Memorandum of Association is to acquire, hold, pledge and dispose of investments in the equity and debt, directly and indirectly of Rentas Eléctricas I Limitada and Rentas Eléctricas II Limitada (now Transelec Holdings Rentas Limitada) and any other persons and entities that carry on electricity transmission business in Chile, and any activities that are ancillary thereto. As of December 31, 2009, 2008 and 2007 the principal asset held by the Company through its indirect subsidiary Transelec Holdings Rentas Limitada is its investment in Transelec S.A. ("Transelec").

References herein to "parent company" are to ETC Holdings Ltd. and references to the "Company" or the "Group" are to ETC Holdings Ltd. together with its consolidated subsidiaries (see Note 2b).

On June 30, 2006, the Company acquired through its indirect subsidiary Rentas Eléctricas IV Limitada 999,900 shares of Transelec (at this time under the name of HQI Transelec Chile S.A.), representing 99.99% of its share capital, from Hydro-Québec International Transmisión Sudamérica S.A. and International Finance Corporation. In the same transaction, another Company's subsidiary Rentas Eléctricas III Limitada acquired 100 shares of Transelec representing 0.01% of its share capital from HQ Puno Ltd.

On October 24, 2006, Rentas Eléctricas IV Limitada acquired from, Rentas Eléctricas III Limitada 100 shares, corresponding to 0.01% of the share capital of HQI Transelec Chile S.A. and having full ownership of this entity, merged the latter by absorption. After the merger Rentas Eléctricas IV Limitada changed its name first to Nueva Transelec S.A. and then to Transelec S.A.

On March 26, 2007, Rentas Eléctricas III Limitada became an incorporated company and changed its name to Rentas Eléctricas III S.A. On May 9, 2007, Rentas Eléctricas Rentas III S.A. acquired 100 shares of Transelec owned by Transelec Holdings Rentas Limitada, corresponding to 0.01% of its share capital and became owner of 100% of Transelec. As a consequence, Rentas Eléctricas III S.A. merged Transelec by absorption. The merged entity continues its operations under name Transelec S.A.

Transelec's business is to exploit and develop electricity transmission systems in Chile. For this purpose it may obtain, acquire and use the respective concessions and permits and exercise all the rights and faculties that the prevailing legislation confers on electrical companies. Transelec's business also includes providing engineering and management consulting services and developing other business and industrial activities related to transmission of electricity. Transelec may act directly or through subsidiaries or other related companies, both in Chile and abroad. As of December 31, 2009, 2008 and 2007 Transelec has one subsidiary Transelec Norte S.A. that is also engaged in the electricity transmission business in Chile.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of accounting

The consolidated financial statements have been prepared by management following Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from the estimates.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) Basis of consolidation

The accompanying financial statements reflect the consolidated financial position, results of operations and cash flows of the parent company and its subsidiaries. The effects of all significant transactions with consolidated subsidiaries have been eliminated in consolidation.

As of December 31, 2009, 2008 and 2007, the Group was composed of the parent company and the following direct and indirect subsidiaries:

| | Participation as of | | | | | |
|---|---|---|---|---|---|---|
| | **December 31, 2009** | | December 31, 2008 | | December 31, 2007 | |
| | **Direct/ Indirect** | **%** | Direct/ Indirect | % | Direct/ Indirect | % |
| Rentas Eléctricas I Limitada | **Direct** | **99.97** | Direct | 99.97 | Direct | 99.97 |
| Transelec Holdings Rentas Limitada | **Indirect** | **99.97** | Indirect | 99.97 | Indirect | 99.97 |
| Transelec S.A. | **Indirect** | **99.97** | Indirect | 99.97 | Indirect | 99.97 |
| Transelec Norte S.A. | **Indirect** | **99.97** | Indirect | 99.97 | Indirect | 99.97 |

### c) Changes in accounting estimates

Reassessment of the useful lives of items of Property, plant and equipment (PP&E)

The subsidiary Transelec have reviewed the useful lives of its PP&E and concluded that the estimated useful lives of certain assets should be modified. This change in estimate was accounted for prospectively beginning January 1, 2009 and resulted in lower depreciation charge for the year 2009 of US$ 0.1 million.

### d) Recent accounting pronouncements

Adoption of International Financial Reporting Standards ("IFRS")

In April 2008, March 2009 and October 2009, the Canadian Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA") published exposure drafts on "Adopting IFRSs in Canada". The exposure drafts propose to incorporate the IFRSs into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises in Canada will be required to prepare financial statements in accordance with IFRSs. The exposure drafts make possible the early adoption of IFRSs by Canadian entities. Also, in October 2009, the AcSB issued the exposure draft "Improvements to IFRSs" to incorporate into Canadian GAAP the amendments to IFRSs that result from an exposure draft issued by the International Accounting Standards Board ("IASB"). The IASB's exposure draft deals with minor amendments and focuses on areas of inconsistency in standards or where clarification of wording is required. It is expected that the amendments will be effective January 1, 2011. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For ETC Holding Ltd. the changeover to IFRS is not mandatory; however it will be in the future for its subsidiaries in Chile (Transelec S.A. effectively beginning January 1, 2010) and its shareholders in Canada. As a result, the Company is developing a plan for its conversion to IFRS.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A detailed analysis of the differences between IFRS and the current Company's accounting policies as well as an assessment of the impact of various alternatives are in progress.

Credit risk in the Fair Value of Financial Assets and Financial Liabilities

In January 2009 the Emerging Issue Committee ("EIC") of AcSB issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC reached a consensus in that abstract that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The interpretation is effective for the interim and annual financial statements for periods ending on or after the date of issuance of the abstract. The Company was previously applying credit risk concept in the valuation of its financial assets and liabilities and the abstract did not affect its accounting policy in this respect nor its financial results.

Financial Instrument Disclosures

Effective January 1, 2009, the Company adopted the amended CICA Handbook Section 3862, Financial Instruments—Disclosures. Disclosure standards have been expanded to be consistent with new disclosure requirements made under IFRS. The new requirements introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The new requirements are for disclosure only and did not impact the financial results of the Company. The required disclosures are presented in the Note 8b).

Business Combinations

In January 2009, the AcSB issued revised accounting standards in regards to business combinations with the intent of harmonizing those standards with IFRSs. The revised standards require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establish the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. These standards apply prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In January 2009, the AcSB issued accounting standards to require all entities to report noncontrolling (minority) interests as equity in consolidated financial statements. The standards eliminate the disparate treatment that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. These standards will be retrospectively applied on January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

**e) Business combination and goodwill**

As mentioned in the Note 1 above the Company acquired on June 30, 2006, Transelec from Hydro-Québec International Transmisión Sudamérica S.A. and International Finance Corporation

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(the "Sellers"). The Company accounted for the business combination using the purchase method of accounting. The cost of acquisition was allocated to identifiable net assets on the basis of the estimated fair values at the date of purchase. The excess of acquisition costs over the net assets acquired stated at fair values was allocated to goodwill.

Goodwill is not amortized and is reviewed annually for impairment. A two-step impairment test is used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any:

(1) The fair value of a reporting unit is compared with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

(2) When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of reporting unit goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

For the purpose of testing goodwill for impairment, all goodwill acquired was assigned to one reporting unit—Transelec. No impairment losses were recognized in the periods covered by these consolidated financial statements. Goodwill is tested for impairment as of December 31 each year.

**f) Reporting currency and foreign currency translation**

The Company keeps its accounting records and prepares financial statements in U.S. dollars. Transelec that is a self-sustaining subsidiary keeps its accounting records in Chilean pesos ("Ch$"). Financial statements of Transelec have been translated to U.S. dollars using the current rate method and exchange gains and losses arising from the translation were recognized in a separate component of other comprehensive income.

Exchange rate in effect at the balance sheet date used to translate assets and liability items was as follows:

| | As of December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | **Ch$** | Ch$ | Ch$ |
| US$ | **507.10** | 636.45 | 496.89 |

Other foreign currency transactions are translated using the temporal method. Translation gains and losses are included in income for the period.

Index-linked assets and liabilities

Transelec has certain assets and liabilities that are denominated in index-linked units of account that are stated at the year-end values of the respective units of account. The principal index-linked unit used in Chile is the *Unidad de Fomento* ("UF"), which is adjusted daily to reflect the changes

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

in Chile's Consumer Price Index. As of December 31, 2009, 2008 and 2007 values for the UF were as follows:

| | As of December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | **Ch$** | Ch$ | Ch$ |
| UF | **20,942.88** | 21,452.57 | 19,622.66 |

Variations of the UF affecting values of assets and liabilities denominated in that unit are recognized in income statements.

**g) Cash and cash equivalents and Statement of Cash Flows**

The consolidated statements of cash flows have been prepared using the indirect method. Cash and cash equivalents presented in the consolidated statements of cash flows include cash on hand, time deposits, and other highly liquid short-term investment with an original maturities of three months or less when purchased and are detailed as follows:

| Description | As of December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| | **ThUS$** | ThUS$ | ThUS$ |
| Cash and bank | **13,282** | 4,244 | 980 |
| Time deposits | **265,089** | 126,100 | 68,802 |
| Repurchase agreements | **—** | — | 5,521 |
| Total | **278,371** | 130,344 | 75,303 |

Time deposits are recorded at cost plus accrued interest and UF indexation adjustments, when applicable. Average interest rate on the term deposits was 1.45% as of December 31, 2009 and 1.60% as of December 31, 2008.

**h) Property, plant, and equipment**

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and any accumulated impairment losses. Financing costs are capitalized to property, plant and equipment during the construction period. During the year ended December 31, 2009, 2008 and 2007, the financial costs that have been capitalized amounted to ThUS$ 4,214 and ThUS$ 3,506, ThUS$ 1,823, respectively.

Depreciation

The depreciation of property, plant and equipment has been calculated on a straight-line method, based on the estimated useful lives of the assets. As disclosed in the Note 2c) as a result of the reassessment of the useful lives of items of property plant and equipment and the Company modified useful lives of some of them beginning January 1, 2009 and applied this change in

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

estimate prospectively since that date. The useful lives for major classes of the property, plant and equipment are as follows:

| Description | Years |
|---|---|
| Transmission lines | 40-50 |
| Electrical equipment | 15-40 |
| Non-hydraulic civil projects | 40 |
| Other | 5-40 |

Asset retirement

Some of the Company's transmission lines and other assets may have asset retirement obligations. The majority of the Company's rights-of-way on which such assets are located are of perpetual duration. As the Company expects to use majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligation cannot be made at the balance sheet date. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Company is legally required to remove, an asset retirement obligation will be recognized at that time.

Impairment

The carrying values of property plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is being derecognized.

**i) Intangibles**

Intangibles include rights-of-way that are valued at their acquisition cost. Rights-of-way have no expiration term and are considered to have an indefinite useful life. Rights-of-way are not amortized until their lives will be determined to be no longer indefinite. The rights-of-way are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test consists of a comparison of the fair value of the intangible assets with their carrying amount. When the carrying amount exceeds fair value, an impairment loss is recognized in an amount equal to the excess.

Other intangibles presented on the consolidated balance sheet include value of the off-market contracts acquired in the business combination (see also Notes 1 and 2e). Those contracts are stated at acquisition cost less accumulated amortization. Those intangibles are amortized over period of respective contracts. Remaining life of the contracts ranges between 3 and 7 years as of December 31, 2009.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Bonds payable**

The bonds payable acquired in the business acquisition were valued at their fair value as of June 30, 2006 that was considered acquisition cost and since then that cost is amortized. Bonds issued after the acquisition date are initially valued at their fair value. The bonds also accrue interest and are subject to UF indexation adjustments, when applicable.

The portion of the bonds principal and interest that are payable within one year are presented in Current liabilities. The remaining portion is included in the Long-term liabilities.

**k) Current and future income taxes**

The Company has determined its current income tax assets and liabilities in accordance with Chilean tax regulations applicable to its subsidiaries.

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax base, using substantively enacted future income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. Temporary differences that arose on the acquisition of Transelec (see Note 1 and Note 2e) resulted in future income tax assets and liabilities.

**l) Staff severance indemnities**

Transelec has—under agreements with its employees—an obligation to pay to the employees who have completed 15 years of service (including service in Transelec's legal predecessors before merger with Rentas Eléctricas IV Limitada and Rentas Electricas III Limitada), staff severance indemnities based on the number of the years of service. The employees receive the payment at the time their employment contract ends (and based on latest salary before the termination) due to retirement or voluntary resignation. In addition some employees have additional benefit determined as fixed amount in UF as of December 1, 2000 that will be paid at the time of termination of their contracts. The cost of these non-pension benefits has been determined based on the management's best estimates—involving actuarial technique valuation—and accrued as a liability as employees render service. Actuarial gains and losses that exceed 10 per cent of the defined benefit obligation as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

**m) Revenue recognition and tariff-setting**

The regulatory framework that governs electrical transmission activity in Chile comes from the By-Law of the Electric Services dated 1982 (DFL(M) No. 1/82), and subsequent amendments thereto, including Law 19.940 (called also the "Short Law") enacted on March 13, 2004. These are complemented by the By-Law of the Electric Services Regulations dated 1997 (Supreme Decree No. 327/97 of the Mining Ministry), and its amendments, and by the Technical Standard for Liability and Quality of Service (R.M.EXTA No. 40 dated May 16, 2005) and subsequent amendments thereto.

The Company's revenues correspond mainly to remuneration from the use of its electricity transmission facilities. This remuneration is earned in part from arrangements subject to the tariff

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

regulation and in part from contractual arrangements with the users of the transmission facilities. The total remuneration for the use of the transmission facilities for both regulated and contractual arrangements includes in general two components: i) the AVNR, which is the annuity of the New Replacement Value (VNR), calculated in such a way that the present value of these annuities, using an annual real discount rate and the economic useful life of each of the facilities equals the cost of replacing the existing transmission facilities with new facilities with similar characteristics at current market prices, plus, ii) the COyM, which corresponds to the cost required to operate, maintain and administrate the corresponding transmission facilities.

Revenues from both regulatory and contractual arrangements are recognized and invoiced on a monthly basis, using fixed monthly amounts resulting from the application of the AVNR and COyM values stipulated in the contracts or resulting from the regulated tariffs and indexed as applicable. The transmission service is invoiced usually at the beginning of the month following the month when the service was rendered and thus the revenue recognized each month includes transmission service provided but not invoiced up to the month end.

**n) Derivative contracts and hedging**

The subsidiaries Transelec Holdings Rentas Limitada and Transelec selectively utilize derivative financial instruments primarily to manage financial risks, principally foreign exchange risk. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective as hedge based on an expectation of offsetting cash flows or fair value.

Realized and unrealized gains and losses on cross currency swaps and forwards designated as hedges of currency risks related to a net investment in Transelec (self-sustaining subsidiary with functional currency different from currency of the parent company) as well as gains and losses from the changes in fair value of forward contracts designates as hedges of the anticipated transactions in foreign currencies are included in the Other Comprehensive Income. When the anticipated transactions occur, the gain or loss is removed from shareholders' equity and is recognized as an adjustment of the carrying amount of the hedged item.

Derivative financial instruments that are not designated as hedges or do not meet hedge effectiveness criteria are carried at estimated fair values, and gains and losses arising from changes in fair values are recognized in income or loss in the period the changes occur and are classified in Other financial income (expense).

Derivative instruments are separately stated on the balance sheet depending on their nature as assets or liabilities.

**o) Vacation accrual**

The annual cost of staff vacation is recognized as an expense in the financial statements on an accrual basis.

**p) Reclassifications**

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## NOTE 3—CURRENT AND FUTURE INCOME TAXES

### a) General information

Each consolidated subsidiary prepares and files its individual income tax return in Chile. During the year 2009 Rentas Eléctricas I Limitada and Transelec S.A. had taxable losses. Transelec Holdings Rentas Limitada and Transelec Norte S.A. had taxable income.

### b) Recoverable—Payable income taxes

As of December 31, 2009 and 2008 the recoverable income taxes are composed as follows:

| Description | As of December 31, 2009 | As of December 31, 2008 |
|---|---|---|
| | ThUS$ | ThUS$ |
| Provision for income taxes | **(757)** | (10,475) |
| Provisory income tax payments | **5,539** | 4,627 |
| Receivable from tax losses absorbed | **923** | 9,678 |
| Other | **(762)** | (601) |
| Total | **4,943** | 3,229 |

### c) Income tax expense

The composition of the net income tax expense/benefit for the years ended December 31, 2009, 2008 and 2007 including the effects of future income taxes is as follows:

| Description | For the year ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| | ThUS$ | ThUS$ | ThUS$ |
| Current income tax | **(803)** | (10,475) | (838) |
| Effect of future income taxes | **(32,590)** | 7,960 | 23,008 |
| Total | **(33,393)** | (2,515) | 22,170 |

## NOTE 3—CURRENT AND FUTURE INCOME TAXES (Continued)

### d) Future income taxes

As of December 31, 2009 and 2008, the future income taxes, are composed as follows:

| | As of December 31, 2009 | | | | As of December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Future income tax assets | | Future income tax liabilities | | Future income tax assets | | Future income tax liabilities | |
| Temporary differences | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term |
| | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ |
| Staff vacation accrual | **306** | | | | 251 | — | — | — |
| Leased assets | **—** | **73** | **—** | **—** | — | — | — | — |
| Property, plant and equipment | **—** | **121,660** | **—** | **—** | — | 114,280 | — | — |
| Intangibles | **—** | **—** | **—** | **20,892** | — | — | — | 14,695 |
| Prepaid expenses | **—** | **—** | **—** | **4,951** | — | — | — | 3,498 |
| Forward contracts | **96** | **—** | **—** | **—** | — | — | 100 | — |
| Tax losses[(1)] | **—** | **8,417** | **—** | **—** | — | 10,670 | — | — |
| Swap contracts | **—** | **6,534** | **—** | **—** | — | — | — | 7,575 |
| Bonds | **—** | **2,980** | **—** | **—** | — | 6,854 | — | — |
| Off-market contracts | **—** | **—** | **—** | **2,727** | — | — | — | 2,936 |
| Staff severance indemnities | **—** | **103** | **—** | **—** | — | — | — | 428 |
| Other | **212** | **—** | **—** | **119** | 88 | 896 | — | 59 |
| Total future income taxes | **614** | **139,767** | **—** | **28,689** | 339 | 132,700 | 100 | 29,191 |
| Net future income tax assets/liabilities | **614** | **111,078** | **—** | **—** | 239 | 103,509 | — | — |

*(1) Total amount of the unused tax losses on which future tax asset was recognized was ThUS$ 49,512 and ThUS$ 62,764 as of December 31, 2009 and 2008. In accordance with current Chilean tax regulations, tax losses do not expire.*

## NOTE 4—OTHER CURRENT ASSETS

The detail of the other current assets as of December 31, are as follows:

| | As of December 31, | |
|---|---|---|
| Description | **2009** | 2008 |
| | **ThUS$** | ThUS$ |
| Accrued interest on the long-term bank deposit (restricted cash) | **160** | 234 |
| Other | **69** | 77 |
| Total | **229** | 311 |

## NOTE 5—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are detailed in the table below:

| Description | As of December 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Net book value** | Cost | Accumulated depreciation | Net book value |
| | **ThUS$** | **ThUS$** | **ThUS$** | ThUS$ | ThUS$ | ThUS$ |
| Land | **33,344** | **—** | **33,344** | 26,201 | — | 26,201 |
| Buildings and infrastructure: | | | | | | |
| Buildings | **28,525** | **(2,526)** | **25,999** | 20,625 | (1,551) | 19,074 |
| Access roads | **1,113** | **(77)** | **1,036** | 886 | (43) | 843 |
| Transmission lines | **1,048,464** | **(107,917)** | **940,547** | 860,595 | (49,866) | 810,729 |
| Houses and apartments | **162** | **(14)** | **148** | 123 | (9) | 114 |
| Non-hydraulic civil projects | **214,157** | **(18,577)** | **195,580** | 170,334 | (12,400) | 157,934 |
| Works in progress | **197,171** | **—** | **197,171** | 54,219 | — | 54,219 |
| Total Buildings and infrastructure | **1,489,592** | **(129,111)** | **1,360,481** | 1,106,782 | (63,869) | 1,042,913 |
| Machinery and equipment: | | | | | | |
| Telecommunications equipment | **14,085** | **(4,410)** | **9,675** | 11,389 | (3,527) | 7,862 |
| Furniture, machinery and office equipment | **728** | **(152)** | **576** | 216 | (81) | 135 |
| Service furniture and equipment | **97** | **(22)** | **75** | 65 | (12) | 53 |
| Tools and instruments | **2,693** | **(541)** | **2,152** | 2,089 | (331) | 1,758 |
| Power generation unit | **2,040** | **(452)** | **1,588** | 1,695 | (308) | 1,387 |
| Electrical equipment | **540,290** | **(58,449)** | **481,841** | 413,894 | (35,527) | 378,367 |
| Mechanical, protection and measurement equipment | **62,175** | **(21,392)** | **40,783** | 49,858 | (14,425) | 35,433 |
| Transport and loading equipment | **146** | **(58)** | **88** | 524 | (192) | 332 |
| Computers and software | **7,317** | **(4,810)** | **2,507** | 4,942 | (2,871) | 2,071 |
| Total Machinery and equipment | **629,571** | **(90,286)** | **539,285** | 484,672 | (57,274) | 427,398 |
| Other Property, plant, and equipment: | | | | | | |
| Construction materials | **3,199** | **—** | **3,199** | 2,083 | — | 2,083 |
| Total Other property, plant, and equipment | **3,199** | **—** | **3,199** | 2,083 | — | 2,083 |
| Total property, plant and equipment | **2,155,706** | **(219,397)** | **1,936,309** | 1,619,738 | (121,143) | 1,498,595 |

Depreciation for the year ended December 31, 2009 amounted to ThUS$ 70,280 (ThUS$ 62,752 and ThUS$ 59,935 for the years ended December 31, 2008 and 2007, respectively).

Assets under construction classified as Work in progress in the table above are not being depreciated yet.

## NOTE 6—BONDS PAYABLE

The detail of bonds payable as of December 31, 2009 and 2008 is as follows:

| Registration or identification number of the instrument | Series | Nominal amount placed | Currency or Indexation unit | Effective interest rate(1) | **Maturity date as of December 31, 2009** | Periodicity | | **As of December 31,** | | Principal/ Interest |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Interest payment | Principal payment | **2009 Book value** | 2008 Book value | |
| | | | | | | | | **ThUS$** | ThUS$ | |
| Current portion of long-term bonds: | | | | | | | | | | |
| 249 | B1 | | UF | 6.20% | **Mar 1, 2010** | Semiannually | Semiannually | **—** | 164 | Interest |
| 249 | B2 | | UF | 6.20% | **Mar 1, 2010** | Semiannually | Semiannually | **2,122** | 2,473 | Interest |
| First issuance[2] | Single | | US$ | 7.88% | **Apr 15, 2009** | Semiannually | At maturity | **3,458** | 13,690 | Interest |
| 249 | B1 | 4,000 | UF | 6.20% | **Mar 1, 2010** | Semiannually | At maturity | **9,262** | 168 | Principal |
| 249 | B2 | 60,000 | UF | 6.20% | **Mar 1, 2010** | Semiannually | At maturity | **129,671** | 2,506 | Principal |
| 481 | D | | UF | 4.25% | **Jun 15, 2010** | Semiannually | At maturity | **949** | 797 | Interest |
| 480 | C | | UF | 3.50% | **Mar 1, 2010** | Semiannually | At maturity | **3,182** | 2,339 | Interest |
| 598 | E | | UF | 3.90% | **Feb 2, 2010** | Semiannually | At maturity | **2,237** | | Interest |
| 598 | F | | CLP | 5.70% | **Feb 2, 2010** | Semiannually | At maturity | **1,428** | | Interest |
| 599 | H | | UF | 4.80% | **Feb 2, 2010** | Semiannually | At maturity | **2,204** | | Interest |
| 598 | I | | UF | 3.50% | **Feb 28, 2010** | Semiannually | At maturity | **860** | — | Interest |
| 599 | K | | UF | 4.60% | **Mar 1, 2010** | Semiannually | At maturity | **1,125** | — | Interest |
| First issuance[1] | Private Placement | | US$ | 2.03% | **Feb 2, 2010** | Semiannually | At maturity | **695** | 1,244 | Interest |
| Total current portion of bonds payable | | | | | | | 157,193 | **23,381** | | |
| Long Term Bonds Payable | | | | | | | | | | |
| 249 | B1 | 186,000 | UF | 6.20% | **Mar 1, 2022** | Semiannually | Semiannually | **—** | 7,198 | Principal |
| 249 | B2 | 2,790,000 | UF | 6.20% | **Mar 1, 2022** | Semiannually | Semiannually | **—** | 107,975 | Principal |
| First issuance[2] | Single | 245,138,000 | US$ | 7.88% | **Apr 15, 2011** | Semiannually | At maturity | **244,651** | 472,658 | Principal |
| 481 | D | 13,500,000 | UF | 4.25% | **Dec 15, 2027** | Semiannually | At maturity | **549,361** | 448.171 | Principal |
| 480 | C | 6,000,000 | UF | 3.50% | **Sep 1, 2016** | Semiannually | At maturity | **239,984** | 195,398 | Principal |
| 598 | E | 3,300,000 | UF | 3.90% | **Aug 1, 2014** | Semiannually | At maturity | **136,453** | — | Principal |
| 598 | F | 33,600,000 | CLP | 5.70% | **Aug 1, 2014** | Semiannually | At maturity | **66,259** | — | Principal |
| 599 | H | 3,000,000 | UF | 4.80% | **Aug 1, 2031** | Semiannually | At maturity | **123,920** | — | Principal |
| 598 | I | 1,500,000 | UF | 3.50% | **Sep 9, 2014** | Semiannually | At maturity | **61,201** | — | Principal |
| 599 | K | 1,600,000 | UF | 4.60% | **Sep 1, 2031** | Semiannually | At maturity | **66,078** | — | Principal |
| First issuance[1] | Private placement | 150,000,000 | US$ | 2.03% | **May 2, 2013** | Quarterly | At maturity | **148,637** | 147,223 | Principal |
| Total Long-term bonds payable | | | | | | | 1,636,544 | **1,378,623** | | |

(1) *All bonds with the exception of the US$ 150 million issuance denominated in U.S. dollars bear interest at fixed rates.*

(2) *Cross currency swap with notional amount of US$ 50 million as of December 31, 2009 was contracted with the intention to hedge partially this bond.*

## NOTE 6—BONDS PAYABLE (continued)

Following is a schedule of the long-term debt (bonds) maturity in each of the five years beginning on January 1, 2009 and thereafter:

| Year | As of December 31, 2009 |
|---|---|
| | ThUS$ |
| 2010 | **2,643** |
| 2011 | **256,735** |
| 2012 | **5,286** |
| 2013 | **155,286** |
| Thereafter | **1,373,787** |
| Total | **1,793,737** |

## NOTE 7—BANK LOANS

All bank loans are due in 2011.

As of December 31, 2009 and 2008 the balance of the bank loans corresponds to loan obtained from Scotia & Trust (Cayman) Ltd. The loan bears interest of 6 months LIBOR plus 3%. Effective interest rate of the loan is 3.43% as of December 31, 2009.

## NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Classification of financial instruments

| Financial asssets | As of December 31, 2009 | | | | As of December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | HFT(1) | L&R(2) | HTM(3) | Total | HFT(1) | L&R(2) | HTM(3) | Total |
| | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ | ThUS$ |
| Cash and cash equivalents | **278,371** | **—** | **—** | **278,371** | 130,344 | — | — | 130,344 |
| Trade accounts receivable | **—** | **71,915** | **—** | **71,915** | | 51,365 | | 51,365 |
| Accrued interest on the long-term bank deposit (restricted)(4) | **—** | **—** | **160** | **160** | — | — | 234 | 234 |
| Derivative financial instruments, including: | | | | | | | | |
| —Not designated for hedge accounting(5) | **231** | **—** | **—** | **231** | 91,376 | — | — | 91,376 |
| —Designated as hedges of net investment and cash flow hedges(6) | **—** | **—** | **—** | **—** | 57,276 | — | — | 57,276 |
| Long-term bank deposit | **—** | **—** | **872,064** | **872,064** | — | — | 890,064 | 890,064 |
| Investments in other companies | **450** | **—** | **—** | **450** | 501 | — | — | 501 |
| Long-term receivables | **—** | **2,873** | **—** | **2,873** | — | 2,456 | — | 2,456 |
| Total | **279,052** | **74,788** | **872,224** | **1,226,064** | 279,497 | 53,821 | 890,298 | 1,223,616 |

## NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

| Financial liabilities | **As of December 31, 2009** HFT(1) | **As of December 31, 2009** Other than HFT(1) | As of December 31, 2008 HFT(1) | As of December 31, 2008 Other than HFT(1) |
|---|---|---|---|---|
| | **ThUS$** | **ThUS$** | ThUS$ | ThUS$ |
| Accounts payable and other short-term payables | **—** | **78,783** | — | 58,055 |
| Debt (including current and non-current portion) | **—** | **2,665,071** | — | 2,288,072 |
| Derivatives financial instruments, including: | | | | |
| —Not designated for hedge accounting(7) | **41,225** | **—** | 33,918 | — |
| —Designated as hedge of net investment and cash flow hedge(8) | **17,183** | **—** | — | — |
| Other long-term payables | **—** | **17,413** | — | 4,626 |
| Total | **58,408** | **2,761,267** | 33,918 | 2,350,753 |

(1) *Held for trading*

(2) *Loans and receivables*

(3) *Held-to-maturity*

(4) *Classified in other current assets*

(5) *Classified in other current assets as of December 31, 2009 and in other non-current assets as of December 31, 2008*

(6) *ThUS$ 6,740 classified in other current assets and ThUS$ 49,948 in other non-current assets as at December 31, 2008.*

(7) *Includes current and non-current portion*

(8) *Includes current and non-current portion*

**b) Fair value of financial instruments**

The carrying amount of all financial instruments, except for long-term bonds, approximates their fair value. The fair value of derivative financial instruments reflects the estimated amount that the Company, if required to settle an outstanding contract, would be required to pay or would be entitled to receive at the balance sheet date. The fair values of the long-term bonds payable, based on year-end quoted market prices for the same or similar debt instruments of the same remaining maturities, are provided in the following table:

| Description | **As of December 31,** 2009 Carrying value | **As of December 31,** 2009 Fair value | As of December 31, 2008 Carrying value | As of December 31, 2008 Fair value |
|---|---|---|---|---|
| | **ThUS$** | **ThUS$** | ThUS$ | ThUS$ |
| Long-term bond payable | **1,636,544** | **1,786,230** | 1,378,623 | 1,348,715 |

The amended CICA Handbook Section 3862, Financial Instruments—Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

– Level 1 Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

**NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

– Level 2 Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

– Level 3 Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

The following table presents the fair value hierarchy for those assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2009:

| | **December 31, 2009** | Fair Value Measurements at Reporting Date | | |
|---|---|---|---|---|
| **Description** | **Carrying value** | Level 1 | Level 2 | Level 3 |
| | **ThUS$** | ThUS$ | ThUS$ | ThUS$ |
| Derivative assets | **231** | — | 231 | — |
| Derivative liabilities | **(57,610)** | — | (57,610) | — |

**c) Use of derivatives**

Transelec entered into eleven US$/UF cross currency swaps contracts totaling to ThUS$ 270,000 to hedge part of its exchange rate risk exposure related to bonds denominated in US$. Initially part of those swaps were designated as cash flow hedges, however given ineffectiveness observed after the inception date hedge accounting was not applied. The swaps were measured at fair value with changes in the fair value taken to the profit and loss account. In August 2009, in relation to the redemption of US dollar debt, the Company unwound swap contracts amounted to US$220 million that it maintained with banks and financial institutions. The amount paid to these financial institutions at the settlement date was approximately US$ 55.9 million. Transelec still has one remaining swap contract with notional amount of ThUS$ 50 million and maturity date in 2011 (the same maturity as the debt intended to be hedged). The fair value of the swap contract recognized on the consolidated balance sheet amounts to ThUS$ 31,574 (liability) as of December 31, 2009, (ThUS$ 16,876 (net liability from all swap contracts) as of December 31, 2008).

As of December 31, 2009 Transelec has also opened 15 foreign currency forwards to sell ThUS$ 132,236 designated as cash flow hedges to mitigate the short-term impact of fluctuations in the exchange rate on the revenues stream. The fair value recognized on the balance sheet as of December 31, 2009 amounts to ThUS$ 573 (liability). The contracts mature during the 1st semester of 2010.

The subsidiary Transelec Holdings Rentas Limitada uses financial derivative instruments (US$/Ch$ forwards and swaps) as hedge of a portion of its net investment in Transelec controlled in Chilean pesos in order to reduce the exposure to changes in currency exchange rates. The nominal amount of these contracts was ThUS$ 250,000 as of December 31, 2009 and as of December 31, 2008. Changes in the fair value of these derivative contracts are recorded in other comprehensive income (loss). Amounts excluded from the measure of effectiveness of net investment hedges are

**NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

recognized in earnings in the period in which they arise. Fair values of the derivatives recognized on the consolidated balance sheet were ThUS$ 16,385 (liability) as of December 31, 2009 and ThUS$ 56,100 (asset) at December 31, 2008.

On August 8, 2008, Transelec Holdings Rentas Limitada entered into twelve US$/UF cross currency swap contracts totaling to ThUS$ 345,000. The swaps are considered as economic cash flow hedges to offset the variability of expected future cash flows related to US$ debt, however hedge accounting was not applied and all changes in the fair value of the swaps are recorded in income. Fair value of the swap contracts recognized on the consolidated balance sheet amounts to ThUS$ 9,420 (liability) as of December 31, 2009 and ThUS$ 74,332 as of December 31, 2008. The swaps contracts mature in 2011 and 2013.

**d) Risk management**

The Company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

***Market risk***

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rate such as equity prices, commodity prices or credit spreads.

The Company endeavours to maintain a matched position in respect of the book values of foreign currency assets and liabilities and the impact of changes in interest rates on net income from floating rate assets and liabilities. This is achieved generally by intent of funding assets with financial liabilities in the same currency and with similar interest rate characteristics and holding financial contracts such as interest rate and foreign exchange derivatives to minimize residual exposures. Unmatched positions are carried from time to time within predetermined limits, principally to reduce borrowing costs or when hedging is impractical or uneconomic. Financial instruments held by the Company that are subject to market risk include principally borrowings and derivative instruments such as interest rate and currency swaps and forwards. The categories of financial instruments that can potentially give rise to significant variability are described in the following paragraphs.

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in the net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in the value of financial instruments whose cash flows are fixed in nature.

The Company's assets largely consist of long duration physical assets. Accordingly, the Company's financial liabilities consist primarily of long-term fixed rate debt or floating rate debt that partially

**NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

has been swapped to fixed rates with interest rate derivatives. Debts instruments are recorded on the balance sheet are at their amortized cost.

The result of a 50 basis point increase in interest rates on the Company's net floating rate between assets and liabilities (including derivatives) would have resulted in a corresponding increase in net income before tax of US$ 0.3 million as at December 31, 2009 on an annualized basis.

The Company holds financial instruments to hedge the net investment in self-sustaining operation whose functional currency is other than the U.S. dollar (Transelec). The result of a 50 basis point increase in interest rates on the Company's net floating rate between assets and liabilities (swaps) would have resulted in a corresponding decrease the value of these hedging instrument by US$ 0.1 million as at December 31, 2009, which would be recorded in other comprehensive income and offset by changes in the U.S. dollar carrying value of the net investment being hedged.

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than functional currencies of the consolidated entities in addition to any changes in the value of the financial instruments in the relevant currency due to other risks.

The Company has bonds payable denominated in *Unidad de Fomento* (UF), changes in the translated value of which are recorded in net income. The impact of a 1% change in UF would result in a US$ 12 million gain (loss).

The Company holds financial instruments to hedge the net investment in self-sustaining operation whose functional currency is other than the U.S. dollar (Transelec). A 1% increase in the U.S. dollar exchange rate would increase the value of these hedging instruments by US$ 3.2 million as at December 31, 2009, which would be recorded in other comprehensive income and offset by changes in the U.S. dollar carrying value of the net investment being hedged.

***Credit risk***

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations causing a financial loss. The Company's exposure to credit risk in respect of financial instruments relates primarily to counterparties obligations regarding accounts receivable, bank deposits and derivative contracts.

The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparty meet minimum credit quality requirements. Management evaluates and monitors counterparty credit risk for bank deposits and derivative financial instruments and endeavours to minimize counterparty credit risk through diversification and other credit risk mitigation techniques. The credit risk of derivative financial instruments is limited to the positive fair value of the instruments which tends to be a relatively small proportion of the notional value. Substantially all of the Company's derivative financial instruments involve counterparties that are branches of global banks or other financial institutions with high credit ratings from international credit rating agencies. The Company does not expect to incur credit losses in respect of any of these counterparties.

## NOTE 8—FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company monitors also its credit risk exposure related to accounts receivable from clients on an on-going basis and periodically evaluates necessity to establish allowances for doubtful accounts based on the information about counterparty financial condition. Currently management believes there is no significant credit risk related to its receivables. The maximum exposure in respect to receivables is equal to their carrying value.

The Company earns a significant part of its revenues (approx. 71.2% of revenues from transmission services in the year ended December 31, 2009) from one client, which is a Chilean electricity generating company. As of December 31, 2009 approx. 47% of the trade accounts receivable are due from that client.

***Liquidity risk***

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure the Company is able to react to investment opportunities quickly and on a value basis as well as to pay its obligations on due dates, the Company maintains relatively high level of liquidity. The primary source of liquidity consists of cash and cash equivalents as well as trade accounts receivable. As of December 31, 2009 Transelec has 3 unused credit line facilities totaling to ThUS$ 60,000 and available to finance working capital needs of which ThUS$ 15,000 expire in March 2010, ThUS$ 15,000 expire in November 2010 and ThUS$ 30,000 expire in February 2010. In addition, Transelec has available unused credit facility of up to UF 3.2 million (approx. ThUS$ 132,000) available up to September 2010 to finance expansion projects or refinance debt.

The Company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity.

These risks are mitigated through the use of long-term debt secured by high quality assets, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time.

## NOTE 9—ACCRUED LIABILITIES AND PROVISIONS

Accrued liabilities as of December 31, 2009 and 2008 are composed as follows:

| Description | As of December 31, 2009 | As of December 31, 2008 |
|---|---|---|
| | **ThUS$** | ThUS$ |
| Accrued payroll | **4,079** | 3,099 |
| Vacation accrual | **1,803** | 1,477 |
| Staff severance indemnities (short-term portion) | **1,021** | 949 |
| Total | **6,903** | 5,525 |

Long-term provisions presented on the balance sheet as of December 31, 2008 includes obligation for staff severance indemnities of ThUS$ 6,768 (ThUS$ 3,022 as of December 31, 2008) determined in accordance with accounting policy described in the Note 21). Total amount of cost benefit for staff severance indemnities recognized in the year ended December 31, 2009 was ThUS$ 606 (ThUS$ 655 and ThUS$ 1,381 in the years ended December 31, 2008 and 2007, respectively).

## NOTE 10—SHAREHOLDERS' EQUITY

The detail of changes in the Shareholders' Equity during the years ended December 31, 2009, 2008 and 2007 is shown in the table below:

| Description | Paid-in capital | Accumulated other comprehensive income (loss) | Deficit | Total |
|---|---|---|---|---|
| | ThUS$ | ThUS$ | ThUS$ | ThUS$ |
| Balance as of January 1, 2007 | 348,812 | (1,674) | (11,232) | 335,906 |
| Increase of capital | 858,759 | — | | 858,759 |
| Distributions | — | — | (35,167) | (35,167) |
| Translation gain on the net investment in self-sustaining operation | — | 98,086 | — | 98,086 |
| Loss on hedging instruments | — | (31,541) | — | (31,541) |
| Net loss for the year | — | — | (37,467) | (37,467) |
| Balance as of December 31, 2007 | 1,207,571 | 64,871 | (83,866) | 1,188,576 |
| Increase of capital | 160,808 | — | — | 160,808 |
| Distributions | — | — | (43,728) | (43,728) |
| Translation loss on the net investment in self-sustaining operation | — | (313,113) | — | (313,113) |
| Gain on hedging instruments | — | 56,360 | — | 56,360 |
| Net income for the year | — | — | 104,027 | 104,027 |
| Balance as of December 31, 2008 | 1,368,379 | (191,882) | (23,567) | 1,152,930 |
| Distributions | **—** | **—** | **(56,923)** | **(56,923)** |
| Translation gain on the net investment in self-sustaining operation | **—** | **306,937** | **—** | **306,937** |
| Loss on hedging instruments | **—** | **(70,964)** | **—** | **(70,964)** |
| Net income for the year | **—** | **—** | **12,177** | **12,177** |
| Balance as of December 31, 2009 | **1,368,379** | **44,091** | **(68,313)** | **1,344,157** |

## NOTE 10—SHAREHOLDERS' EQUITY (Continued)

As of December 31, 2009 and 2008 the authorized share capital was divided into 1,400,012,000 shares of nominal value of US$ 1 per share. Shareholders in the Company and their participation as follows as of December 31, 2009 and 2008:

| Shareholder | Participation as of December 31, 2009 | 2008 |
|---|---|---|
| | % | % |
| CPP Investment Board Private Holding Inc. | **27.728** | 27.728 |
| BIP Bermuda Holdings III Limited | **17.750** | 17.750 |
| Bryson International Limited | **—** | 10.036 |
| Brookfield Renewable Power (Barbados) Inc. | **10.036** | — |
| 4358520 Canada Inc. | **22.101** | 22.101 |
| 4358538 Canada Inc. | **3.900** | 3.900 |
| Infra—PSP Canada Inc. | **18.485** | 18.485 |
| Total | **100.000** | 100.000 |

## NOTE 11—CAPITAL MANAGEMENT

The capital of the Company consists of the components of shareholders' equity as presented on the Company's consolidated balance sheet.

The Company's objectives when managing this capital is to maintain an appropriate balance between holding a sufficient amount of capital to support its operations and providing shareholders with a prudent amount of leverage to enhance returns. Company's financial debt, which consists of debt of consolidated subsidiaries and totaling to ThUS$ 2,665,071 at December 31, 2009 (ThUS$ 2,288,072 as of December 31, 2008). Part of this debt is secured by the long-term bank deposit that the Company has in Scotiabank & Trust (Cayman) Ltd. amounting to ThUS$ 872,064 and ThUS$ 890,064 as of as of December 31, 2009 and 2008, respectively.

The Company is in full compliance with capital requirements and covenants related to equity as of December 31, 2009.

## NOTE 12—CONTINGENCIES AND RESTRICTIONS

The Company is subject to some covenants in respect of its corporate debt and is in full compliance with all such covenants as at December 31, 2009.

### a) Pledge on assets

In January 2008, the Company opened through Bank of Nova Scotia, an irrevocable standby letter of credit for US$ 41,600,000 to secure the interest payment of a subsidiary (Transelec S.A.), as established in the Debt Service Escrow agreement between Bank of New York and Transelec S.A. This standby which expired in January 2009 was replaced by a US$19,224,650 new Standby Letter of Credit that expired on January 12, 2010.

In February 2008, the Company opened, through Bank of Nova Scotia, an irrevocable standby letter of credit for US$ 4,000,000 to secure the interest payment of a subsidiary (Transelec

**NOTE 12—CONTINGENCIES AND RESTRICTIONS (Continued)**

Holdings Rentas Limitada), as established in the Collateral Agent Agreement between HSBC Bank and Transelec Holdings Limitada. This Standby which expired in February 2009 was replace by a US$ 1,848,524 new Standby Letter of Credit that expired on February 2, 2010.

On June 29, 2007 the Company's subsidiaries Transelec Holdings Rentas Limitada and Rentas Electricas I Limitada which directly hold 100% of interest in Transelec S.A. pledged their shares in Transelec and Transelec Norte S.A. in favor of JP Morgan Bank USA, HSBC Bank Canada, Deutsche Bank A.G. and holders of the bonds issued by Transelec Holdings Rentas Limitada. This share pledge is collateral for the following debts:

- US$ 150 million Private Placement plus ThUS$ 529 in accrued interest until December 31, 2009;
- US$ 345 million in Cross Currency Swaps engaged with the above mentioned banks. The secured contracts represent a net liability to the Company of ThU$ 9,420 as of December 31, 2009.

ETC Holdings Ltd. holds funds amounting to ThUS$ 872,064 as of December 31, 2009 and ThUS$ 890,064 as of December 31, 2008, respectively in the long-term bank deposit account in Scotiabank & Trust (Cayman) Ltd. Those funds are pledged to secure a bank loan provided by the same institution to subsidiary Rentas Eléctricas I Limitada. The carrying amount of the outstanding balance of the loan payable classified in long-term liabilities amounts to ThUS$ 870,303 and ThUS$ 884,741 as of December 31, 2009 and December 31, 2008, respectively. In the event of default Scotiabank & Trust (Cayman) Ltd. has a right to set off and apply the deposit against the loan.

**b) Litigations, lawsuits and demands from regulators**

1. On December 5, 2002, the Superintendency of Electricity and Fuel (SEC) in Ordinary Official Letter No. 7183, charged the Company for its alleged responsibility in the interruption of electrical supply in the Central Interconnected System (SIC) on September 23, 2002. The Company presented the answers in a timely manner and these were added to the corresponding evidence. By Exempt Resolution No. 1438 of August 14, 2003, the Superintendency applied various fines to Transelec for a total of Annual Tax Units (UTA) 2,500 equivalent as of December 31, 2009 to ThUS$ 2,181. As of December 31, 2009, the Company had appealed the complaint before the Santiago Court of Appeals, and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.
2. In Ordinary Official Letter No. 1210 dated February 21, 2003 the SEC filed charges for the alleged responsibility of Transelec in the interruption of electric service in the SIC, on January 13, 2003. By Resolution No. 808, of April 27, 2004, the SEC imposed a fine of 560 UTA equivalent as of December 31, 2009, to ThUS$ 489, against which a writ of administrative reconsideration was filed, which was rejected. The Company appealed the complaint before the Santiago Court of Appeals and placed a deposit of 25% of the original fine. The Company maintains that it is not responsible for this situation since it considers it a case of force majeure.

**NOTE 12—CONTINGENCIES AND RESTRICTIONS (Continued)**

3. On September 30, 2005 the SEC through Exempt Resolution No. 1117, applied the following sanctions to the Company: a fine of 560 UTA equivalent as of December 31, 2009 to ThUS$489, for allegedly not having coordinated to ensure electric service, as determined in the investigation of the general failure of the SIC on November 7, 2003; a fine of 560 UTA equivalent as of December 31, 2009, to ThUS$ 489, in the Company's condition as the owner of the installations, for allegedly operating the installations without adhering to the operation scheduling set forth by the CDEC-SIC, without justified cause, as determined in the investigation of the general failure of the SIC on November 7, 2003. As of December 31, 2009, the Company had appealed the charges before the SEC, which is pending resolution; Management believes it has no responsibility in these events.

4. On December 17, 2004, the SEC through Exempt Resolution No. 2334 fined the Company 300 UTA, equivalent as of December 31, 2009, to ThUS$ 262, for its alleged responsibility in the interruption of electrical supply south of Temuco, caused by a truck crashing into a structure of the Charrúa—Temuco line. As of December 31, 2009, the Company had filed a motion of invalidation and administrative reconsideration, firmly sustaining that it was a case of force majeure and that the charges are not applicable and should be annulled.

5. On December 31, 2005, the SEC through Official Letter No. 1831, filed charges against the Company for allegedly infringing on various provisions of the electrical regulations while operating its installations, which would have caused the interruption of electrical supply in the SIC on March 21, 2005. By SEC Exempt Resolution SEC No. 220, of February 7, 2006, the Company was fined 560 UTA equivalent as of December 31, 2009, to ThUS$ 489. An appeal was filed to order generation of power again on February 16, 2006, which is still outstanding. As of December 31, 2009, the Company had presented the required evidence.

6. On June 1, 2007, the SEC through Ordinary Official Letter No. 2523/ACC 251155/ DOC 100503/ filed charged against the Company for allegedly infringing on various provisions of the electrical regulations (the Ministry of Economy's Art. 139 of DFL no. 4/20.018 from 2006, en relation to the Ministry of Mining's articles 205 and 206 of D.S. 327/97) while operating its facilities, which caused the interruption of electrical supply in the SIC on December 4, 2006. By SEC Exempt Resolution No. 274, dated February 11, 2009, the Company was fined 100 UTA, equivalent to ThUS$87 as of December 31, 2009. An appeal was 2009 and is currently pending. As of December 31, 2009, the Company had presented the required evidence.

As of December 31, 2009, the Company has recognized a provision for these contingent obligations for the amount of ThUS$ 4,240. This estimation considers the fact that similar cases are being heard in the Appeals Court, and that, the Appeals Court and Supreme Court have confirmed the decision of the SEC. In addition, there are similar cases with a reconsideration petition before the SEC for which the SEC has maintained the previously established fines.

**c) Guarantees**

At the Company's request Banco Santander Chile, Banco de Chile and Scotiabank gave guarantees totaling ThUS$ 6,001 and ThUS$ 1,933 as of December 31, 2009 and 2008, respectively to the Chilean Ministry of Economy, Development and Reconstruction and some other parties to ensure completion by the Company of certain works related to the transmission system.

**NOTE 12—CONTINGENCIES AND RESTRICTIONS (Continued)**

As of December 31, 2009 and 2008, the Company has received financial guarantees from contractors and third parties, mainly to guarantee the completion of construction and maintenance work amounting to ThUS$ 53,475 and ThUS$ 16,937, respectively.

**NOTE 13—DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

Canadian GAAP varies in certain respects from US GAAP. Such differences involve certain methods for measuring the amounts shown in the financial statements that are discussed below. The principal methods applied in the preparation of the accompanying financial statements which have resulted in the amounts which differ from those that would have otherwise been determined under US GAAP are described below.

The reconciliations presented below include only differences related to measurement of items in the financial statements and do not contemplate additional disclosures that may be required under US GAAP.

**a) Embedded derivatives**

The Company entered into certain contracts for electricity transmission that have embedded features corresponding to foreign currency, prices of commodities used in the construction of transmission assets and inflation indexes. The Company concluded that those indexation features represent embedded derivatives, however those derivatives may not require bifurcation and separate accounting as they are closely related to the economic characteristics and risks of the host contracts under CICA Section 3855. Instead the entire contracts are considered contract-based intangibles acquired in the business combination. Under US GAAP ASC 815, Derivatives and Hedging (codified principally from Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities) includes different criteria for considering embedded derivatives as clearly and closely related to the economic characteristics and risks of the host contract, especially with regards to foreign currency derivatives. The Company concluded that under US GAAP the embedded features require bifurcation and fair value accounting with changes in fair value recorded in earnings. Effects of the bifurcation of the embedded derivatives and elimination of the intangible asset recognized under Canadian GAAP net of their respective tax effects were included as an adjustment in the reconciliation to US GAAP as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 in paragraph b) below.

## NOTE 13—DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

### b) Effects of conforming to US GAAP

The adjustments to reported net income required to conform to US GAAP were as follows:

| Description | For the year ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| | **ThUS$** | ThUS$ | ThUS$ |
| Net income (loss) as shown in the Canadian GAAP financial statements | **12,177** | 104,027 | (37,467) |
| Embedded derivatives (paragraph a) | **(42,495)** | 40,604 | 14,095 |
| Adjustments of deferred income taxes (paragraph a) | **7,224** | (6,903) | (2,396) |
| Net (loss) income under US GAAP | **(23,094)** | 137,728 | (25,768) |
| Other comprehensive (loss) income, net as shown in the Canadian GAAP financial statements | **235,973** | (256,753) | 66,545 |
| Adjustments to US GAAP | **—** | — | — |
| Other comprehensive income (loss) under US GAAP | **235,973** | (256,753) | 66,545 |
| Total comprehensive income (loss) under US GAAP | **212,879** | (119,025) | 40,777 |

The adjustments to reported Shareholders' equity required to conform to US GAAP were as follows:

| Description | As of December 31, 2009 | 2008 |
|---|---|---|
| | **ThUS$** | ThUS$ |
| Shareholders' equity as shown in the Canadian GAAP financial statements | **1,344,157** | 1,152,930 |
| Embedded derivatives (paragraph a) | **12,204** | 54,699 |
| Adjustments of deferred income taxes (paragraph a) | **(2,075)** | (9,299) |
| Shareholders' equity under US GAAP | **1,354,286** | 1,198,330 |

## NOTE 13—DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

The following summarizes the changes in shareholders' equity under US GAAP during the years ended December 31, 2009, 2008 and 2007:

| Description | For the year ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| | **ThUS$** | ThUS$ | ThUS$ |
| Opening balance | **1,198,330** | 1,200,275 | 335,906 |
| Contribution and increase of capital | **—** | 160,808 | 858,759 |
| Translation gain (loss) on the net investment in self-sustaining operation | **306,937** | (313,113) | 98,086 |
| (Loss) gain on hedging instruments | **(70,964)** | 56,360 | (31,541) |
| Net (loss) income for the year | **(23,094)** | 137,728 | (25,768) |
| Distributions | **(56,923)** | (43,728) | (35,167) |
| Closing balance | **1,354,286** | 1,198,330 | 1,200,275 |

### c) Recent US GAAP accounting pronouncements

The Hierarchy of Generally Accepted Accounting Principles

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that established the FASB Accounting Standards Codification (ASC) and amended the hierarchy of generally accepted accounting principles (GAAP) such that the ASC became the single source of authoritative nongovernmental US GAAP. The ASC did not change current US GAAP, but was intended to simplify user access to all authoritative US GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates (ASUs). The Company adopted the ASC in 2009. This standard did not have an impact on the Company's consolidated results of operations or financial condition.

Useful Life of Intangible Assets

In April 2008, the FASB issued an accounting standard which amended the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under ASC 350, Intangibles—Goodwill and Other. This new standard applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under this standard, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The adoption of this standard effective January 1, 2009 did not have a material impact on the Company's consolidated results of operations or financial condition.

## NOTE 13—DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Subsequent Events

In May 2009, the FASB issued a new accounting standard regarding subsequent events. This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under the new standard, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard added an additional required disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued. The adoption of this standard did not have impact on the Company's consolidated results of operations or financial condition.

Consolidation guidance for variable-interest entities

In June 2009, the FASB issued a new standard that revises the consolidation guidance for variable-interest entities. The modifications include the elimination of the exemption for qualifying special purpose entities, a new approach for determining who should consolidate a variable-interest entity, and changes to when it is necessary to reassess who should consolidate a variable-interest entity. This standard is effective January 1, 2010. The Company is evaluating the impact, if any, of the adoption of this standard.

**Combined Financial Statements of**

# BROOKFIELD GLOBAL TIMBER FUND

**As of December 31, 2009 and 2008**
**and the year ended December 31, 2009**
**and for the period from October 14, 2008 (inception) to December 31, 2008**

## REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the investors of
Brookfield Global Timber Fund

We have audited the accompanying combined statements of net assets, including the combined schedules of investments of Brookfield Global Timber Fund (the "Fund") as of December 31, 2009 and 2008, and the combined statements of operations, changes in net assets and cash flows for the year ended December 31, 2009 and for the period from October 14, 2008 (inception) to December 31, 2008. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the year ended December 31, 2009 and for the period from October 14, 2008 to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 23, 2010

# BROOKFIELD GLOBAL TIMBER FUND

## COMBINED STATEMENTS OF NET ASSETS

### As of December 31, 2009 and 2008
### (in US$ thousands, except where noted)

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Investment, at estimated fair market value (cost—$1,054,780, 2008—$1,026,277) | 4 | **871,034** | 906,606 |
| Cash and cash equivalents | | **4** | 33 |
| Due from related parties | 7 | **3** | 122 |
| Prepaid management fees | 7 | **1,243** | — |
| **Total Assets** | | **872,284** | 906,761 |
| **Liabilities** | | | |
| Accrued expenses | | **30** | 218 |
| Due to related parties | 7 | **—** | 45 |
| **Total liabilities** | | **30** | 263 |
| **Net Assets** | | **872,254** | 906,498 |

The accompanying notes are an integral part of these combined financial statements.

**BROOKFIELD GLOBAL TIMBER FUND**

**COMBINED SCHEDULES OF INVESTMENTS**

**As of December 31, 2009**
**(in US$ thousands, except where noted)**

| | Note | Location | Principal $ or Shares | Cost | Estimated Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|
| Longview Timber Holdings, Corp. | **3** | **U.S. PNW** | **10,816,230** | **1,054,780** | **871,034** | **99.9%** |
| **Total Investment** | | | | **1,054,780** | **871,034** | **99.9%** |

As of December 31, 2008
(in US$ thousands, except where noted)

| | Note | Location | Principal $ or Shares | Cost | Estimated Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|
| Longview Timber Holdings, Corp. | | | | | | |
| Common Shares | 3 | U.S. PNW | 8,485,845 | 855,096 | 735,425 | 81.1% |
| Shareholder Loan | 3 | U.S. PNW | 171,181 | 171,181 | 171,181 | 18.9% |
| Total Investment | | | | 1,026,277 | 906,606 | 100.0% |

The accompanying notes are an integral part of these combined financial statements.

# BROOKFIELD GLOBAL TIMBER FUND

## COMBINED STATEMENTS OF OPERATIONS

**For the year ended December 31, 2009 and**
**From October 14, 2008 (date of inception) to December 31, 2008**
**(in US$ thousands, except where noted)**

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Investment Income** | | | |
| Dividend income | 3 | — | 3,564 |
| Interest income | 3 | **11,732** | 5,020 |
| | | **11,732** | 8,584 |
| **Expenses** | | | |
| Management fees | 7 | **2,225** | 1,436 |
| Organizational expenses | 7 | **190** | 1,701 |
| Professional fees | | **54** | — |
| Audit fees | | **40** | 30 |
| | | **2,509** | 3,167 |
| **Net Investment Income** | | **9,223** | 5,417 |
| Unrealized loss on investment | 4 | **(64,075)** | (119,671) |
| **Result from Operations** | | **(54,852)** | (114,254) |

The accompanying notes are an integral part of these combined financial statements.

## BROOKFIELD GLOBAL TIMBER FUND

## COMBINED STATEMENTS OF CHANGES IN NET ASSETS

**For the year ended December 31, 2009 and**
**From October 14, 2008 (date of inception) to December 31, 2008**
**(in US$ thousands, except where noted)**

| | Note | General Partner | Limited Partners | Members' Capital | Total |
|---|---|---|---|---|---|
| Net assets, as of October 14, 2008 | | — | — | — | — |
| Investor's contributions | 1 | 1,699 | 1,259,316 | 140,772 | 1,401,787 |
| Net investment income | | 8 | 4,048 | 1,361 | 5,417 |
| Unrealized loss on investment | | (199) | (103,110) | (16,362) | (119,671) |
| Distributions to investors | 1 | — | (379,627) | (1,408) | (381,035) |
| Net assets, as of December 31, 2008 | | 1,508 | 780,627 | 124,363 | 906,498 |
| Investor's contributions | 1 | **38** | **18,242** | **2,328** | **20,608** |
| Net investment income | | **15** | **7,947** | **1,261** | **9,223** |
| Unrealized loss on investment | | **(107)** | **(55,208)** | **(8,760)** | **(64,075)** |
| Distributions to investors | 1 | **—** | **—** | **—** | **—** |
| **Net assets, as of December 31, 2009** | | **1,454** | **751,608** | **119,192** | **872,254** |

The accompanying notes are an integral part of these combined financial statements.

# BROOKFIELD GLOBAL TIMBER FUND

## COMBINED STATEMENTS OF CASH FLOWS

**For the year ended December 31, 2009 and from October 14, 2008 (date of inception) to December 31, 2008 (in US$ thousands, except where noted)**

| | **2009** | 2008 |
|---|---|---|
| **Cash flow (used in) from operating activities** | | |
| Net decrease in net assets from operations | **(54,852)** | (114,254) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Purchase of investment | **(28,503)** | (314,800) |
| Unrealized loss on investment | **64,075** | 119,671 |
| Changes in other assets and liabilities, net | **(1,357)** | 141 |
| | **(20,637)** | (309,242) |
| **Cash flow from (used in) investing activities** | | |
| Investors' contributions | **20,608** | 690,310 |
| Distributions to investors | **—** | (381,035) |
| | **20,608** | 309,275 |
| Net (decrease) increase in cash and cash equivalents | **(29)** | 33 |
| Cash and cash equivalents, beginning of period | **33** | — |
| **Cash and cash equivalents, end of period** | **4** | 33 |

The accompanying notes are an integral part of these combined financial statements.

**BROOKFIELD GLOBAL TIMBER FUND**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended December 31, 2009 and from October 14, 2008 (date of inception) to December 31, 2008 (in US$ thousands, except where noted)**

## 1. ORGANIZATION AND INVESTMENT OBJECTIVES

These financial statements of Brookfield Global Timber Fund represent the combined financial statements of Brookfield Global Timber Fund I L.P., Brookfield Global Timber Fund I (Brookfield PIV), LLC and BGTF I (Norma), LLC (collectively referred to as the "Fund" or the "Partnership"). Brookfield Global Timber Fund I L.P. is a Delaware limited partnership that was organized and commenced operations on October 14, 2008 ("Inception"). Brookfield Global Timber Fund I (Brookfield PIV), LLC is a Delaware limited liability company that was organized and commenced operations on October 14, 2008. BGTF I (Norma), LLC is a Delaware limited liability company that was organized on December 17, 2008 and commenced operations on December 22, 2008. The General Partner of Brookfield Global Timber Fund I L.P. is Brookfield Global Timber Fund GP, L.P. (the "GP"), a Delaware limited partnership, a wholly owned subsidiary of Brookfield Asset Management Inc. ("Brookfield"). The financial statements of the Fund are presented on a combined basis as all of the entities are under common control and management.

Brookfield Timberlands Management L.P. (the "Fund Manager"), a wholly owned subsidiary of Brookfield, is the investment manager of the Fund.

The Fund's final closing occurred on March 31, 2009. The Fund is expected to terminate on March 31, 2019, 10 years from the final closing, unless terminated earlier or extended in accordance with the provisions of the Fund's Second Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement").

The commitment period of the Fund ended on March 31, 2009. As a result, no investment may be made by the Fund and no limited partner shall be required to make capital contributions in respect of investments; provided, however, that the GP may call capital in its discretion to the extent necessary to (i) pay expenses, including the management fee; (ii) make expenditures in accordance with the annual operating plan of Longview; and (iii) fund amounts which are approved by a seventy-five percent vote of the limited partners.

On October 14, 2008, Brookfield Longview Holdings LLC ("BLH"), a wholly owned subsidiary of Brookfield, contributed its investment in Longview Timber Holdings, Corp. ("Longview") consisting of 5,570,118 common shares with a value of $561,102 and loans receivable ("Shareholder Loan") from Longview in the amount of $127,657 to the Fund in exchange for limited partnership and member interests in the Fund. Additionally, from Inception to November 3, 2008, the Fund received cash contributions from other investors totaling $690,310 in exchange for limited partnership interests or members' capital in the Fund. These contributions were used by the Fund to acquire 2,915,727 newly issued common shares of Longview along with additional Shareholder Loan interests. The remaining $380,808 was distributed to Brookfield and its affiliates. On December 22, 2008, an affiliate of Brookfield assigned its interest in the Shareholder Loan with a principal amount of $22,718 to BGTF I (Norma), LLC.

On July 14, 2009 and October 14, 2009 the Fund received cash contributions of $14,509 and $6,099, respectively, from investors in exchange for limited partnership and member interests in the Fund. These contributions were used by the Fund to acquire 166,491 newly issued common shares of Longview and to pay operating expenses of the Fund. On December 11, 2009 the Fund accepted

## 1. ORGANIZATION AND INVESTMENT OBJECTIVES (Continued)

2,163,894 newly issued common shares of Longview having a value equal to $182,914 as full repayment of the balance of the Shareholder Loan including principal and accrued interest.

Distributions to investors during the year were nil (2008—$381,035).

The Fund's primary purpose is to hold the investment in Longview whose purpose is to acquire, develop, manage and harvest timber assets. Investment returns are in the form of current income earned on this investment and the capital appreciation of the investment in Longview, which will be distributed to investors when realized by the Fund.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

These financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. The Fund is an investment company and is accounted for in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide: Investment Companies.

### Reporting Entity and Principles of Combination

The combined financial statements include the accounts and transactions of the Fund. All interfund balances and transactions are eliminated.

### Accounting Estimates

The preparation of financial statements requires the Fund to make estimates and assumptions affecting the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may materially differ from values that would have been used had a ready-market existed for the investments and prices at which the investments may ultimately be sold.

### Cash and Cash Equivalents

Cash and cash equivalents represent cash, bank accounts and short-term financial investments with a ready market and original maturities when purchased of 90 days or less, and are stated at cost plus accrued interest, which approximates market value due to the short-term nature of the investments.

### Foreign Currency Translation

The books and records of the Fund are maintained in U.S. dollars. Assets and liabilities denominated in currencies other than the U.S. dollars are translated into U.S. dollar equivalents using valuation date exchange rates, while revenues and expenses are translated at the transaction date exchange rates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Valuation of Investments

The Fund carries its investments at their estimated fair value as determined by the Fund Manager. The fair value of equity investments is determined by annual independent appraisals, less the book value of any long-term debt, as applicable, and any such other factor as the Fund Manager may deem relevant.

### Income Recognition

Interest income and distributions from investments are accrued and recorded as earned.

### Expense Recognition

Fund expenses are recorded as incurred and consist of permitted expenses in accordance with terms of the Fund agreements. Fund expenses include organizational expenses, operational expenses and other expenses associated with the operation of the Fund.

### Management Fee Expense

Management fees are those paid to the Fund Manager. Such amounts are reflected in the accompanying financial statements when incurred.

### Taxation

No provision is made in the accompanying financial statements for taxes since any such liabilities are ultimately the responsibility of the individual investors and not that of the Fund.

### Recently Issued Accounting Pronouncements

In May 2009, the FASB issued ASC 855, Subsequent Events (“ASC 855”) (formerly SFAS No. 165 Subsequent Events), which defines subsequent events as transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance defines two types of subsequent events: (i) events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and (ii) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, non-recognized subsequent events). In addition, this guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance in ASC 855 is effective for periods ending after June 15, 2009. The adoption of ASC 855 did not have a material impact on the Fund’s combined financial statements. We have evaluated subsequent events up to and including March 23, 2010, the date on which our financial statements were available to be issued.

## 3. INVESTMENTS

Fund investments consist of a 77% interest in Longview, held in the form of issued and outstanding common stock. The Fund's initial investments in Longview were made on October 14, 2008 and on October 28, 2008, coincident with the inception of the Fund and the entry of other investors, respectively. Additional timberlands were acquired by Longview on November 4, 2008 through an additional investment by the Fund. On July 14, 2009 and October 14, 2009 the Fund made additional investments of $10,672 and $6,099, respectively, to fund cash requirements of Longview in exchange for 166,491 newly issued common shares of Longview. On December 11, 2009 the Fund accepted 2,163,894 newly issued common shares of Longview having a value equal to $182,914 as full repayment of the balance of the Shareholder Loan including principal and accrued interest.

In the year ended December 31, 2009, no dividends were received from Longview (2008—$3,564). Interest income from the Shareholder Loan in the year amounted to $11,732 (2008—$5,020), which was added to the cost of the investment.

## 4. FAIR VALUE MEASUREMENTS

FASB ASC 820 ("ASC 820") establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I—quoted prices available in active markets for identical investments as of the reporting date.

Level II—pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair values are determined through the use of models or other valuation methodologies.

Level III—pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Fund adopted ASC 820 on Inception, as required for financial assets and financial liabilities; accordingly, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**For the year ended December 31, 2009 and from October 14, 2008 (date of inception) to December 31, 2008 (in US$ thousands, except where noted)**

## 4. FAIR VALUE MEASUREMENTS (Continued)

**As of December 31, 2009**

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets accounted for at Fair Value: | | | | |
| Investment | — | — | 871,034 | 871,034 |
| **Total assets at Fair Value** | **—** | **—** | **871,034** | **871,034** |

As of December 31, 2008

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets accounted for at Fair Value: | | | | |
| Investment | — | — | 906,606 | 906,606 |
| Total assets at Fair Value | — | — | 906,606 | 906,606 |

The table below sets forth a summary of changes in the fair value of the Fund's assets and liabilities with significant valuation inputs classified as Level 3 for the year ended December 31, 2009 and for the period from Inception to December 31, 2008.

**Assets measured at fair value on a recurring basis using significant unobservable input Level 3 for the year ended December 31, 2009**

| | |
|---|---|
| **Balance, January 1, 2009** | **906,606** |
| Purchase of investment | **28,503** |
| Unrealized loss on investment | **(64,075)** |
| **Balance, December 31, 2009** | **871,034** |

Assets measured at fair value on a recurring basis using significant unobservable input Level 3 for the period ended December 31, 2008

| | |
|---|---|
| Balance, October 14, 2008 | — |
| Purchase of investment | 1,026,277 |
| Unrealized loss on investment | (119,671) |
| Balance, December 31, 2008 | 906,606 |

**BROOKFIELD GLOBAL TIMBER FUND**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the year ended December 31, 2009 and from October 14, 2008 (date of inception) to December 31, 2008 (in US$ thousands, except where noted)**

## 5. FINANCIAL HIGHLIGHTS

The following summarizes the Fund's financial highlights for the year ended December 31, 2009 and for the period from Inception to December 31, 2008, consisting of total return and expense and contributed capital to committed capital ratios.

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Supplemental Information** | | |
| Gross internal rate of return | **(13.7%)** | — |
| Expense ratio to average net assets | **0.3%** | 1.0% |
| Contributed capital to committed capital | **100.0%** | 84.9% |

The expense ratio is calculated based on expenses allocated to the investors prior to the effects of any carried interests. Certain expenses have been annualized while organizational costs have not been annualized in determining the expense ratio. The computation of such ratios based on the amount of expenses assessed to an individual investor may vary based on different management fee and incentive arrangements (as applicable) and the timing of investors' capital transactions.

## 6. DISTRIBUTIONS

As per the Partnership Agreement, a Limited Partner ("LP") is defined as each of the Persons listed from time to time on the books and records of the Partnership as limited partners, or any other Person who becomes a limited partner of the Partnership in such Person's capacity as a limited partner of the Partnership. Proceeds attributable to each LP, as applicable, for any investment which is available for distribution will be distributed in the following order:

a) First 100%, to each LP, until the cumulative amount distributed to each LP provides each investor with an internal rate of return ("IRR") of 8%;

b) Second, 80% to each LP until the cumulative amount distributed to each LP provides each investor with an internal rate of return ("IRR") of 10% and 20% to the GP;

c) Third, 70% to each LP until the cumulative amount distributed to each LP provides each investor with an internal rate of return ("IRR") of 14% and 30% to the GP;

d) Fourth, 60% to each LP and 40% to the GP until the cumulative amount distributed to the GP is equal to 20% of the sum of; (a) the cumulative amounts distributed to the LP excluding amounts representing a return of capital; and (b) the cumulative amount distributed to the GP;

e) Thereafter, 80% to each LP and 20% to the GP.

## 7. RELATED PARTY TRANSACTIONS

Brookfield is the ultimate parent company of the Fund Manager and either directly or through subsidiaries or related parties is also an investor in the Fund. Related party transactions are recorded at the exchange amount. The Fund has the following related party relationships:

### a) Management Fees

Fees for management services provided by the Fund Manager are paid quarterly in advance at an amount per annum equal to sixty five basis points (0.65%) of the LP's aggregate contributions to the Fund. The management fees payable are reduced to the extent of management fees paid by Longview to the Fund Manager. For the year ended December 31, 2009, $2,225 was incurred by the Fund (2008—$1,436), of which nil remains payable (December 31, 2008—nil). The Fund has prepaid management fees to the Fund Manager as of December 31, 2009 of $1,243 (December 31, 2008—nil) resulting from a reduction in the per annum rate on March 31, 2009.

### b) Carried Interest

Under the terms of the respective Fund agreements, the GP is entitled to a carried interest distribution of 20.0% of the sum of: (i) the cumulative returns to the LP's less any return of capital; and, (ii) the cumulative returns to the GP calculated according to Note 6, as applicable. As of December 31, 2009, no carried interest has been paid by the Fund (2008—nil). No amounts have yet been estimated as owing as of December 31, 2009 (December 31, 2008—nil).

### c) Organizational Expenses

The Fund shall pay or reimburse organizational expenses incurred by the GP or the Fund Manager with respect to the conduct of the business of the GP, the Fund Manager and the Fund. Organizational expenses include costs incurred in connection with (i) the offering and sale of the interests and partnership interests in any parallel investment vehicle; (ii) the organization of the Partnership, any Parallel Investment Vehicle, the GP, the Fund Manager and their respective Affiliates; and, (iii) the negotiation, execution and delivery of agreements in respect of any Parallel Investment Vehicle, the Management Agreement and any related or similar documents, including, without limitation, any related legal and accounting fees and expenses, travel expenses and filing fees. For the year ended December 31, 2009, $190 (2008—$1,701) of organizational expenses were incurred by the GP on behalf of the Fund.

### d) Contribution of Investment

Certain investors of the Fund related to Brookfield, through its wholly-owned subsidiaries, participate in the Fund through the contribution of common shares in the Longview investment. Refer to Note 1 for the description of the original contributions made to the Fund and related distributions.

(in US$ thousands, except where noted)

## 7. RELATED PARTY TRANSACTIONS (Continued)

### e) Amounts Outstanding

The following prepaid and receivable (payable) balances with related parties are outstanding at the end of the period:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Brookfield Timberlands Management LP | 1,243 | 120 |
| Longview Fibre Paper and Packaging Inc. | 3 | 2 |
| | 1,246 | 122 |
| Brookfield Asset Management Inc. | — | (45) |
| | 1,246 | 77 |

Exhibit 1, Tab 4, Schedule 1

Materiality Threshold

## MATERIALITY THRESHOLD

GLPT's service revenue requirement is equal to $36,447,700 for 2011, and $38,368,600 for 2012. In accordance with Chapter 2 of the *Filing Requirements for Transmission and Distribution Applications*, dated June 28, 2010, the default materiality threshold is 0.5% of revenue requirement for distributors[1] with a revenue requirement greater than $10 million and less than or equal to $200 million. GLPT's revenue requirement falls within this range, and therefore GLPT's materiality threshold is $182,238 for 2011 ($36,447,700 * 0.5%), and $191,843 for 2012 ($38,368,600 * 0.5%).

[1] Although GLPT is a transmitter, GLPT assumes that the same threshold calculation will apply.

# EXHIBIT 2 - RATE BASE

Exhibit 2, Tab 1, Schedule 1

Rate Base Overview

# RATE BASE OVERVIEW

## 1.0 Summary of Rate Base

As indicated in the table below, GLPT's rate base for 2011 and 2012 has been forecasted to be $217,297,000 and $226,120,500 respectively. Rate base is calculated as the total of the average of the forecast opening and closing net fixed assets ($216,675,900 for 2011 and $225,606,700 for 2012) and an allowance for working capital ($621,100 for 2011 and $513,800 for 2012).

In 2010, GLPT retained Navigant Consulting Inc. to undertake a lead lag study for the purpose of updating the calculation of GLPT's working capital. The provision for working capital in 2011 and 2012 incorporates the results of this new study. Additional information on GLPT's working capital can be found at Exhibit 2, Tab 4, Schedule 1.

*Table 2-1-1 A – Rate Base Calculation*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Opening Net Fixed Assets** | $192,332.5 | $203,313.9 | $207,775.3 | $209,778.5 | $209,142.9 | $207,921.8 | $225,429.9 |
| Closing Net Fixed Assets** | 203,313.9 | 207,775.3 | 209,142.9 | 207,417.5 | 207,921.8 | 225,429.9 | 225,783.4 |
| Average Fixed Assets | 197,823.2 | 205,544.6 | 208,459.1 | 208,598.0 | 208,532.3 | 216,675.9 | 225,606.7 |
| Working Capital Allowance | 157.7 | 157.7 | 401.2 | 401.2 | 651.2 | 621.1 | 513.8 |
| **Rate Base** | **$197,980.9** | **$205,702.3** | **$208,860.3** | **$208,999.2** | **$209,183.5** | **$217,297.0** | **$226,120.5** |

**Opening and Closing Net Fixed Assets have been reduced by the Net Book Value of a capital addition removed from Rate Base as a result of EB-2005-0241's settlement agreement.

For the years 2007-2012, Exhibit 2, Tab 2, Schedule 1 provides the following on an account basis:

- the opening and closing gross and net book values;
- the fixed asset additions and disposals;
- annual depreciation; and
- proof of continuity.

The details of GLPT's rate base additions are discussed below.

## 2.0 Capital Expenditures

### 2.1 Capital Expenditure Budgeting Process and Asset Management Approach

For a discussion of GLPT’s approach to capital budgeting and asset management, please refer to Exhibit 2, Tab 5, Schedule 1.

### 2.2 Capital Expenditure Projects

Set out below are descriptions of capital expenditures for 2011-2012 that exceed GLPT’s materiality threshold as calculated in Exhibit 1, Tab 4, Schedule 1.[1] The in-service date of each capital expenditure described in this section will occur in either 2011 or 2012.

GLPT has organized the project descriptions into two categories. The first category represents new projects that have not yet been reviewed by the Board, while the second

[1] GLPT’s materiality threshold is $182,239 for 2011 and $191,843 for 2012, as defined in Exhibit 1, Tab 4, Schedule 1.

category represents previously approved projects, reviewed in EB-2009-0408. All projects proposed for 2011 and 2012 are new projects, while all material projects for 2009 and 2010 were approved in EB-2009-0408. As a result, all 2011 and 2012 projects are described first in this schedule, followed by descriptions for the 2009 and 2010 projects approved in EB-2009-0408.

The single exception to the organization of the projects is the multi-year Third Line Redevelopment project. In EB-2009-0408, GLPT sought approval of the need for this project as well as approval for a 2010 rate base addition. In the Board Approved Settlement Agreement in that proceeding, GLPT's 2010 capital plan was approved as proposed. As a result, in the 2011 and 2012 test years in this application, there is spending on the Third Line Redevelopment project that is related to a previously approved project.

### 2.2.1 2011 Capital Expenditures in Service

GLPT's total capital expenditures in service in 2011 are forecast to be approximately $26,393,700. There are seven capital projects for 2011 that are forecast to exceed GLPT's materiality threshold of $182,239, totalling approximately $23,192,900. The explanations for these seven projects, provided below, comprise approximately 87.9% of GLPT's forecast 2011 capital expenditures in service.

## 1. Third Line TS 115 kV Redevelopment Project – $20,367,200

<u>Introduction</u>

In 2010, GLPT began construction of a multi-year project (the "Redevelopment Project") at its Third Line Transmission Station ("Third Line TS"). The project is to be completed by 2012, and is expected to result in rate base additions in each of 2010, 2011 and 2012 as follows:

*Table 2-1-1 B – Third Line TS 115 kV Redevelopment Project Costs*

| Year | Rate Base Addition ($) |
|---|---|
| 2010 | $1,230,000[2] |
| 2011 | $20,367,200 |
| 2012 | $2,102,800 |
| **Total** | **$23,700,000** |

Third Line TS, located in Sault Ste. Marie, Ontario, is GLPT's largest station. The station has two sections, a 230 kV section and a 115 kV section. The Redevelopment Project relates only to the 115 kV section of Third Line TS. Third Line TS is part of the Ontario bulk power system and the IESO-controlled grid. If either of the 115 kV or the 230 kV sections of Third Line TS were to be degraded, destroyed, or otherwise made unavailable, this could adversely affect the reliability and operability of the Ontario bulk

[2] Approved in EB-2009-0408

power system and thereby threaten the supply of power to numerous customers in the province. The station is also an important connection point that facilitates a parallel circuit with the Hydro One Networks Inc. ("HONI") transmission system, and thereby provides N-1 contingency for the Ontario bulk electricity system for this section of the East-West tie. In addition, without Third Line TS in service almost all of GLPT's customers, including the City of Sault Ste. Marie and large industrial loads, would be without electricity.

Because of the significance of the project in terms of scope and cost, the selection of the contractor to construct the new station was done through a tender process. As a cost control with respect to materials, GLPT purchases major materials directly from manufacturers to avoid any contractor mark-up. As a result, the cost of the entire project can be broken into three main categories: contractor costs, materials costs, and internal costs. *Table 2-1-1 C* below outlines the breakdown into these categories:

*Table 2-1-1 C – Redevelopment Project Cost Breakdown*

| **Cost Category** | **Estimated Cost** |
|---|---|
| Contractor Costs | $19,200,000 |
| Materials Costs | $2,900,000 |
| Internal Costs | $1,600,000 |
| **Total Costs** | **$23,700,000** |

*Need:*

In EB-2009-0408, GLPT sought approval from the Board for the need for all phases of the Redevelopment Project to be completed. GLPT further sought the Board's approval for the addition of $1,230,000 into rate base in 2010, reflecting the portion of the project costs that are associated with elements of the Redevelopment Project that would go into service during 2010. The Redevelopment Project, which carries an estimated cost that is in excess of 10% of GLPT's current rate base, is a very significant project for GLPT. As such, although the fencing and ground grid described in EB-2009-0408 will become part of the existing station and be in service in 2010, that rate base addition was conditional upon the Board determining the need for all phases of the Redevelopment Project in that proceeding. Upon receiving approval, GLPT stated that it would seek to bring the costs of the project into rate base as part of its future application for 2011 and 2012 rates. As a result, GLPT is now seeking to bring the full costs of the project into rate base between 2011 and 2012, as described in this section of this Application. The full description of the project that was filed in EB-2009-0408 can be found at **Appendix "A"** to this schedule.

*Summary:*

As described in EB-2009-0408, in 2011, GLPT will (a) erect and commission all civil works, (b) install and commission busworks, high voltage electrical devices and all communication and protection devices, (c) complete the control building, (d) transfer control of all yard devices to GLPT's System Control Centre / IESO, (e) transfer the existing T1 115 kV source to energize the new 115 kV section of the station, (f) transfer various circuits to the new 115 kV section of the station, (g) allow for the isolation and de-energizing of T2 and existing 115 kV station yard devices and (h) allow for the transfer of the T2 115 kV source to the new section of the station. By the end of 2011, the new 115 kV section of the station will be in-service.

With the completion of the main construction phases of this project, the existing 115 kV section of the station will be retired and removed from GLPT's rate base. The net book value of the assets to be removed from rate base at the end of 2011 is $910,534. GLPT is proposing to recover this write-off amount over a three year period through a regulatory asset account. Additional information on the proposed recovery methodology can be found at Exhibit 9, Tab 1, Schedule 5.

*Outcome:*

Completion of the Third Line Redevelopment project is expected to result in the following:

- Enhanced reliability,
- Improved ability to maintain and operate,
- Improved safety,
- Reduced environmental risk and maintenance costs,
- Station expandability, and

- Regulatory compliance.

**2. GLPT SCC and Sackville Road Building Generator - $988,100**

*Need:*

GLPT currently uses a generator that provides emergency back up power to critical communication and business information systems as well as the Supervisory, Control and Data Acquisition ("SCADA") system operated by the GLPT System Control Centre ("GLPT SCC", formerly known as the Ontario System Control Centre, or OSCC). Back-up generation is required to provide power to all facilities associated with system restoration as well as maintaining critical business infrastructure to retain business continuity in the event of a power failure.

The GLPT SCC is the centralized control center for GLPT transmission facilities in Ontario. The remote operation and control of these facilities is carried out from this control center. As a result, having appropriate back-up generation available is of utmost importance.

A study was undertaken in 2009 to assess the existing emergency power system. The resultant report recommended that a new emergency dual fuel generator be purchased and installed.

Additional information on the need for this project has been filed with the Board in confidence, as a part of Exhibit 2, Tab 1, Schedule 3.

*Summary:*

The emergency generator was purchased in 2010, subsequent to a request for quotation process orchestrated through a third party consultant. The engineering of the generator installation and gas line will be completed in early 2011 with the installation of the emergency generator and final commissioning taking place in 2011.

*Outcome:*

Expected results include:

- Assurance that the SCADA system will perform as required and operate reliably under outage conditions,
- Assurance that critical business systems are not compromised during power outage conditions,
- Back-up power supply for all critical infrastructure allowing GLPT staff to remain on site during extended power outages, and
- Enhanced ability for GLPT to meet system restoration requirements at all times.

**3. Sackville Building HVAC Replacement - $410,000**

*Need:*

This investment provides for improvements that address aging HVAC equipment and building automation controls servicing the Sackville Road Office building at which

GLPT is located. As part of this Project the system will be converted from electricity to natural gas as a heat source. Current unit pricing for those energy sources significantly favours the use of natural gas for heating and provides for a reduction in OM&A expense. Replacement of the units will also serve to fulfill objectives for environmental protection by eliminating use of the refrigerant R-22 that has been proven harmful to the Earth's ozone layer. In addition, most of the rooftop units have entered their service life range of 15-20 years. GLPT believes that those units should be replaced at the earliest opportunity to forestall the escalating risk of malfunction as this equipment continues to age. The Carrier VVT electronic building automation system is dated technology for which spare parts availability and programming support will disappear in the foreseeable future.

Implementation of this project will better air quality, ensure occupant comfort in all zones, reduce OM&A costs, facilitate GLPT's commitment to protection of the environment and avoid costly malfunctions. The project will also ensure there is sufficient cooling capability to permit the continued reliability of the SCADA system. A failure of the system could cause interruptions to the SCADA operation.

*Summary:*

- Involves installation of natural gas lines.
- Involves the replacement of all roof top units and the building automation system.

*Outcome:*

Expected results include:

- Significant Energy Cost Reduction.
- Reduced environmental hazards (eliminating the current R22 refrigerant).
- Improved facilities through replacement of aging building components.
- Eliminate the Risk of equipment malfunction.
- Improved building air quality thus improving health of employees.

**4. Asset Management System Enhancements - $480,400**

*Need:*

Asset management tools described below are used to consolidate asset data from various sources, and are used to effectively manage property, plant and equipment from both a capital and maintenance perspective.

Currently, GLPT's asset-related data is stored in various locations such as within GLPT's work order system, various spreadsheets, stand-alone Microsoft Access databases, paper records, etc. This results in data "islands" which inhibit GLPT's ability to efficiently manage assets through a single software program. GLPT also has an existing maintenance management system that is outdated, cumbersome and provides limited reporting functionality.

Effective analysis of GLPT's property, plant and equipment and related data is required to support capital and maintenance planning, which includes forecasting of remaining useful lives, and determining criticality of assets. Accurately tracking asset information over time allows GLPT to make well-informed decisions on capital and maintenance expenditures. This is beneficial because, by using these tools to refine GLPT's asset management plan, GLPT can maximize asset life cycles.

*Summary:*

There are two distinct parts to this project.

In the first part of the project, GLPT will develop a flexible, server-based asset registry to pull together relevant asset data from a variety of sources (the "Asset Registry Development"). This will act as a data warehouse to connect numerous islands of asset data together. It is anticipated that this part will make up $269,100 of the total $480,400 for the project.

In the second part of the project, which will run in parallel with the first part, GLPT will install and integrate new maintenance management software modules with other information systems (the "Maintenance Management Software Integration"). For example, among others, it will integrate the data from the outage database and the financial system. It is anticipated that this portion will make up $211,300 of the total $480,400 for the project.

*Outcome:*

Expected results of the Asset Registry Development include:

- Improvements to the sustainment and reliability of an aging asset base;
- Optimization of the capital and maintenance plan for repairing, replacing, rehabilitating, upgrading and decommissioning electrical assets;
- Analytics that will improve planning work within tight outage windows to be focused on the assets presenting the greatest risks; and
- Decreased operational, safety and environmental risks.

The Maintenance Management Software Integration will provide the following benefits:

- Support analysis of changes to assets over time so that negative trends (for example, breaker total clearing time or transformer dissolved gas analysis) can be identified and responded to in a timely manner, improving reliability of the electrical system;
- Planning work on the electrical assets will be much more effective and streamlined using maintenance management tools;
- Maintenance management analytics will improve the ability to maintain information on key assets and monitor their health to determine where to focus maintenance and when to time replacements; and

- Personnel will be able to plan their work more effectively by using relevant asset data from a maintenance management program in the Geographic Information System.

**5. Clergue TS Overload Protection- $389,200**

*Need:*

Clergue TS is a 115 kV transmission station located in the City of Sault Ste. Marie. As part of GLPT's asset management approach, an assessment at Clergue TS concluded that the transformers and the cables connecting the 12 kV station bus to the 115kV / 12kV transformers do not meet the current N-1 requirement with respect to available capacity. This results in significantly overloading the equipment (by as much as 30%) should an outage occur on the parallel circuit. Overloading equipment beyond design specifications materially reduces asset life and increases the probability of failure which can impact reliability and safety.

*Summary:*

This project includes the installation of overload protection schemes that will reduce generation / load to acceptable levels upon the loss of one element.

*Outcome:*

Expected results include:

- improved protection of GLPT facilities,

- maximization of expected useful life of assets
- improved reliability through meeting the N-1 requirement, and
- the installation of this scheme eliminates the need to replace the existing transformers and cables, ultimately resulting in considerable cost savings to ratepayers.

**6. Magpie TS Lightning Arrester Installations - $306,600**

*Need:*

Magpie TS is a 115 kV transmission station located in northern Ontario, near the Town of Wawa. The Wawa area is subject to numerous electrical storms, which have in the past caused Magpie TS to separate from the 115kV grid. This separation results in an island condition and a complete outage for the station. The station is directly connected to market participants. Lightning strikes also cause equipment damage. Since 2005, 14 outages were the result of lighting. For example, in 2009 a lightning strike destroyed the station's communication equipment.

*Summary:*

This project involves the installation of station class lightning arresters complete with counters as well as the installation of transmission line lightning arresters.

*Outcome:*

Expected results include:

- significant reduction in the likelihood of outages resulting from lightning,
- increase in the reliability of supply at the station, and
- reduction in potential corrective maintenance costs due to lightning damage or a scenario where the station needs to be brought back into service.

**7. MacKay TS Station Service Voltage Regulator Installation - $251,500**

*Need:*

MacKay TS is a 115/230kV transmission station located north of the City of Sault Ste. Marie. Through system monitoring, large voltage variations have been identified on the 230kV system at MacKay TS. These voltage variations, combined with the high duty cycle of the reactor, create a need to control the low voltage station service supply and enhance power quality. All low voltage AC equipment on site is subject to these extreme voltage variations and at times operates outside the design specifications. This reduces the expected useful life and increases the probability of failure of all equipment connected; thus, impacting reliability of station equipment.

*Summary:*

Two electronic voltage regulators will be installed on station service A and B.

*Outcome:*

The installation of the regulators will provide excellent power quality to all connected AC equipment; thus maximizing the expected asset life as well as ensuring the reliable operation of the station equipment.

### 2.2.2 2012 Capital Expenditures in Service

GLPT's total capital expenditures in service in 2012 are forecast to be approximately $8,969,400. There are four capital projects for 2012 that are forecast to exceed GLPT's materiality threshold of $191,843, totalling approximately $6,798,200. Explanations for these 4 projects are provided below and comprise approximately 75.8% of GLPT's forecast 2012 capital expenditures in service.

**1. Master SCADA System Replacement - $3,818,500**

*Need:*

The GLPT SCC is the centralized control center for GLPT transmission facilities in Ontario. The remote operation and control of these facilities are carried out from this control center. The control center plays an important role in the restoration of the Bulk Electricity System by the IESO.

As a result, it is imperative that the GLPT SCADA system is functional at all times and that proactive upgrades and replacements are performed to ensure the system operates with the utmost reliability.

The existing SCADA equipment is owned by Great Lakes Power Limited ("GLPL"), an affiliate of GLPT, and licensed by GLPT from GLPL under an agreement that expires on June 30, 2012. GLPT anticipates that it will run the existing SCADA system in parallel with the new system until such time as there is complete assurance that the new system can operate on a purely stand-alone basis. As a result, it is anticipated that the current license fee (as described in Exhibit 4, Tab 2, Schedule 4) will remain in place through the end of 2012.

The current SCADA system consists of an ABB Ranger SCADA version 10.4, installed in 1998 and last upgraded in 2002. GLPT is currently faced with the following issues and limitations:

- The SCADA software version is outdated and is no longer supported;
- The SCADA hardware is nearing the end of its lifespan, replacement parts are no longer available and GLPT must rely on refurbished equipment resulting in the potential for lengthy SCADA outages;
- The current SCADA architecture does not allow for stand alone, backup control centre operation;
- The system is unable to efficiently interchange data with HONI and the IESO; and
- The SCADA system does not comply with NERC.

Additional information describing the need for this project has been filed with the Board in confidence as a part of Exhibit 2, Tab 1, Schedule 3.

*Summary:*

GLPT engaged an external consultant, BBA Engineering, to undertake a feasibility study in 2010 to determine what options should be considered to address the shortcomings of the existing SCADA system. Parameters such as reliability, expandability, maintainability and constructability were considered. Due to the limitations described above, the study recommended that the existing SCADA system be replaced with a new platform to allow GLPT to efficiently control and operate its transmission assets. Because the existing equipment is not owned by GLPT, there will be no gain or loss on disposal associated with the removal of the existing equipment.

*Outcome:*

Expected results include:

- ensure the safe, reliable and secure operation of GLPT's transmission system,
- ensure the GLPT SCC remains a reliable point of contact, allowing GLPT to respond appropriately in emergency situations,
- ensure proper communication to stakeholders, such the IESO,

- ensure the GLPT SCC has adaptability, flexibility and sufficient capacity for potential growth related to the *Green Energy and Green Economy Act, 2009*
- allow GLPT to remain compliant with NERC standards.

**2. Third Line TS 115 kV Redevelopment Project – $2,102,800**

Third Line TS and the Redevelopment Project are described in Section 2.2.1 above.

*2012 Summary:*

In 2012, GLPT will have a third party perform relay re-verification of all new protections in accordance with IESO requirements applicable to the installation of new protections. A large part of the project cost in 2012 relates to retiring and removing electrical equipment and demolishing concrete foundations and steel structures which comprise the existing 115 kV section of the station. For example, all 14 bulk oil breakers must be removed and tested for PCBs. For environmental and safety reasons each breaker must be treated and removed as if it is contaminated.

**3. Goulais TS Civil Refurbishment - $489,000**

*Need:*

Goulais TS is a 115kV transmission station located just north of the City of Sault Ste. Marie. As part of GLPT's inspection process, annual condition assessments are performed and deficiencies are identified. Through this process, it was noted that the existing station does not have an adequate crushed stone application as per Electrical Safety Authority (“ESA”) requirements and requires additional fill to ensure civil works remain intact during periods of adverse weather such as heavy rain or snow. Fencing is aging and requires replacement as to ensure an adequate level of public safety.

*Summary:*

The project will include the provision of proper fill, grading and crushed stone application for grounding purposes as per ESA requirements, and improved drainage facilities to ensure washout does not occur during periods of heavy rain or snow. Lastly, fencing will be replaced and will be bonded to the existing ground grid.

*Outcome:*

Expected results include:

- Enhanced public and employee safety; and
- Compliance with ESA standards.

**4. Work Management System Conversion - $387,900**

*Need:*

A work management system is an asset management tool used to support preventative, corrective and condition based maintenance planning and budgeting. In addition, a work management system should be capable of managing fleet and inventory.

GLPT's existing system was installed in the early 1990's and has had no significant technological upgrades since that time. The system is based on obsolete technology. The asset heirarchy is inadequate to fully model transmission assets, and the system is not fully integrated with the financial system. Further to this, reporting functions are relatively limited and cumbersome.

*Summary:*

This project consists of the purchase and installation of a new work management system that will be fully integrated with GLPT's financial system. GLPT is to make use of the work management module available from the same software provider that provides GLPT's financial system.

*Outcome:*

Expected results include:

- Planning work on property, plant and equipment will be improved;
- Problems and issues regarding the existing interface between the work management system and the financial system will be removed; and
- Reporting and query functions will be significantly improved.

### 2.3 Previously Approved Capital Projects

All of the projects described below either were put into service in 2009 and 2010, or are forecast to go into service in 2010. Further to that, all of these projects have been approved through the Board Approved Settlement Agreement in EB-2009-0408 and included in the 2010 Board Approved rate base. *Table 2-1-1 D* below summarizes the dollar amount for each project that was approved in EB-2009-0408 and compares those amounts to the updated figures provided in this application. As noted in the bottom right corner of the table, the overall spending for 2009 and 2010 is $559,900 higher than the previously approved spending, representing incremental spending of approximately 3.6% over the approved amount. As a result, GLPT is seeking the $559,900 as an addition to rate base.

*Table 2-1-1 D – Previously Approved Project Reconciliations*

| Year Approved | Project | Approved Spending | 2009 Actual | 2010 Actual/ Forecast | Total Actual | Variance |
|---|---|---|---|---|---|---|
| 2009 | Echo River TS Protection Upgrades | **$900.0** | $989.3 | $52.5 | **$1,041.8** | **$141.8** |
| 2009 | Sytem Wide Cyber Security | **832.0** | 888.6 | 92.1 | **980.7** | **148.7** |
| 2009 | Third Line TS T2 Autotrnansformer Protections | **809.3** | - | 657.0 | **657.0** | **(152.3)** |
| 2009 | Batchawana TS Ground Refurbishment | **631.3** | 617.6 | 187.4 | **805.0** | **173.7** |
| 2009 | Mackay TS CVT Replacement | **550.1** | 484.7 | - | **484.7** | **(65.4)** |
| 2009 | GIS Software | **399.4** | 446.1 | - | **446.1** | **46.7** |
| 2009 | Third Line Series Reactor Installation (part 1) | **450.0** | 550.1 | - | **550.1** | **100.1** |
| 2009 | Vegetation Management Mapping | **408.7** | 444.9 | - | **444.9** | **36.2** |
| 2009 | Algoma 115kV Structure Reinforcement | **321.1** | 276.6 | - | **276.6** | **(44.5)** |
| 2009 | CIRS | **205.9** | 208.9 | - | **208.9** | **3.0** |
| 2009 | Magpie TS Battery Charger Replacement | **200.7** | 142.8 | - | **142.8** | **(57.9)** |
| 2009 | Clergue 115kV Insulator Replacement | **198.7** | 201.7 | - | **201.7** | **3.0** |
| 2009 | Transmission Reinforcement Project | **280.9** | 281.4 | - | **281.4** | **0.5** |
| 2009 | Fleet, IT & Office Equipment | **1,189.3** | 1,189.3 | - | **1,189.3** | **-** |
| 2009 | Other Miscellaneous Projects | **1,562.3** | 1,583.9 | - | **1,583.9** | **21.6** |
| 2010 | Third Line Redevelopment Project | **1,230.0** | - | 1,230.0 | **1,230.0** | **-** |
| 2010 | Steelton TS Ground Refurbishment | **584.0** | - | 617.3 | **617.3** | **33.3** |
| 2010 | Building Upgrades | **541.0** | - | 541.2 | **541.2** | **0.2** |
| 2010 | Third Line Series Reactor Installation (part 2) | **457.3** | - | 345.4 | **345.4** | **(111.9)** |
| 2010 | GIS Software | **299.6** | - | 262.1 | **262.1** | **(37.5)** |
| 2010 | Other Miscellaneous Projects | **1,934.0** | - | 2,254.6 | **2,254.6** | **320.6** |
| | | | - | - | | |
| | **Subtotal** | **$13,985.6** | $8,305.9 | $6,239.6 | **$14,545.5** | **$559.9** |
| | **Cumulative Total** | | **8,305.9** | **14,545.5** | | |
| | **Cumulative as % of Approved** | | **59.4%** | **104.0%** | | |

The project variances, with the exception of the Other Miscellaneous Projects discussed below, are all below the materiality threshold applicable to GLPT. For purposes of analysis in this section, GLPT chose a lower threshold of $100,000. There are five projects where variances greater than $100,000 arise for the 2009 and 2010 years. For these five projects, GLPT has provided a description of the project including an explanation of the variance. The described project variances represent an aggregate variance of $300,100, or 53.6% of the total variance of $559,900. The remaining variance is comprised of project variances that are less than $100,000. GLPT has not provided a variance explanation for the Other Miscellaneous Projects in 2010 (variance of $320,600), as it is comprised of a number of smaller projects that are under GLPT's materiality threshold, where no single project had a variance greater than $100,000.

### 2.3.1 Variances of Previously Approved Project

#### 1. Batchawana TS Ground Refurbishment - $173,700

This project involves the design and construction of a new ground grid as per all applicable standards. Specifically, this project involves the addition of ground rods and copper conductor as well as the application of additional crushed stone in order to meet the objectives stated above. Also included are repairs to concrete foundations and enhancements to yard drainage, general landscaping and fencing.

This project was approved in EB-2009-0408 as a 2009 rate base addition of $631,300. The actual capital expenditure forecast to be put into service between 2009 and 2010 is

$805,000. The incremental spending of $173,700 forms part of the $559,900 described in section 2.3 above. An application of crushed stone in 2010 was not included in the 2009 budget of $631,300. Because of snow coverage in 2009, crushed stone was applied to complete the construction of the new ground grid in 2010. Because the cost of the application of this stone was below GLPT's materiality threshold it was not identified as a separate 2010 project.

As noted in *Table 2-1-1 D* above, the incremental spending on this project occurred in 2010.

**2. System Wide Cyber Security Requirements - $148,700**

This project was approved in EB-2009-0408 as a 2009 rate base addition of $832,000. The actual capital expenditure forecast to be put into service between 2009 and 2010 is $980,700. The incremental spending of $148,700 forms part of the $559,900 described in section 2.3 above. Additional information on this project has been filed with the Board in confidence, as **Appendix "D"** to Exhibit 2, Tab 1, Schedule 3.

**3. Echo River TS Protection Upgrades - $141,800**

This project replaced the mix of obsolete electromechanical relays, which provided no fault or operation data, and older vintage solid state relays with modern microprocessor based relay units. A breaker failure scheme for a 230 kV breaker was added to the protections to clear fault sources for the breaker should it fail to operate.

This project was approved in EB-2009-0408 as a 2009 rate base addition of $900,000. The actual capital expenditure to be put into service is $1,041,800. The incremental spending of $141,800 forms part of the $559,900 described in section 2.3 above.

For 2009, the variance in spending from the forecast in EB-2009-0408 was because GLPT underestimated the amount of expenditure necessary to complete the work in 2009. In 2010, $52,500 was spent to perform this relay verification, final testing and project clean-up.

### 4. Third Line Series Reactor Installation / Capacitor Replacement – ($11,800)

The project involved the installation of two banks of dry type air core series reactors and the replacement of the existing capacitor banks. The reactors are physically located on the autotransformer 34.5 kV tertiary system, at Third Line TS, in series with the capacitor banks.

This project was approved in EB-2009-0408 as a multi-year project to be completed over 2009 and 2010. GLPT had forecast a 2009 rate base addition of $450,000, and a 2010 rate base addition of $457,300 (as noted in *Table 2-1-1 D* on two separate lines) for a total expenditure of $907,300. The actual capital expenditures put into service were $550,100 for 2009 and $345,400 for 2010 for a total capital expenditure of $895,600. Although there was a spending variance in each year that is greater than $100,000, the grand total spending over the two year period was $11,800 under the grand total approved spending for the multi-year project.

### 5. Third Line TS T2 Autotransformer Protections Upgrade - ($152,300)

This project included the replacement and relocation of most protections associated with the T2 autotransformer located at Third Line TS.

This project was approved in EB-2009-0408 as a 2009 rate base addition of $809,300. The project was completed and put into service in 2010 with actual capital expenditures put into service of $657,000. The shortfall in spending provides an offset against incremental spending in other areas in 2009 and 2010, and forms part of the $559,900 described in section 2.3 above.

The under-spending is related to a small change in project scope. At the time the 2009 estimate was made, it was anticipated that a specific protection panel would need replacement due to it being inadequate. Upon further review, it was determined that the existing protection panel was adequate and as a result the panel was not replaced, reducing the overall cost of the project.

## 3.0 Capitalization Policy

GLPT records capital assets at cost in accordance with Canadian Generally Accepted Accounting Principles. The cost of an item of property, plant or equipment includes direct acquisition, construction or development costs, such as materials and labour, and overhead costs directly attributable to the acquisition, construction or development activity. Allowance for Funds Used During Construction are attributed to all capital projects in accordance with the Accounting Procedures Handbook. The costs incurred to enhance the service potential of an item of property, plant or equipment are also capitalized.

## 4.0 Amortization

GLPT utilizes straight-line depreciation calculations based on the depreciable gross book value of each asset class. The rates utilized by GLPT, set out in Exhibit 4, Tab 2, Schedule 5, were based on historical practice, as well as utilizing utility guides such as the Accounting Procedures Handbook. GLPT has a subclass within account 1715 for substation control equipment consistent with the Accounting Procedures Handbook definitions. However, GLPT has historically depreciated this according to the system supervisory equipment rate of 6.67%.

## 5.0 Working Capital Allowance

The working capital allowance for the 2011 and 2012 test years was calculated by GLPT using the working cash study completed in 2010 by Navigant Consulting Inc., plus a provision for inventory assets that are working capital for GLPT but do not form a part of the working cash study. Please refer to Exhibit 2, Tab 4, Schedule 1 for the working cash study, as well as the calculation of GLPT's working capital allowance for the 2011 and 2012 test years.

# <u>APPENDIX "A"</u>

## Description of Third Line TS 115 kV Redevelopment Project

## As filed in EB-2009-0408

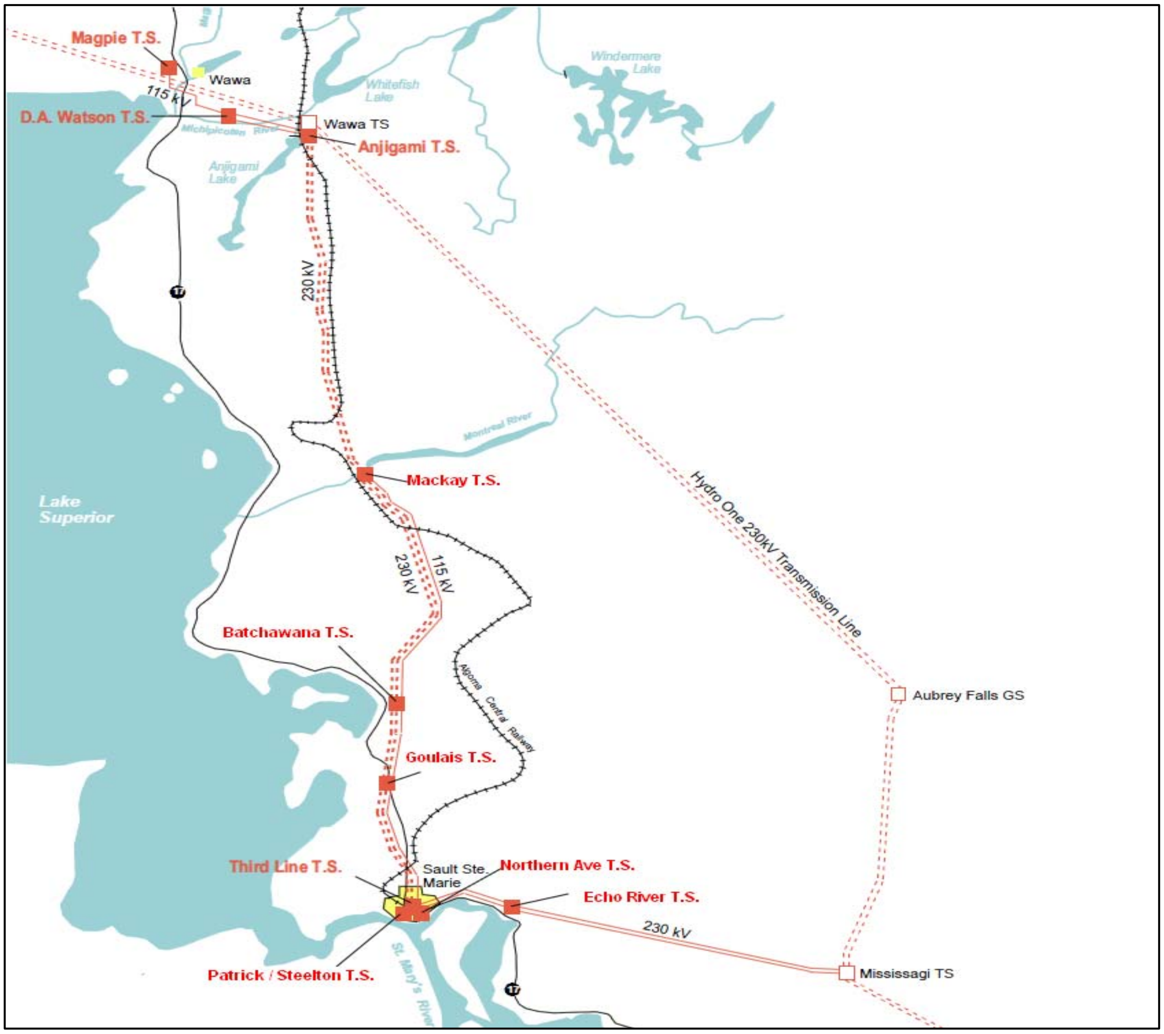
## 1. Third Line TS 115 kV Redevelopment Project – $1,230,000

Introduction

Third Line Transmission Station ("Third Line TS"), located in Sault Ste. Marie, Ontario, is GLPT's largest station. The station has two sections, a 230 kV section and a 115 kV section. The Third Line TS 115 kV redevelopment project (the "Redevelopment Project") relates only to the 115 kV section of Third Line TS. Third Line TS is part of the Ontario bulk power system and the IESO-controlled grid. If either of the 115 kV or the 230 kV sections of Third Line TS were to be degraded, destroyed, or otherwise made unavailable, this could adversely affect the reliability and operability of the Ontario bulk power system and thereby threaten the supply of power to numerous customers in the province. The station is also an important connection point that facilitates a parallel circuit with the Hydro One Networks Inc. ("HONI") transmission system, and thereby provides N-1 contingency for the Ontario bulk electricity system for this section of the East-West tie, as shown in *Figure 2-1-1 A*.

***Figure 2-1-1 A - Overview of GLPT System and Third Line TS Location***

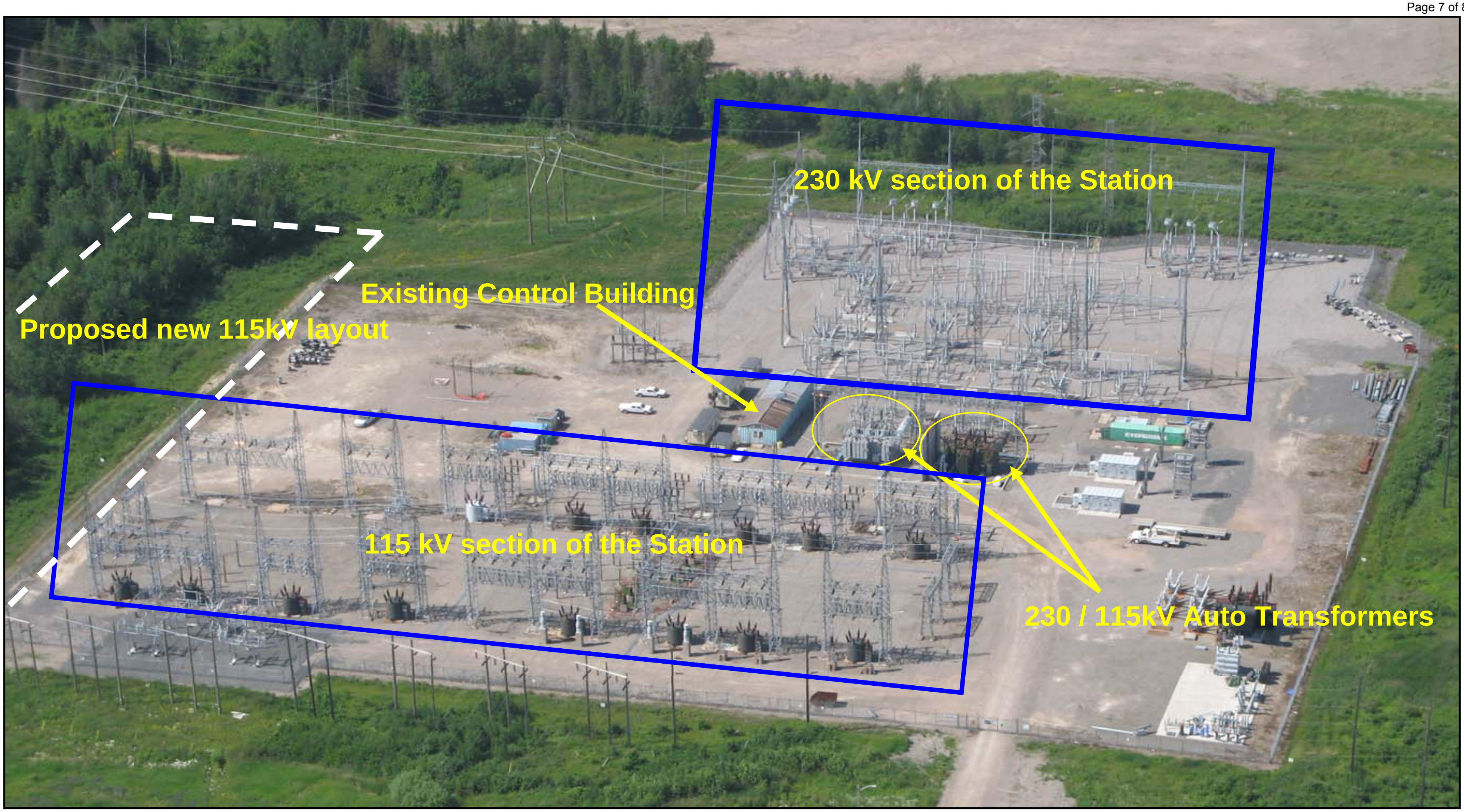
[EB-2009-0408
Exhibit 2
Tab 1
Schedule 1
Page 5 of 81]



Background

Third Line TS is the only supply point for the entire City of Sault Ste. Marie. The existing station, which is depicted in *Figure 2-1-1 B* and in the line drawing provided at **Appendix "A"**, is configured such that the 230 kV section of the station is connected to the 115kV section by two 230/115 kV autotransformers. Also emanating from the station are three 230 kV circuits and nine 115 kV circuits, which connect various loads and generation facilities. The station serves the largest load in the GLPT system, as it supplies power to the City of Sault Ste. Marie through PUC Distribution Inc., and to large industrial loads that include ESSAR Steel Inc., St. Marys Paper Inc. and Flakeboard Inc. Each of these loads are connected directly to and depend exclusively upon the 115 kV section of Third Line TS for reliable supply. Local generation connections include Lake Superior Power and Clergue generating stations.

1 *Figure 2-1-1 B - Aerial Photo of Site*



Third Line TS was originally constructed in 1967/68. The construction included the termination of P21G, P22G , Sault circuit Nos. 1, 2 and 3, as well as Algoma circuit Nos. 1 and 2. The station has evolved from its original conception. Each connection point was constructed and modified in accordance with the standards then applicable.

With respect to the 115 kV section of the station, there have been some recent modifications made to maintain reliability prior to the preparation of a third party review, as follows:

- In 2007, a tie breaker located between the 115 kV Algoma circuits Nos. 2 and 3 was installed so as to increase the reliability of the local area supply by ensuring that the loss of the station’s North bus would not result in the loss of the two Algoma circuits. This was previously approved by the Board in EB-2005-0241. For additional details on the project, see page ■ of this schedule; and
- In 2008, GLPT installed additional conductor underneath the existing main north and south bus sections. Additional details on this project can be found at page ■ under section 2.2.2.1 of this schedule.

<u>Project Description</u>

In 2008, Third Line TS was reviewed by Wardrop Engineering Inc. (“Wardrop”), an independent third party, to determine the future of the 115 kV section of the station. The recommendation set out in the December 24, 2008 report from Wardrop (the “Wardrop Report”) was to construct a new 115 kV section on undeveloped GLPT land to the west of the existing station site, as well as partially on the existing station site, as further described below. This would enhance GLPT's ability to operate and maintain the facility, improve reliability and significantly mitigate safety and environmental concerns associated with the 115 kV section of the station.

The Redevelopment Project will involve the construction of a new 115 kV section for Third Line TS. The new section will be constructed in part on the existing station site and in part on undeveloped GLPT lands immediately to the west of the existing station site, as shown in *Figure 2-1-1 B* and as depicted in *Figures 2-1-1 C* and *2-1-1 D,* as well as in the simplified line diagram in **Appendix A**. As noted, the work is strictly in relation to the 115 kV section of the station. There are no changes planned for the 230 kV section. The Redevelopment Project will involve the construction of a new breaker and a half layout,[1] complete with 17 new SF6 circuit breakers and 34 associated disconnect switches, as well as 9 motorized operated air breaks, bus work and equipment. The bus work will include the installation of a new bus conductor and associated steel support structures. The equipment would include, but not be limited to, a control building, protection and control (P&C) relays, remote terminal unit (RTU), supervisory control and data acquisition (SCADA) termination equipment, AC/DC systems, potential transformers (PTs), fencing and ground grid.

[1] The proposed breaker and a half layout is far more reliable than the current station design due to the fact that an outage to a breaker, either forced or planned, would not result in an associated transmission line outage, nor would the failure of a single element result in a complete station outage.

*Figure 2-1-1 C - Existing 115 kV Facilities at Third Line TS*

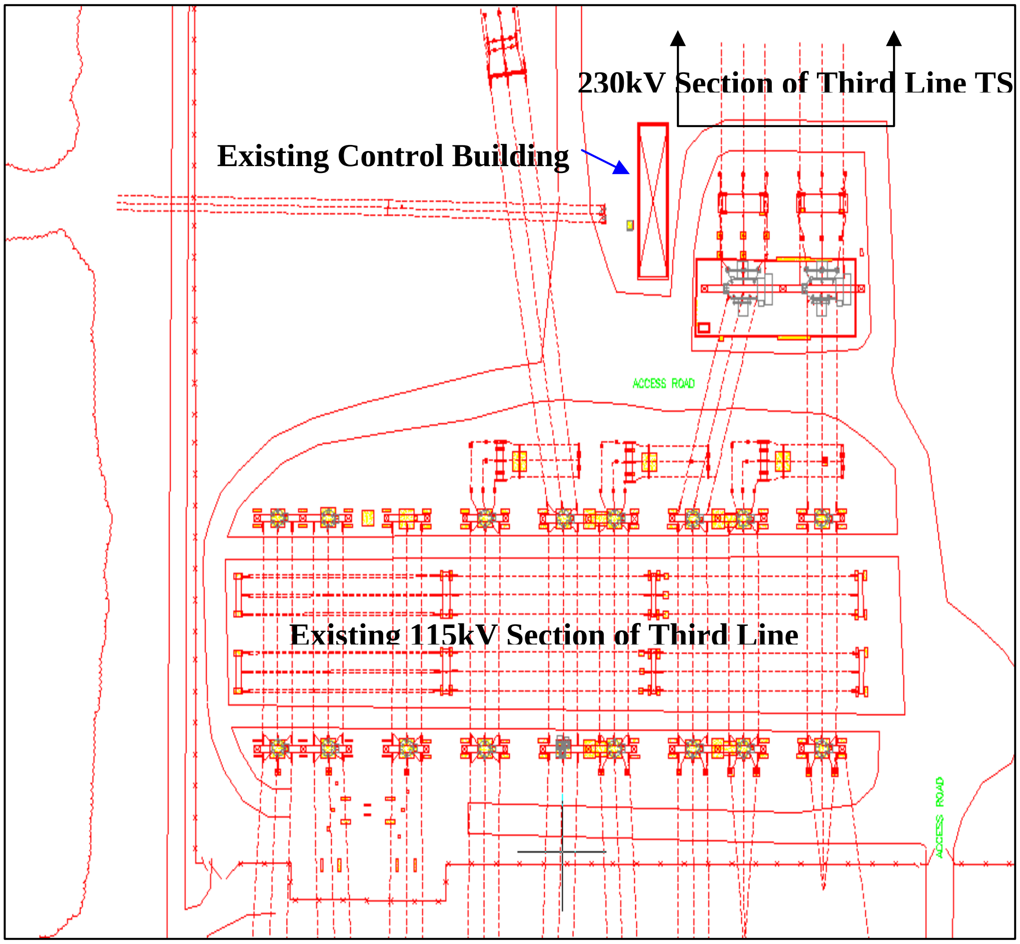
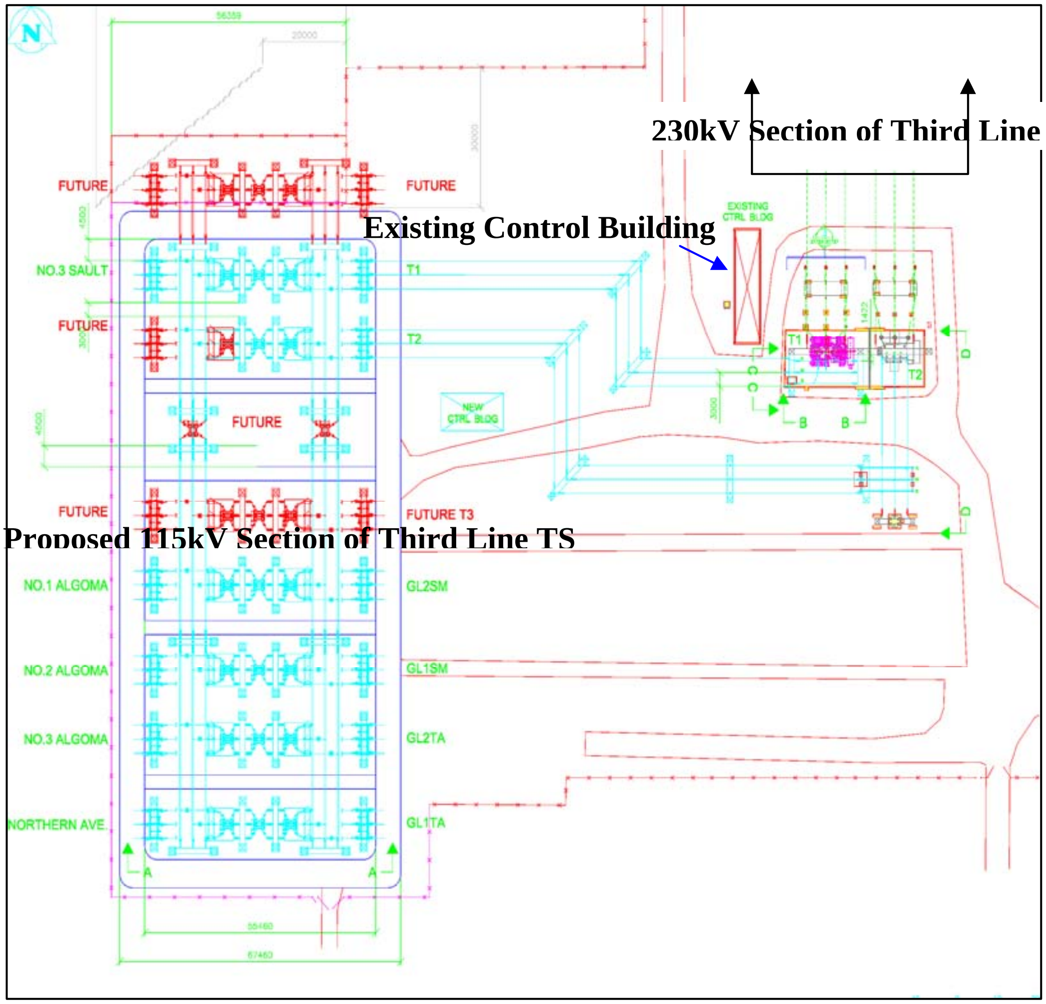


*Figure 2-1-1 D – Proposed 115 kV Facilities at Third Line TS*




The Redevelopment Project will be carried out in three phases, as follows:

- In Phase I, which is expected to be carried out and completed during 2010, GLPT will (a) carry out site clearing and excavation for subsurface preparation, including drainage, (b) install new perimeter fencing, (c) excavate and install the foundations and ground grid and backfill to final grade, (d) construct frameworks for the control building, and (e) complete the station design. While this work is associated with the new 115 kV section of the station that is to be constructed, it is necessary for these elements, particularly the fencing and ground grid, to be in place in order to allow for the safe and secure execution of the Redevelopment Project. The fencing and ground grid will be physically connected to the fencing and ground grid that are currently in place for the existing station and as a result the new fencing and ground grid will become part of the existing station. Consequently, GLPT is seeking to add the capital expenditures related to the fencing and ground grid to the rate base for the test year.

- In Phase II, which is expected to be carried out and completed during 2011, GLPT will, from January to approximately July 2011, (a) erect and commission all civil works, (b) install and commission busworks, (c) install, cable and commission high voltage electrical devices, (d) complete the control building, (e) install, cable and commission all communication and protection devices, and (f) transfer control of all yard devices to GLPT's Ontario System Control Centre / IESO. From approximately July 2011 to December 2011, GLPT will (a) transfer the existing T1 115 kV source to energize the new 115 kV section of the station, (b) transfer the Sault No. 3 115 kV circuit, Algoma Nos. 1, 2 and 3 115 kV circuits, and the Northern Avenue 115 kV circuit to the new 115 kV section of the station, and (c) retire one bay in the existing 115 kV yard to make physical room for the transfer of PUC 115 kV circuits to the new 115 kV section of the station, as well as to allow for the isolation and de-energizing of T2 and existing 115 kV station yard devices and to allow for the transfer of the T2 115 kV source to the new section of the station. Upon the conclusion of Phase II, the new 115 kV section of the station would be fully in-service.

- In Phase III, which is expected to be carried out and completed during 2012, GLPT will (a) perform relay re-verification of all new protections in accordance with IESO requirements applicable to the installation of new protections, and (b) retire and remove electrical equipment and demolish foundations and structures which comprise the existing 115 kV section of the station. Phase III is expected to be completed by September 2012.

<u>Project Costs and Capitalization</u>

The Redevelopment Project has a total estimated cost of $23,500,000. Of this, the estimated cost of Phase I, which is to be completed during 2010, is $10,230,000. The estimated cost of Phase II, to be completed during 2011 is $12,000,000 and the estimated cost of Phase III, to be completed during 2012, is $1,270,000. Because of the Redevelopment Project, certain assets will come out of rate base and be dealt with in future years.

GLPT seeks approval from the Board for all phases of the Redevelopment Project. GLPT further seeks the Board's approval for the addition of $1,230,000 into rate base in 2010. This amount reflects the portion of the Phase I project costs that are associated with elements of the Redevelopment Project that would go into service during 2010. In particular, this amount is associated with the development and construction of fencing and the ground grid, which would be tied into the existing fencing and ground grid. The Redevelopment Project, which carries an estimated cost that is in excess of 10% of GLPT's current rate base, is a very significant project for GLPT. As such, although the fencing and ground grid will become part of the existing station and be in service in 2010, this rate base addition is conditional upon the Board determining the need for all phases of the Redevelopment Project in this proceeding. Upon receiving approval in this proceeding, GLPT would seek to bring the costs of the project into rate base as part of a future application for 2011 and 2012 rates, which it intends to file in 2010.

Project Need

The need for the Redevelopment Project is driven by several related factors, which are described below. These factors include equipment age, equipment ratings, configuration, monitoring and regulatory obligations. Each factor represents an important consideration on its own and a potentially significant risk that needs to be addressed. It is the combination of these factors and their associated risks, along with the importance of Third Line TS to the load and generation that it serves, as well as to the Ontario bulk electricity system, which makes the Redevelopment Project important. As a prudent utility, GLPT is faced with increasing risks associated with the 115 kV section of Third Line TS and is, therefore, proposing to carry out the Redevelopment Project using the phased approach described above.

*Equipment Age*

The circuits, breakers, disconnect switches, bus components (insulators), PTs and protection equipment (relays) are at the end of their typical useful life and are therefore in need of replacement. Six of the PTs at Third Line TS are of the same vintage and from the same manufacturer as other PTs in GLPT's system that have failed within the past two years.[2] One of those failures involved the explosion of a PT in April 2009 at Mackay TS. Fortunately, this explosion occurred at night and, as such, did not result in any impacts on public or employee health or safety. If such an event were to occur at Third Line TS, it would cause a service interruption and have the potential to cause significant safety and environmental impacts.

Protection relays are also at the end of their typical useful life and are unable to facilitate the collection of fault information, which is essential for GLPT to be able to gain an understanding of the root causes of events which help facilitate "protections mis-operation mitigation" plans as per NERC standards.[3] Moreover, the probability of relay malfunction is expected to be greater as protection relay equipment ages. As such, to fulfill its obligations to operate and maintain the system in accordance with applicable

[2] There have been three such failures within this period.
[3] NERC - PRC-003-1 - Regional Procedure for Analysis of Misoperations of Transmission and Generation Protection Systems.
NERC – PRC-004-1 - Analysis and Mitigation of Transmission and Generation Protection System Misoperations.

reliability standards and with good utility practice,[4] the replacement of this aging equipment is necessary.

The equipment in the 115 kV section of the station is still operating as designed and is expected to continue to do so because GLPT maintains the equipment in accordance with good utility practices. However, because of the age of the equipment, the probability of failure grows at an increasing rate each year. This gives rise to increased reliability risks, including an increased risk of failure and of the consequences of such failure. Potential consequences of such failure include personal injury, harmful environmental impacts (due to the presence of bulk oil breakers), property damage and reliability impacts (such as the loss of supply to all connected loads and loss of connection with all connected generation).

*Equipment Ratings*

The voltage ratings on the existing breakers and disconnect switches are inadequate when compared to the Third Line TS normal operating voltage of 122 kV and the performance standards required under the Market Rules.[5] Because this equipment is being operated beyond its design standards, this section of the station is being over-stressed, thereby increasing the probability of equipment failure.

With respect to capacity, GLPT identified portions of the Overhead Cross Bus that are inadequate. The IESO subsequently reflected these findings in an operating instruction

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[4] Transmission System Code, s. 5.1.2.
[5] Market Rules, Appendix 4.1 – IESO Controlled Grid Performance Standards.

memorandum issued to GLPT in respect of the station.[6] This operating instruction memorandum imposes operating restrictions on the station. In response, the 115 kV section of the station was modified with the installation of three critical areas of temporary, low-level, bus to bypass conductors, which are sufficiently rated for the current station capacity (the "Temporary Cross Bus").[7] The Third Line TS – Temporary Bus Installation project is described in section 2.2.3.1 of Exhibit 2, Tab 1, Schedule 1. It was the intention to put in place this temporary solution until such time as the 115 kV portion of the station was rebuilt. The alternative to the Temporary Cross Bus was a load rejection scheme, which if triggered would have resulted in outages to major industrial customers. As a result, the Temporary Cross Bus avoids these outages and provides for better reliability. Once the Temporary Cross Bus was installed, the IESO lifted all operating restrictions set out in its memorandum.

*Configuration*

The 115 kV section of the station employs source and customer connections on conductors that continuously cross overhead of both the North and South main buses in 27 different places (the "Overhead Cross Bus"). In addition, this section of the station employs temporary conductors that are situated beneath the North and South main buses and the Temporary Cross Bus to bypass conductors. These characteristics of the station's configuration give rise to significant operating and maintenance challenges and risks.

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[6] IESO, Operating Instruction Memorandum, GLP SCO, Thermal Constraints on Third Line T1 115kV Bus Connections, November 3, 2007.

First, the Overhead Cross Bus cannot be effectively maintained or replaced. To ensure safe working conditions, the maintenance of the Overhead Cross Bus would require the isolation of both main buses, either through a total station outage or through multiple complex outages. While a total station outage would be impractical due to the need to interrupt service to the entire City of Sault Ste. Marie and all of the industrial loads as well as the generation connections that are served by the station, multiple complex outages would leave the station vulnerable in each instance to single contingency failures during the multiple outage sequences.

Second, if there were a failure of any one of the 27 Overhead Cross Buses, then both the North and South main buses would be taken out simultaneously. This is because such a failure would cause the overhead conductor to come into contact with both the North and South main buses, which in turn would result in a complete outage of the station and cause an outage for all connected loads.

Third, depending on the amount of snow on the ground, the configuration of the Temporary Cross Bus could at times during the year become non-compliant with electrical safety clearances. This presents a risk to unqualified persons who may enter the station. This is due in particular to clearance issues that arise from the physical location of the main North and South buses, which restrict the height at which the temporary buses could be installed. To be prudent, GLPT has installed temporary physical barriers that enclose each temporary bus beneath areas of the existing main North and South buses and, as such, the area is off-limits to all maintenance vehicles and to unqualified personnel.

The configuration problems associated with the Overhead Cross Bus and the Temporary Cross Bus pose an ongoing risk that requires GLPT to carefully and proactively manage the condition of the Overhead Cross Bus and the Temporary Cross Bus, which would be expected to deteriorate over time and which could result in a failure of the Overhead Cross Bus, giving rise to consequences such as those described above.

*Monitoring*

Through recent condition assessments, including annual infrared scans and bus inspections, GLPT has found that there are bus connections that require increased monitoring due to higher than normal heating, as well as due to a number of insulators that are cracked. The conditions of the Overhead Cross Bus conductors and associated insulators are monitored at an increased frequency. While the situation is currently manageable, GLPT believes that it is prudent to move forward with the Redevelopment Project in accordance with the timelines set out in the evidence. Should the conditions deteriorate further, GLPT would have to de-energize the station and undertake the necessary repairs. This would be a very difficult task and would require a complete station outage of at least a 10 hour duration, resulting in a loss of supply to the entire City of Sault Ste. Marie and all connected customers for this period.

*Regulatory*

To date, GLPT has exercised good utility practice to maintain system reliability with respect to Third Line TS. However, because of the risks described above, in particular the age of the equipment, to continue to maintain its system in accordance with good utility practice GLPT must proactively ensure continued reliability by replacing the 115 kV portion of the station. GLPT has maximized the useful life of these assets through ongoing maintenance and incremental improvements for many years. However, at this point in time, nothing short of replacing the 115 kV portion of the station would be sufficient to enable GLPT to continue to meet its obligations under the Transmission System Code[8] ("TSC") and the Market Rules.[9] GLPT must therefore complete the Redevelopment Project in the manner described.

<u>Project Outcome</u>

The Redevelopment Project would improve reliability by mitigating the escalating risk associated with the age of the existing 115 kV section of Third Line TS and by replacing the existing section with a new 115 kV section that, due to its enhanced capacity and improved configuration, would provide greater reliability, maintainability, and operational flexibility. As a result, the Redevelopment Project would ensure that the facility is in line with the current TSC, the Market Rules and other applicable standards,[10]

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[8] OEB – TSC – Section 5 – Requirements for Operations and Maintenance, Subsection 5.1.2; Section 8 - General Technical Requirements, Subsection 8.1.1.
[9] IESO Market Rules – Chapter 4- Grid Connection Requirements, Sections 2, 3, 3.3, 5, 6.1, 6.1A;
[10] OEB TSC – Section 4.6 – Compliance with Facility Standards, Subsection 4.6.1;
IESO Market Rules – Chapter 4- Grid Connection Requirements, Sections 2, 3, 3.3, 5, 6.1, 6.1A

while improving safety and reducing environmental risk. In particular, the Redevelopment Project would be expected to bring about the following benefits:

- *Enhanced Reliability* - The station will be constructed in accordance with the most current standards, having regard for IESO guidelines and all other applicable standards. In general, the proposed breaker and a half layout is much more reliable than the current station design due to the fact that an outage to a breaker, either forced or planned, would not result in an associated transmission line outage nor would a single element failure result in a complete station outage as is currently the case. Except in the circumstance of a physical, catastrophic failure, loads would not likely be subject to interruptions because of outages to station elements. The Redevelopment Project would provide an N-1 contingency within the station that is currently not in place.

- *Improved Ability to Maintain* **-** Upon project completion, GLPT will be able to perform maintenance activities on all equipment in the station with minimal impacts to reliability. One major advantage of the proposed configuration is that all bus components would be accessible (and would therefore be able to be maintained in accordance with good utility practice).[11] Should issues arise with components, GLPT would be able to isolate bus sections with minimal impact on reliability.

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IESO Market Rules, Grid Connection Requirements Appendices – Appendix 4.1 – IESO Controlled Grid Performance Standards;
[11] OEB – TSC – Section 5, Requirements for Operations and Maintenance, Subsection 5.1.2

- *Improved Ability to Operate* - With the addition of the motorized operated air breaks ("MOAB"), a transmission line outage (either forced or planned) would not result in impacts to the station bus configuration. This is because the MOABs would isolate the line from the station, thereby allowing all breakers to remain in the closed position.

- *Improved Safety* - Safety issues associated with the age and configuration of the existing 115 kV section would be addressed. In particular, clearances would meet or exceed Electrical and Utility Safety Association ("EUSA") standards and newer equipment would have lower risk of catastrophic failure. As a result, it is expected that the probability of a safety related event will be significantly lower than at present.

- *Reduced Environmental Risk* - The Redevelopment Project would result in the elimination of 38,500 gallons of oil from Third Line TS due to the removal of the 14 remaining bulk oil breakers. GLPT notes that, upon completion of this project, GLPT would have no 115/230 kV bulk oil breakers in its entire system.

- *Reduced Maintenance Costs* - As the major overhaul maintenance cycle for the proposed SF6 breakers is six years, compared to the 4 year cycle for bulk oil breakers, maintenance costs are expected to be reduced dramatically. A rough estimate of the difference in maintenance costs indicates that the proposed SF6 breakers would cost approximately $4,250 to maintain on an annualized basis, as compared to the bulk oil breakers, which would cost approximately $87,500 on an annualized basis.[12] Moreover, due to the age of the bulk oil breakers, additional testing and unplanned maintenance outside of the normal maintenance cycle would be required.

- *Station Expandability* - The proposed design provides sufficient space within the station to permit future growth at minimal incremental cost, relative to current project costs. This would relate to any additional 115 kV circuits or a third autotransformer, should the need arise. For example, this would allow the station to accommodate growth arising from the need to connect renewable energy generation facilities.

- *Regulatory Compliance* - GLPT applied for and has received a System Impact Assessment ("SIA") from the IESO. The SIA included a notification of approval, conditional upon there being no material changes to the project. The IESO concluded that the Redevelopment Project will improve the connectivity of 115 kV transmission elements and the reliability of power supply at Third Line TS under various breaker failure scenarios and that the proposed project will not have a materially adverse impact on the reliability of the IESO-controlled grid.

[12] SF6 Breakers: 17 breakers x $1500 every 6 years = $4250 per year. Bulk Oil Breakers: 14 breakers x $25,000 every 4 years = $87,500 per year.

<u>Alternatives Explored</u>

Wardrop was contracted by GLPT in 2008 to carry out a review of the 115 kV section of Third Line TS. Wardrop's review involved examining the station, providing recommendations for the short-term resolution of existing deficiencies, as well as providing recommendations for meeting long-term needs in a cost effective and technically efficient manner. The objective of the review was to provide feasible options that will allow simplified constructability, good maintainability, maximized reliability, flexibility for future expansion, outage requirements with minimal interruption to customer service, negligible vulnerability to station operation and good value for the associated cost. These objectives represented the criteria for evaluating the various options. Wardrop was also instructed to develop its recommendation with a view to upgrading all components to a minimum capacity of 2000 Amperes, as well as to minimize civil works and to reuse structures where possible.

Wardrop identified and considered five options. Option #1 was eliminated on account of it not providing an adequate solution. The preliminary cost estimates for Options #2 - 5 were within 10% of one another. Wardrop recommended that Option #5 be implemented by GLPT as it is the best option. Option #5 provides the best balance between cost and improved operational and maintenance flexibility, while resolving all of the operational limitations and restrictions of the station in its current configuration. The Redevelopment Project as discussed in this schedule therefore reflects Wardrop's Option #5. The alternatives to the Redevelopment Project that were considered by Wardrop are as follows:

- Option #1 called for direct upgrades to the limiting bus sections using cable, SF6 bus duct, or overhead lines and replacement of all breakers and disconnect switches. Wardrop eliminated this option because it was found to provide an inadequate resolution to the problem of overhead conductor maintenance issues, as well as because it would require outages that cause unreasonable disruptions in service. In addition, Option #1 was found to not maximize reliability, maintainability or expandability.

- Option #2 called for the construction of a new 115 kV switchyard on undeveloped GLPT land on the west end of the station, as well as on the existing station property, using "folded" diameters with a breaker and a third configuration. This option was found to provide good reliability, minimal disruptions in service due to outages, good maintainability, flexible operability, expandability and favourable value versus cost. To meet IESO requirements, expansion of the switchyard under this option would require the installation of bus tie breakers. This adds 2 breakers to these configurations as a maximum of 6 circuit breakers on any high voltage bus should trip as a result of any fault. This option was found to offer straightforward constructability, low staging complexity and minimal outages. While Option #2, with two less breakers, is estimated to be about $1.39 M less than the Redevelopment Project, the Redevelopment Project was found to offer superior operational and maintenance flexibility.

- Option #3 called for the construction of a new 115 kV switchyard on undeveloped GLPT land to the west of the station using "folded" diameters with a breaker and a half configuration. This option was found to provide good reliability, minimal disruptions in service due to outages, good maintainability, flexible operability, expandability and favorable value versus cost. To meet IESO requirements, expansion of the switchyard under this option would require the installation of bus tie breakers. This adds 2 breakers to these configurations as a maximum of 6 circuit breakers on any high voltage bus should trip as a result of any fault. This option would also require the use of temporary power cables for successful implementation. As a result of these technical shortfalls and slightly higher costs relative to the Redevelopment Project, Wardrop eliminated this option as a candidate for implementation.

- Option #4 called for the construction of a new 115 kV switchyard on the existing station property, as well as on undeveloped GLPT land to the west of the station, using "linear" diameters with a breaker and a half configuration. This option was found to provide good reliability, minimal disruptions in service due to outages, good maintainability, flexible operability, expandability and favorable value versus cost. To meet IESO requirements, expansion of the switchyard under this option would require the installation of bus tie breakers. This adds 2 breakers to these configurations as a maximum of 6 circuit breakers on any high voltage bus should trip as a result of any fault. This option would also require the use of temporary power cables for successful implementation. Additionally for this option, the deficiency of a transformer bus crossing both main buses can result in a total station outage upon a failure of an overhead conductor. As a result of these technical shortfalls and slightly higher costs relative to the Redevelopment Project, Wardrop eliminated this option as a candidate for implementation.

- Option #5, which is the Redevelopment Project, called for construction of a new 115 kV switchyard on undeveloped GLPT land to the west of the existing property, as well as partially on the existing station property using the "linear" diameters of breaker and a half configuration. This option was found to provide good reliability, minimal disruptions in service due to outages, good maintainability, flexible operability, expandability and favorable value versus cost. This option was also found to offer straightforward constructability, low staging complexity and minimal outages. Option #5 had the second lowest estimated cost of the options considered. While Option #2, with two less breakers, is estimated to be about $1.39 M less than Option #5, this estimated cost difference is reasonable relative to the incremental benefits of Option #5 over Option #2, as identified in the Wardrop Report:

    - Option #5 offers "very good" operating flexibility vs. "good" operating flexibility for Option #2;

- Option #5 offers "very good reliability and very good maintainability" vs. "good reliability and good maintainability" for Option #2;
- Option #5 offers "very good access to all equipment" and allows for aerial lift access to maintain all equipment vs. "good access to equipment" and aerial lift access only to equipment on the outside of the switchyard; and
- Option #5 offers the advantage of GLPT staff being "familiar with the linear layout of a breaker and a half similar to Mackay TS" vs. GLPT "staff unfamiliarity with operation and layout of a folded breaker and a third configuration" for Option #2.

For these reasons, the Wardrop Report concludes that Option #5 offers superior operational and maintenance flexibility in comparison to Option #2 and, on this basis, Wardrop recommends that Option #5 be implemented.

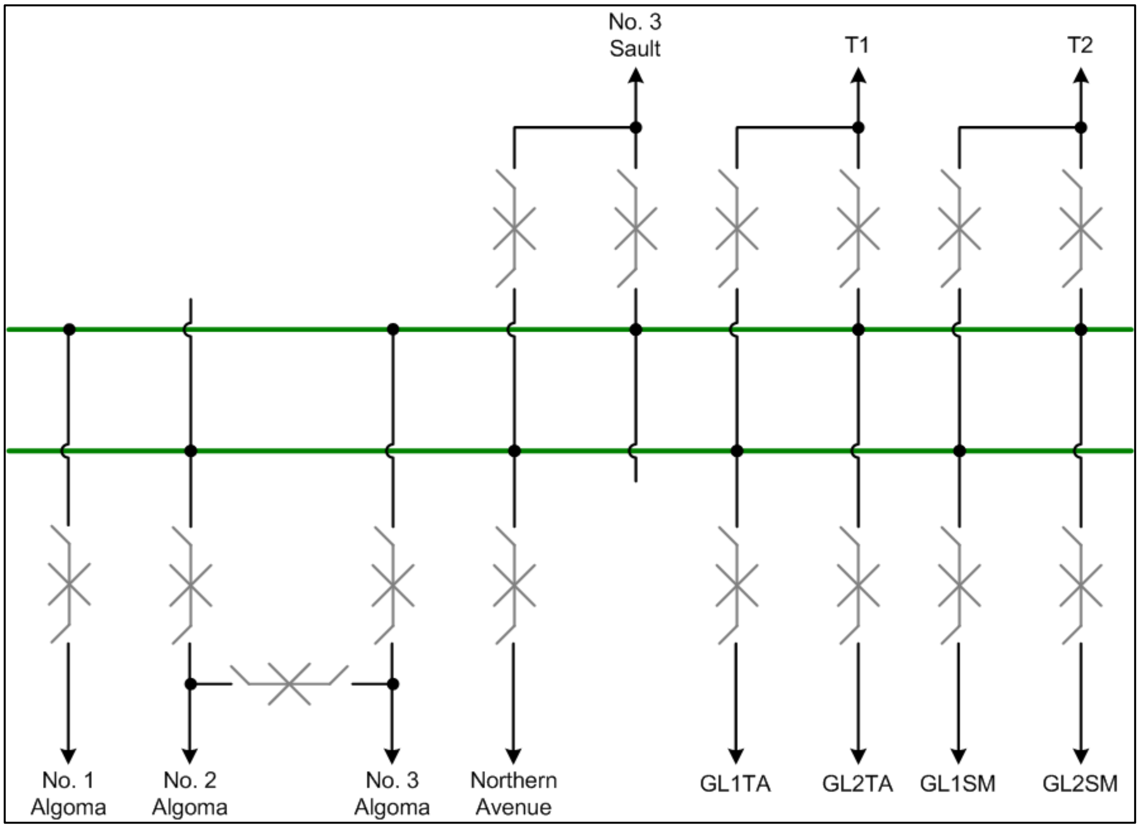
Conclusion

Based on the facts set out above, GLPT seeks approval of the Redevelopment Project and the inclusion in rate base for the test year of the capital expenditures related to the fencing and ground grid, which are to be in service in 2010.

# APPENDIX "B"

## Simplified Line Diagrams

**(a) Simplified Single Line Diagram for Existing 115 kV Section**



1 **(b) Simplified Single Line Diagram for Proposed 115 kV Section**

2

3

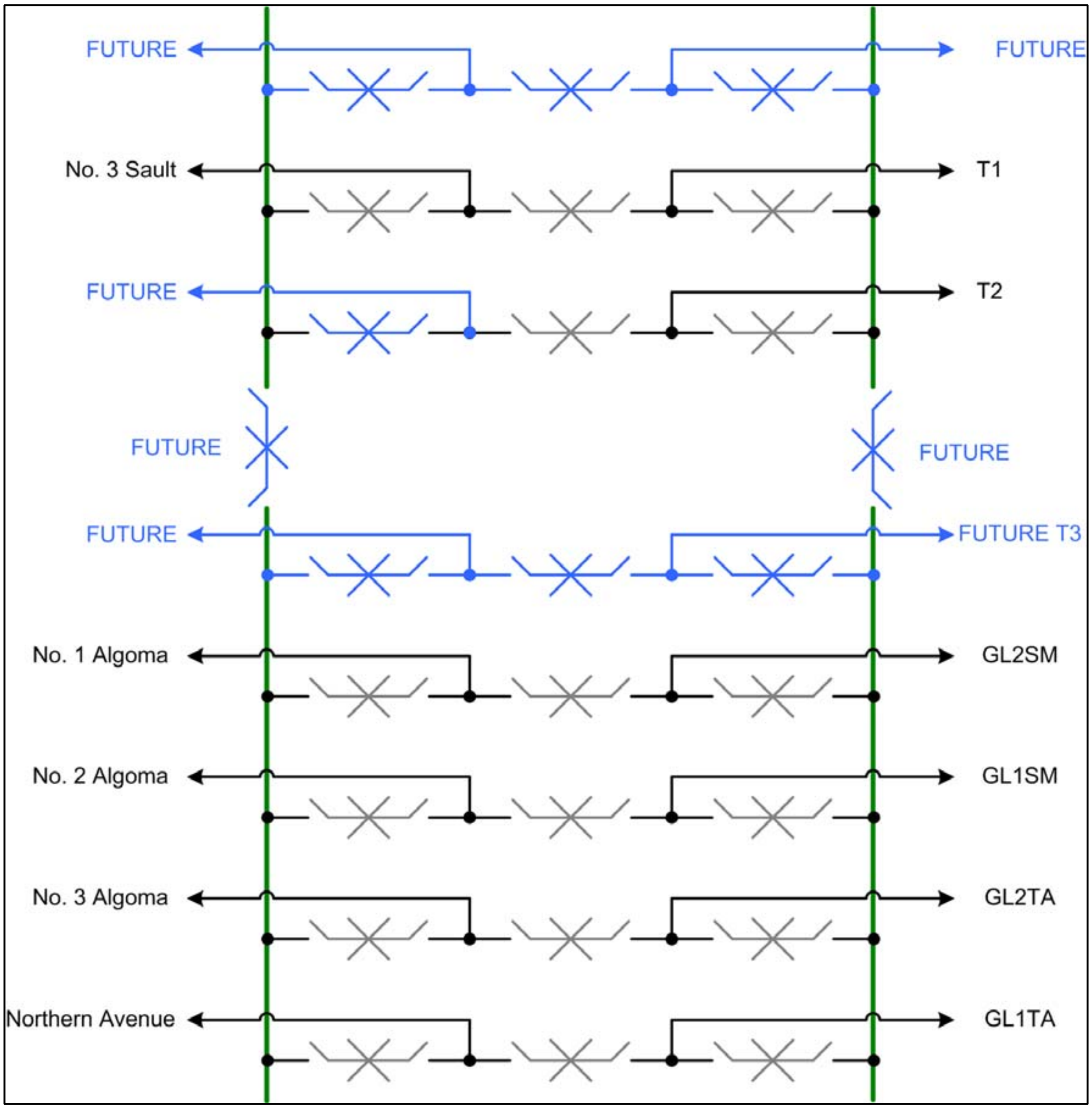


Exhibit 2, Tab 1, Schedule 2

Capital Expenditures Table

# CAPITAL EXPENDITURES CLASSIFICATION

In order to assist the Board in assessing GLPT's current situation, GLPT has provided *Table 2-1-2 A* below. The table breaks GLPT's capital expenditures down to the categories of Development, Connection and Sustainment. GLPT has adopted the definitions for these categories from Chapter 5 of the Board's *Filing Requirements for Transmission and Distribution Applications,* dated November 14, 2006.

*Table 2-1-2 A – Capital Expenditures Table*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|
| Development Capital Expenditures | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Connection Capital Expenditures | - | - | - | - | - | - |
| Sustainment Capital Expenditures | 17,174.9 | 11,059.0 | 8,305.9 | 6,239.6 | 26,393.7 | 8,969.4 |
| **Total Capital Expenditures** | **$17,174.9** | **$11,059.0** | **$8,305.9** | **$6,239.6** | **$26,393.7** | **$8,969.4** |
| **Depreciation** | **$6,085.3** | **$6,511.6** | **$6,936.4** | **$7,460.7** | **$7,975.1** | **$8,615.9** |

GLPT's capital expenditures for 2011 and 2012 are all classified as Sustainment. GLPT maintains the performance of the transmission network at its current standard, often through replacing end of life facilities on a "like for like" basis.

Exhibit 2, Tab 1, Schedule 3

Confidential Filing

**[FILED UNDER SEPARATE COVER IN ACCORDANCE**

**WITH PRACTICE DIRECTION ON**

**CONFIDENTIAL FILINGS]**

Exhibit 2, Tab 2, Schedule 1

Summary and Continuity Statements

# RATE BASE - SUMMARY AND CONTINUITY STATEMENTS

GLPT has provided asset continuity tables for 2007 through the 2011 and 2012 test years. As Appendix “A”, GLPT has attached the continuity schedules in the format of Appendix 2-B from the Board’s June 28, 2010 Filing Requirements.

*Table 2-2-1 A – 2007 Asset Continuity*

| Account | Description | 2007 Opening Gross Assets | 2007 Opening Accumulated Depreciation | 2007 Opening Net Fixed Assets | Add: 2007 Additions | Less: 2007 Disposals | Accumulated Disposal Adjustment | 2007 Depreciation | 2007 Closing Gross Assets | 2007 Closing Accumulated Depreciation | 2007 Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 544,437 | - | 544,437 | - | - | - | - | 544,437 | - | 544,437 |
| 1715 | Station Equipment | 119,985,941 | (28,780,598) | 91,205,344 | 15,724,905 | (142,193) | (108,142) | (2,966,411) | 135,568,654 | (31,712,957) | 103,855,696 |
| 1720 | Towers and Fixtures | 23,683,888 | (7,017,094) | 16,666,794 | - | - | - | (592,097) | 23,683,888 | (7,609,192) | 16,074,696 |
| 1725 | Poles and Fixtures | 56,618,640 | (8,839,797) | 47,778,844 | 2,025,031 | - | - | (1,404,150) | 58,643,672 | (10,243,947) | 48,399,725 |
| 1730 | Overhead Conductors & Devices | 43,810,863 | (6,580,610) | 37,230,252 | (580,268) | - | - | (1,060,060) | 43,230,595 | (7,640,670) | 35,589,925 |
| 1740 | Underground Conductors & Devices | 160,387 | (157,179) | 3,208 | - | - | - | (3,208) | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 497,389 | (393,220) | 104,169 | - | - | - | (9,756) | 497,389 | (402,976) | 94,413 |
| 1908 | Buildings and Fixtures | 35,677 | (4,534) | 31,143 | - | - | - | (1,335) | 35,677 | (5,870) | 29,807 |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | - | - | - | - |
| 1920 | Computer Equipment - Hardware | 19,094 | (19,094) | - | - | - | - | - | 19,094 | (19,094) | - |
| 1925 | Computer Software | 28,367 | (25,530) | 2,837 | 4,967 | - | - | (3,665) | 33,334 | (29,195) | 4,139 |
| 1930 | Transportation Equipment | - | - | - | - | - | - | - | - | - | - |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | - | - | - | - |
| 1955 | Communication Equipment | 1,420,249 | (1,236,388) | 183,861 | 222 | - | - | (80,025) | 1,420,471 | (1,316,413) | 104,058 |
| 1960 | Miscellaneous Equipment | 16,944 | (5,468) | 11,476 | - | - | - | (1,694) | 16,944 | (7,162) | 9,782 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **247,578,917** | **(53,816,553)** | **193,762,364** | **17,174,858** | **(142,193)** | **(108,142)** | **(6,122,401)** | **264,611,581** | **(59,904,902)** | **204,706,680** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 55,710 | (1,429,890) | - | - | - | 37,140 | (1,485,600) | 92,850 | (1,392,750) |
| | **Total for Regulatory Purposes** | **246,093,317** | **(53,760,843)** | **192,332,474** | **17,174,858** | **(142,193)** | **(108,142)** | **(6,085,261)** | **263,125,981** | **(59,812,052)** | **203,313,930** |
| | Construction Work in Progress (CWIP) | | | 2,192,647 | | | | | | | 5,605,203 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **195,955,011** | | | | | | | **210,311,883** |
| | *Equal to Subtotal plus CWIP | | | | | | | | | | |

*Table 2-2-1 B – 2008 Asset Continuity*

| Account | Description | 2008 Opening Gross Assets | 2008 Opening Accumulated Depreciation | 2008 Opening Net Fixed Assets | Add: 2008 Additions | Less: 2008 Disposals | Accumulated Disposal Adjustment | 2008 Depreciation | 2008 Closing Gross Assets | 2008 Closing Accumulated Depreciation | 2008 Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 544,437 | - | 544,437 | - | - | - | - | 544,437 | - | 544,437 |
| 1715 | Station Equipment | 135,568,654 | (31,712,957) | 103,855,696 | 10,303,062 | (264,891) | (85,632) | (3,387,848) | 145,606,824 | (34,921,546) | 110,685,278 |
| 1720 | Towers and Fixtures | 23,683,888 | (7,609,192) | 16,074,696 | - | - | - | (592,097) | 23,683,888 | (8,201,289) | 15,482,599 |
| 1725 | Poles and Fixtures | 58,643,672 | (10,243,947) | 48,399,725 | 717,522 | - | - | (1,450,006) | 59,361,193 | (11,693,953) | 47,667,241 |
| 1730 | Overhead Conductors & Devices | 43,230,595 | (7,640,670) | 35,589,925 | - | - | - | (1,046,704) | 43,230,595 | (8,687,374) | 34,543,221 |
| 1740 | Underground Conductors & Devices | 160,387 | (160,387) | - | - | - | - | - | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 497,389 | (402,976) | 94,413 | 24,653 | - | - | (9,807) | 522,042 | (412,783) | 109,259 |
| 1908 | Buildings and Fixtures | 35,677 | (5,870) | 29,807 | - | - | - | (1,335) | 35,677 | (7,205) | 28,472 |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | - | - | - | - |
| 1920 | Computer Equipment - Hardware | 19,094 | (19,094) | - | 5,075 | - | - | (85) | 24,169 | (19,178) | 4,991 |
| 1925 | Computer Software | 33,334 | (29,195) | 4,139 | 8,337 | - | - | (2,035) | 41,671 | (31,230) | 10,441 |
| 1930 | Transportation Equipment | - | - | - | - | - | - | - | - | - | - |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | - | - | - | - |
| 1955 | Communication Equipment | 1,420,471 | (1,316,413) | 104,058 | - | - | - | (57,156) | 1,420,471 | (1,373,569) | 46,902 |
| 1960 | Miscellaneous Equipment | 16,944 | (7,162) | 9,782 | - | - | - | (1,694) | 16,944 | (8,857) | 8,087 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **264,611,581** | **(59,904,902)** | **204,706,680** | **11,058,649** | **(264,891)** | **(85,632)** | **(6,548,768)** | **275,405,339** | **(66,274,411)** | **209,130,928** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 92,850 | (1,392,750) | - | - | - | 37,140 | (1,485,600) | 129,990 | (1,355,610) |
| | **Total for Regulatory Purposes** | **263,125,981** | **(59,812,052)** | **203,313,930** | **11,058,649** | **(264,891)** | **(85,632)** | **(6,511,628)** | **273,919,739** | **(66,144,421)** | **207,775,318** |
| | Construction Work in Progress (CWIP) | | | 5,605,203 | | | | | | | 3,199,350 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **210,311,883** | | | | | | | **212,330,278** |

*Equal to Subtotal plus CWIP

*Table 2-2-1 C – 2009 Asset Continuity*

| Account | Description | 2009 Opening Gross Assets | 2009 Opening Accumulated Depreciation | 2009 Opening Net Fixed Assets | Add: 2009 Additions | Less: 2009 Disposals | Accumulated Adjustment | 2009 Depreciation | 2009 Closing Gross Assets | 2009 Closing Accumulated Depreciation | 2009 Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 544,437 | - | 544,437 | 384,611 | - | - | - | 929,048 | - | 929,048 |
| 1715 | Station Equipment | 145,606,824 | (34,921,546) | 110,685,278 | 4,902,523 | - | - | (3,614,520) | 150,509,347 | (38,536,067) | 111,973,280 |
| 1720 | Towers and Fixtures | 23,683,888 | (8,201,289) | 15,482,599 | - | - | - | (590,672) | 23,683,888 | (8,791,961) | 14,891,927 |
| 1725 | Poles and Fixtures | 59,361,193 | (11,693,953) | 47,667,241 | 416,102 | - | - | (1,464,323) | 59,777,295 | (13,158,275) | 46,619,020 |
| 1730 | Overhead Conductors & Devices | 43,230,595 | (8,687,374) | 34,543,221 | 209,795 | - | - | (1,046,203) | 43,440,390 | (9,733,577) | 33,706,813 |
| 1740 | Underground Conductors & Devices | 160,387 | (160,387) | - | - | - | - | - | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 522,042 | (412,783) | 109,259 | 444,873 | - | - | (8,774) | 966,915 | (421,557) | 545,358 |
| 1908 | Buildings and Fixtures | 35,677 | (7,205) | 28,472 | - | - | - | (1,335) | 35,677 | (8,540) | 27,137 |
| 1915 | Office Furniture & Equipment | - | - | - | 203,609 | - | - | (11,611) | 203,609 | (11,611) | 191,998 |
| 1920 | Computer Equipment - Hardware | 24,169 | (19,178) | 4,991 | 1,642,895 | (2,409) | (1,039,891) | (125,073) | 1,664,656 | (1,181,733) | 482,922 |
| 1925 | Computer Software | 41,671 | (31,230) | 10,441 | 1,408,832 | - | (717,437) | (25,722) | 1,450,503 | (774,389) | 676,114 |
| 1930 | Transportation Equipment | - | - | - | 856,327 | - | (475,646) | (58,478) | 856,327 | (534,124) | 322,203 |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | 15,012 | - | (7,506) | (751) | 15,012 | (8,257) | 6,755 |
| 1955 | Communication Equipment | 1,420,471 | (1,373,569) | 46,902 | 59,798 | - | - | (24,336) | 1,480,268 | (1,397,905) | 82,363 |
| 1960 | Miscellaneous Equipment | 16,944 | (8,857) | 8,087 | - | - | - | (1,694) | 16,944 | (10,551) | 6,393 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **275,405,339** | **(66,274,411)** | **209,130,928** | **10,544,377** | **(2,409)** | **(2,240,479)** | **(6,973,494)** | **285,947,308** | **(75,485,975)** | **210,461,333** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 129,990 | (1,355,610) | - | - | - | 37,140 | (1,485,600) | 167,130 | (1,318,470) |
| | Total for Regulatory Purposes | **273,919,739** | **(66,144,421)** | **207,775,318** | **10,544,377** | **(2,409)** | **(2,240,479)** | **(6,936,354)** | **284,461,708** | **(75,318,845)** | **209,142,863** |
| | Construction Work in Progress (CWIP) | | | 3,199,350 | | | | | | | 4,939,592 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **212,330,278** | | | | | | | **215,400,925** |
| | *Equal to Subtotal plus CWIP | | | | | | | | | | |

*Table 2-2-1 D – 2010 Asset Continuity*

| Account | Description | 2010 Opening Gross Assets | 2010 Opening Accumulated Depreciation | 2010 Opening Net Fixed Assets | Add: 2010 Forecast Additions | Less: 2010 Forecast Disposals | 2010 Forecast Depreciation | 2010 Forecast Closing Gross Assets | 2010 Forecast Closing Accumulated Depreciation | 2010 Forecast Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 929,048 | - | 929,048 | - | - | - | 929,048 | - | 929,048 |
| 1715 | Station Equipment | 150,509,347 | (38,536,067) | 111,973,280 | 4,542,929 | - | (3,785,503) | 155,052,276 | (42,321,569) | 112,730,707 |
| 1720 | Towers and Fixtures | 23,683,888 | (8,791,961) | 14,891,927 | - | - | (589,247) | 23,683,888 | (9,381,208) | 14,302,680 |
| 1725 | Poles and Fixtures | 59,777,295 | (13,158,275) | 46,619,020 | 84,700 | - | (1,467,089) | 59,861,995 | (14,625,365) | 45,236,631 |
| 1730 | Overhead Conductors & Devices | 43,440,390 | (9,733,577) | 33,706,813 | - | - | (1,042,761) | 43,440,390 | (10,776,338) | 32,664,052 |
| 1740 | Underground Conductors & Devices | 160,387 | (160,387) | - | - | - | - | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 966,915 | (421,557) | 545,358 | 148,500 | - | (18,301) | 1,115,415 | (439,858) | 675,557 |
| 1908 | Buildings and Fixtures | 35,677 | (8,540) | 27,137 | 541,200 | - | (12,159) | 576,877 | (20,700) | 556,177 |
| 1915 | Office Furniture & Equipment | 203,609 | (11,611) | 191,998 | - | - | (20,361) | 203,609 | (31,972) | 171,637 |
| 1920 | Computer Equipment - Hardware | 1,664,656 | (1,181,733) | 482,922 | 247,500 | - | (223,070) | 1,912,156 | (1,404,803) | 507,353 |
| 1925 | Computer Software | 1,450,503 | (774,389) | 676,114 | 444,700 | - | (194,957) | 1,895,203 | (969,346) | 925,857 |
| 1930 | Transportation Equipment | 856,327 | (534,124) | 322,203 | 130,000 | - | (122,866) | 986,327 | (656,990) | 329,337 |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | (8,257) | 6,755 | - | - | (1,501) | 15,012 | (9,758) | 5,254 |
| 1955 | Communication Equipment | 1,480,268 | (1,397,905) | 82,363 | 100,100 | - | (18,294) | 1,580,368 | (1,416,199) | 164,169 |
| 1960 | Miscellaneous Equipment | 16,944 | (10,551) | 6,393 | - | - | (1,694) | 16,944 | (12,245) | 4,699 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **285,947,308** | **(75,485,975)** | **210,461,333** | **6,239,629** | **-** | **(7,497,804)** | **292,186,937** | **(82,983,779)** | **209,203,158** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 167,130 | (1,318,470) | - | - | 37,140 | (1,485,600) | 204,270 | (1,281,330) |
| | **Total for Regulatory Purposes** | **284,461,708** | **(75,318,845)** | **209,142,863** | **6,239,629** | **-** | **(7,460,664)** | **290,701,337** | **(82,779,509)** | **207,921,828** |
| | Construction Work in Progress (CWIP) | | | 4,939,592 | | | | | | 10,228,143 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **215,400,925** | | | | | | **219,431,301** |
| | *Equal to Subtotal plus CWIP | | | | | | | | | |

*Table 2-2-1 E – 2011 Asset Continuity*

| Account | Description | 2011 Forecast Opening Gross Assets | 2011 Forecast Opening Accumulated Depreciation | 2011 Forecast Opening Net Fixed Assets | Add: 2011 Forecast Additions | Less: 2011 Forecast Disposals | Accumulated Adjustment | 2011 Forecast Depreciation | 2011 Forecast Closing Gross Assets | 2011 Forecast Closing Accumulated Depreciation | 2011 Forecast Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 929,048 | - | 929,048 | - | - | - | - | 929,048 | - | 929,048 |
| 1715 | Station Equipment | 155,052,276 | (42,321,569) | 112,730,707 | 23,790,340 | (1,898,058) | 904,630 | (4,109,329) | 176,944,558 | (45,437,470) | 131,507,087 |
| 1720 | Towers and Fixtures | 23,683,888 | (9,381,208) | 14,302,680 | - | - | - | (589,247) | 23,683,888 | (9,970,455) | 13,713,433 |
| 1725 | Poles and Fixtures | 59,861,995 | (14,625,365) | 45,236,631 | - | (7,900) | 4,444 | (1,460,609) | 59,854,095 | (16,082,518) | 43,771,578 |
| 1730 | Overhead Conductors & Devices | 43,440,390 | (10,776,338) | 32,664,052 | 152,460 | (2,596) | 1,460 | (1,038,144) | 43,590,254 | (11,813,346) | 31,776,908 |
| 1740 | Underground Conductors & Devices | 160,387 | (160,387) | - | - | - | - | - | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 1,115,415 | (439,858) | 675,557 | - | - | - | (20,157) | 1,115,415 | (460,015) | 655,401 |
| 1908 | Buildings and Fixtures | 576,877 | (20,700) | 556,177 | 546,025 | - | - | (33,904) | 1,122,902 | (54,603) | 1,068,299 |
| 1915 | Office Furniture & Equipment | 203,609 | (31,972) | 171,637 | - | - | - | (20,361) | 203,609 | (52,332) | 151,276 |
| 1920 | Computer Equipment - Hardware | 1,912,156 | (1,404,803) | 507,353 | 247,000 | - | - | (215,202) | 2,159,156 | (1,620,005) | 539,151 |
| 1925 | Computer Software | 1,895,203 | (969,346) | 925,857 | 935,988 | - | - | (333,026) | 2,831,191 | (1,302,372) | 1,528,819 |
| 1930 | Transportation Equipment | 986,327 | (656,990) | 329,337 | 277,000 | - | - | (145,473) | 1,263,327 | (802,463) | 460,865 |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | (9,758) | 5,254 | - | - | - | (1,501) | 15,012 | (11,259) | 3,753 |
| 1955 | Communication Equipment | 1,580,368 | (1,416,199) | 164,169 | 444,840 | - | - | (43,556) | 2,025,208 | (1,459,755) | 565,453 |
| 1960 | Miscellaneous Equipment | 16,944 | (12,245) | 4,699 | - | - | - | (1,694) | 16,944 | (13,940) | 3,004 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **292,186,937** | **(82,983,779)** | **209,203,158** | **26,393,653** | **(1,908,554)** | **910,534** | **(8,012,203)** | **316,672,035** | **(89,997,961)** | **226,674,074** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 204,270 | (1,281,330) | - | - | - | 37,140 | (1,485,600) | 241,410 | (1,244,190) |
| | **Total for Regulatory Purposes** | **290,701,337** | **(82,779,509)** | **207,921,828** | **26,393,653** | **(1,908,554)** | **910,534** | **(7,975,063)** | **315,186,435** | **(89,756,551)** | **225,429,884** |
| | Construction Work in Progress (CWIP) | | | 10,228,143 | | | | | | | 6,920,775 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **219,431,301** | | | | | | | **233,594,849** |
| | *Equal to Subtotal plus CWIP | | | | | | | | | | |

*Table 2-2-1 F – 2012 Asset Continuity*

| Account | Description | 2012 Forecast Opening Gross Assets | 2012 Forecast Opening Accumulated Depreciation | 2012 Forecast Opening Net Fixed Assets | Add: 2012 Forecast Additions | Less: 2012 Forecast Disposals | 2012 Forecast Depreciation | 2012 Forecast Closing Gross Assets | 2012 Forecast Closing Accumulated Depreciation | 2012 Forecast Closing Net Fixed Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 929,048 | - | 929,048 | - | - | - | 929,048 | - | 929,048 |
| 1715 | Station Equipment | 176,944,558 | (45,437,470) | 131,507,087 | 7,399,200 | - | (4,510,623) | 184,343,758 | (49,948,093) | 134,395,665 |
| 1720 | Towers and Fixtures | 23,683,888 | (9,970,455) | 13,713,433 | - | - | (589,247) | 23,683,888 | (10,559,702) | 13,124,186 |
| 1725 | Poles and Fixtures | 59,854,095 | (16,082,518) | 43,771,578 | - | - | (1,460,306) | 59,854,095 | (17,542,824) | 42,311,271 |
| 1730 | Overhead Conductors & Devices | 43,590,254 | (11,813,346) | 31,776,908 | - | - | (1,040,208) | 43,590,254 | (12,853,554) | 30,736,700 |
| 1740 | Underground Conductors & Devices | 160,387 | (160,387) | - | - | - | - | 160,387 | (160,387) | - |
| 1745 | Road and Trails | 1,115,415 | (460,015) | 655,401 | - | - | (20,157) | 1,115,415 | (480,172) | 635,244 |
| 1908 | Buildings and Fixtures | 1,122,902 | (54,603) | 1,068,299 | 127,600 | - | (47,376) | 1,250,502 | (101,980) | 1,148,522 |
| 1915 | Office Furniture & Equipment | 203,609 | (52,332) | 151,276 | - | - | (20,361) | 203,609 | (72,693) | 130,915 |
| 1920 | Computer Equipment - Hardware | 2,159,156 | (1,620,005) | 539,151 | 241,000 | - | (213,716) | 2,400,156 | (1,833,721) | 566,435 |
| 1925 | Computer Software | 2,831,191 | (1,302,372) | 1,528,819 | 735,140 | - | (495,924) | 3,566,331 | (1,798,296) | 1,768,035 |
| 1930 | Transportation Equipment | 1,263,327 | (802,463) | 460,865 | 262,000 | - | (177,792) | 1,525,327 | (980,255) | 545,073 |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | (11,259) | 3,753 | - | - | (1,501) | 15,012 | (12,760) | 2,252 |
| 1955 | Communication Equipment | 2,025,208 | (1,459,755) | 565,453 | 204,490 | - | (74,128) | 2,229,698 | (1,533,883) | 695,816 |
| 1960 | Miscellaneous Equipment | 16,944 | (13,940) | 3,004 | - | - | (1,694) | 16,944 | (15,634) | 1,310 |
| 1990 | Other Tangible Property | 757,041 | (757,041) | - | - | - | - | 757,041 | (757,041) | - |
| | Subtotal | **316,672,035** | **(89,997,961)** | **226,674,074** | **8,969,430** | **-** | **(8,653,033)** | **325,641,465** | **(98,650,994)** | **226,990,471** |
| 1715 | Disallowed 2005 Addition | (1,485,600) | 241,410 | (1,244,190) | - | - | 37,140 | (1,485,600) | 278,550 | (1,207,050) |
| | **Total for Regulatory Purposes** | **315,186,435** | **(89,756,551)** | **225,429,884** | **8,969,430** | **-** | **(8,615,893)** | **324,155,865** | **(98,372,444)** | **225,783,421** |
| | Construction Work in Progress (CWIP) | | | 6,920,775 | | | | | | 6,412,647 |
| | **Property, Plant and Equipment, net (per Financial Statements)** | | | **233,594,849** | | | | | | **233,403,118** |
| | *Equal to Subtotal plus CWIP | | | | | | | | | |

# <u>APPENDIX "A"</u>

## Fixed Asset Continuity Schedule

## Appendix 2-B of Filing Requirements

**Fixed Asset Continuity Schedule**
**2007 Historical**

| | | | | Cost | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Net Book Value |
| | | | | | | | | | | | | |
| N/A | 1705 | Land | 0.00% | 544,437 | - | - | 544,437 | - | - | - | - | 544,437 |
| 47 | 1715 | Station Equipment | 2.50% | 119,985,941 | 15,724,905 | (142,193) | 135,568,654 | (28,780,598) | (2,966,411) | 34,051 | (31,712,957) | 103,855,696 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | - | 23,683,888 | (7,017,094) | (592,097) | - | (7,609,192) | 16,074,696 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 56,618,640 | 2,025,031 | - | 58,643,672 | (8,839,797) | (1,404,150) | - | (10,243,947) | 48,399,725 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,810,863 | (580,268) | - | 43,230,595 | (6,580,610) | (1,060,060) | - | (7,640,670) | 35,589,925 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | - | 160,387 | (157,179) | (3,208) | - | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 497,389 | - | - | 497,389 | (393,220) | (9,756) | - | (402,976) | 94,413 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 35,677 | - | - | 35,677 | (4,534) | (1,335) | - | (5,870) | 29,807 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 19,094 | - | - | 19,094 | (19,094) | - | - | (19,094) | - |
| 8 | 1925 | Computer Software | 20.00% | 28,367 | 4,967 | - | 33,334 | (25,530) | (3,665) | - | (29,195) | 4,139 |
| 10 | 1930 | Transportation Equipment | 20.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1955 | Communication Equipment | 10.00% | 1,420,249 | 222 | - | 1,420,471 | (1,236,388) | (80,025) | - | (1,316,413) | 104,058 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | - | 16,944 | (5,468) | (1,694) | - | (7,162) | 9,782 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | - | 757,041 | (757,041) | - | - | (757,041) | - |
| | | | | | | | | | | | | |
| | | **Subtotal** | | **247,578,917** | **17,174,858** | **(142,193)** | **264,611,581** | **(53,816,553)** | **(6,122,401)** | **34,051** | **(59,904,902)** | **204,706,680** |
| | | | | | | | | | | | | |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 55,710 | 37,140 | - | 92,850 | (1,392,750) |
| | | | | | | | | | | | | |
| | | **Total** | | **246,093,317** | **17,174,858** | **(142,193)** | **263,125,981** | **(53,760,843)** | **(6,085,261)** | **34,051** | **(59,812,052)** | **203,313,930** |

**Fixed Asset Continuity Schedule**
**2008 Historical**

| | | | | Cost | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Net Book Value |
| N/A | 1705 | Land | 0.00% | 544,437 | - | - | 544,437 | - | - | - | - | 544,437 |
| 47 | 1715 | Station Equipment | 2.50% | 135,568,654 | 10,303,062 | (264,891) | 145,606,824 | (31,712,957) | (3,387,848) | 179,259 | (34,921,546) | 110,685,278 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | - | 23,683,888 | (7,609,192) | (592,097) | - | (8,201,289) | 15,482,599 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 58,643,672 | 717,522 | - | 59,361,193 | (10,243,947) | (1,450,006) | - | (11,693,953) | 47,667,241 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,230,595 | - | - | 43,230,595 | (7,640,670) | (1,046,704) | - | (8,687,374) | 34,543,221 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | - | 160,387 | (160,387) | - | - | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 497,389 | 24,653 | - | 522,042 | (402,976) | (9,807) | - | (412,783) | 109,259 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 35,677 | - | - | 35,677 | (5,870) | (1,335) | - | (7,205) | 28,472 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 19,094 | 5,075 | - | 24,169 | (19,094) | (85) | - | (19,178) | 4,991 |
| 8 | 1925 | Computer Software | 20.00% | 33,334 | 8,337 | - | 41,671 | (29,195) | (2,035) | - | (31,230) | 10,441 |
| 10 | 1930 | Transportation Equipment | 20.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 8 | 1955 | Communication Equipment | 10.00% | 1,420,471 | - | - | 1,420,471 | (1,316,413) | (57,156) | - | (1,373,569) | 46,902 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | - | 16,944 | (7,162) | (1,694) | - | (8,857) | 8,087 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | - | 757,041 | (757,041) | - | - | (757,041) | - |
| | | | | | | | | | | | | |
| | | **Subtotal** | | **264,611,581** | **11,058,649** | **(264,891)** | **275,405,339** | **(59,904,902)** | **(6,548,768)** | **179,259** | **(66,274,411)** | **209,130,928** |
| | | | | | | | | | | | | |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 92,850 | 37,140 | - | 129,990 | (1,355,610) |
| | | | | | | | | | | | | |
| | | **Total** | | **263,125,981** | **11,058,649** | **(264,891)** | **273,919,739** | **(59,812,052)** | **(6,511,628)** | **179,259** | **(66,144,421)** | **207,775,318** |

**Fixed Asset Continuity Schedule**
**2009 Historical**

| | | | Cost | | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals & Adjustments | Closing Balance | Net Book Value |
| | | | | | | | | | | | | |
| N/A | 1705 | Land | 0.00% | 544,437 | 384,611 | | 929,048 | - | - | | - | 929,048 |
| 47 | 1715 | Station Equipment | 2.50% | 145,606,824 | 4,902,523 | | 150,509,347 | (34,921,546) | (3,614,520) | | (38,536,067) | 111,973,280 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | | 23,683,888 | (8,201,289) | (590,672) | | (8,791,961) | 14,891,927 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 59,361,193 | 416,102 | | 59,777,295 | (11,693,953) | (1,464,323) | | (13,158,275) | 46,619,020 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,230,595 | 209,795 | | 43,440,390 | (8,687,374) | (1,046,203) | | (9,733,577) | 33,706,813 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | | 160,387 | (160,387) | - | | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 522,042 | 444,873 | | 966,915 | (412,783) | (8,774) | | (421,557) | 545,358 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 35,677 | - | | 35,677 | (7,205) | (1,335) | | (8,540) | 27,137 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | - | 203,609 | | 203,609 | - | (11,611) | | (11,611) | 191,998 |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 24,169 | 1,642,895 | (2,409) | 1,664,656 | (19,178) | (125,073) | (1,037,481) | (1,181,733) | 482,923 |
| 8 | 1925 | Computer Software | 20.00% | 41,671 | 1,408,832 | | 1,450,503 | (31,230) | (25,722) | (717,437) | (774,389) | 676,114 |
| 10 | 1930 | Transportation Equipment | 20.00% | - | 856,327 | | 856,327 | - | (58,478) | (475,646) | (534,124) | 322,203 |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | - | 15,012 | | 15,012 | - | (751) | (7,506) | (8,257) | 6,755 |
| 8 | 1955 | Communication Equipment | 10.00% | 1,420,471 | 59,798 | | 1,480,268 | (1,373,569) | (24,336) | | (1,397,905) | 82,363 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | | 16,944 | (8,857) | (1,694) | | (10,551) | 6,393 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | | 757,041 | (757,041) | | | (757,041) | - |
| | | | | | | | | | | | | |
| | | **Subtotal** | | **275,405,339** | **10,544,377** | **(2,409)** | **285,947,308** | **(66,274,411)** | **(6,973,494)** | **(2,238,070)** | **(75,485,975)** | **210,461,333** |
| | | | | | | | | | | | | |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 129,990 | 37,140 | - | 167,130 | (1,318,470) |
| | | | | | | | | | | | | |
| | | **Total** | | **273,919,739** | **10,544,377** | **(2,409)** | **284,461,708** | **(66,144,421)** | **(6,936,354)** | **(2,238,070)** | **(75,318,845)** | **209,142,863** |

**Fixed Asset Continuity Schedule**
**2010 Bridge**

| | | | | Cost | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Net Book Value |
| N/A | 1705 | Land | 0.00% | 929,048 | - | - | 929,048 | - | - | - | - | 929,048 |
| 47 | 1715 | Station Equipment | 2.50% | 150,509,347 | 4,542,929 | - | 155,052,276 | (38,536,067) | (3,785,503) | - | (42,321,569) | 112,730,707 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | - | 23,683,888 | (8,791,961) | (589,247) | - | (9,381,208) | 14,302,680 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 59,777,295 | 84,700 | - | 59,861,995 | (13,158,275) | (1,467,089) | - | (14,625,365) | 45,236,631 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,440,390 | - | - | 43,440,390 | (9,733,577) | (1,042,761) | - | (10,776,338) | 32,664,052 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | - | 160,387 | (160,387) | - | - | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 966,915 | 148,500 | - | 1,115,415 | (421,557) | (18,301) | - | (439,858) | 675,557 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 35,677 | 541,200 | - | 576,877 | (8,540) | (12,159) | - | (20,700) | 556,177 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | 203,609 | - | - | 203,609 | (11,611) | (20,361) | - | (31,972) | 171,637 |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 1,664,656 | 247,500 | - | 1,912,156 | (1,181,733) | (223,070) | - | (1,404,802) | 507,353 |
| 8 | 1925 | Computer Software | 20.00% | 1,450,503 | 444,700 | - | 1,895,203 | (774,389) | (194,957) | - | (969,347) | 925,856 |
| 10 | 1930 | Transportation Equipment | 20.00% | 856,327 | 130,000 | - | 986,327 | (534,124) | (122,866) | - | (656,990) | 329,337 |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | 15,012 | - | - | 15,012 | (8,257) | (1,501) | - | (9,758) | 5,254 |
| 8 | 1955 | Communication Equipment | 10.00% | 1,480,268 | 100,100 | - | 1,580,368 | (1,397,905) | (18,294) | - | (1,416,199) | 164,169 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | - | 16,944 | (10,551) | (1,694) | - | (12,245) | 4,699 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | - | 757,041 | (757,041) | - | - | (757,041) | - |
| | | **Subtotal** | | **285,947,308** | **6,239,629** | **-** | **292,186,937** | **(75,485,975)** | **(7,497,804)** | **-** | **(82,983,778)** | **209,203,158** |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 167,130 | 37,140 | - | 204,270 | (1,281,330) |
| | | **Total** | | **284,461,708** | **6,239,629** | **-** | **290,701,337** | **(75,318,845)** | **(7,460,664)** | **-** | **(82,779,508)** | **207,921,828** |

**Fixed Asset Continuity Schedule**
**2011 Test Year**

| | | | | Cost | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Net Book Value |
| N/A | 1705 | Land | 0.00% | 929,048 | - | - | 929,048 | - | - | - | - | 929,048 |
| 47 | 1715 | Station Equipment | 2.50% | 155,052,276 | 23,790,340 | (1,898,058) | 176,944,558 | (42,321,569) | (4,109,329) | 993,428 | (45,437,471) | 131,507,087 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | - | 23,683,888 | (9,381,208) | (589,247) | - | (9,970,455) | 13,713,433 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 59,861,995 | - | (7,900) | 59,854,095 | (14,625,365) | (1,460,609) | 3,455 | (16,082,519) | 43,771,577 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,440,390 | 152,460 | (2,596) | 43,590,254 | (10,776,338) | (1,038,144) | 1,136 | (11,813,345) | 31,776,909 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | - | 160,387 | (160,387) | - | - | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 1,115,415 | - | - | 1,115,415 | (439,858) | (20,157) | - | (460,015) | 655,401 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 576,877 | 546,025 | - | 1,122,902 | (20,700) | (33,904) | - | (54,603) | 1,068,299 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | 203,609 | - | - | 203,609 | (31,972) | (20,361) | - | (52,332) | 151,276 |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 1,912,156 | 247,000 | - | 2,159,156 | (1,404,802) | (215,202) | - | (1,620,004) | 539,151 |
| 8 | 1925 | Computer Software | 20.00% | 1,895,203 | 935,988 | - | 2,831,191 | (969,347) | (333,026) | - | (1,302,373) | 1,528,818 |
| 10 | 1930 | Transportation Equipment | 20.00% | 986,327 | 277,000 | - | 1,263,327 | (656,990) | (145,473) | - | (802,463) | 460,865 |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | 15,012 | - | - | 15,012 | (9,758) | (1,501) | - | (11,259) | 3,753 |
| 8 | 1955 | Communication Equipment | 10.00% | 1,580,368 | 444,840 | - | 2,025,208 | (1,416,199) | (43,556) | - | (1,459,755) | 565,453 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | - | 16,944 | (12,245) | (1,694) | - | (13,940) | 3,004 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | - | 757,041 | (757,041) | - | - | (757,041) | - |
| | | **Subtotal** | | **292,186,937** | **26,393,653** | **(1,908,554)** | **316,672,035** | **(82,983,778)** | **(8,012,203)** | **998,019** | **(89,997,962)** | **226,674,073** |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 204,270 | 37,140 | - | 241,410 | (1,244,190) |
| | | **Total** | | **290,701,337** | **26,393,653** | **(1,908,554)** | **315,186,435** | **(82,779,508)** | **(7,975,063)** | **998,019** | **(89,756,552)** | **225,429,883** |

**Fixed Asset Continuity Schedule**
**2012 Test Year**

| | | | | Cost | | | | Accumulated Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CCA Class | OEB | Description | Depreciation Rate | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Net Book Value |
| N/A | 1705 | Land | 0.00% | 929,048 | - | - | 929,048 | - | - | - | - | 929,048 |
| 47 | 1715 | Station Equipment | 2.50% | 176,944,558 | 7,399,200 | - | 184,343,758 | (45,437,471) | (4,510,623) | - | (49,948,093) | 134,395,665 |
| 47 | 1720 | Towers and Fixtures | 2.50% | 23,683,888 | - | - | 23,683,888 | (9,970,455) | (589,247) | - | (10,559,702) | 13,124,186 |
| 47 | 1725 | Poles and Fixtures | 4.00% | 59,854,095 | - | - | 59,854,095 | (16,082,519) | (1,460,306) | - | (17,542,825) | 42,311,270 |
| 47 | 1730 | Overhead Conductors & Devices | 2.50% | 43,590,254 | - | - | 43,590,254 | (11,813,345) | (1,040,208) | - | (12,853,554) | 30,736,700 |
| 47 | 1740 | Underground Conductors & Devices | 4.00% | 160,387 | - | - | 160,387 | (160,387) | - | - | (160,387) | (0) |
| 47 | 1745 | Road and Trails | 2.50% | 1,115,415 | - | - | 1,115,415 | (460,015) | (20,157) | - | (480,172) | 635,244 |
| 47 | 1908 | Buildings and Fixtures | 4.00% | 1,122,902 | 127,600 | - | 1,250,502 | (54,603) | (47,376) | - | (101,980) | 1,148,522 |
| 8 | 1915 | Office Furniture & Equipment | 10.00% | 203,609 | - | - | 203,609 | (52,332) | (20,361) | - | (72,693) | 130,915 |
| 8 | 1920 | Computer Equipment - Hardware | 20.00% | 2,159,156 | 241,000 | - | 2,400,156 | (1,620,004) | (213,716) | - | (1,833,720) | 566,436 |
| 8 | 1925 | Computer Software | 20.00% | 2,831,191 | 735,140 | - | 3,566,331 | (1,302,373) | (495,924) | - | (1,798,297) | 1,768,034 |
| 10 | 1930 | Transportation Equipment | 20.00% | 1,263,327 | 262,000 | - | 1,525,327 | (802,463) | (177,792) | - | (980,255) | 545,073 |
| 8 | 1940 | Tools, Shop and Garage Equipment | 10.00% | 15,012 | - | - | 15,012 | (11,259) | (1,501) | - | (12,760) | 2,252 |
| 8 | 1955 | Communication Equipment | 10.00% | 2,025,208 | 204,490 | - | 2,229,698 | (1,459,755) | (74,128) | - | (1,533,883) | 695,816 |
| 8 | 1960 | Miscellaneous Equipment | 10.00% | 16,944 | - | - | 16,944 | (13,940) | (1,694) | - | (15,634) | 1,310 |
| 47 | 1990 | Other Tangible Property | 2.50% | 757,041 | - | - | 757,041 | (757,041) | - | - | (757,041) | - |
| | | **Subtotal** | | **316,672,035** | **8,969,430** | **-** | **325,641,465** | **(89,997,962)** | **(8,653,033)** | **-** | **(98,650,996)** | **226,990,471** |
| 47 | 1715 | Station Equipment | 2.50% | (1,485,600) | - | - | (1,485,600) | 241,410 | 37,140 | - | 278,550 | (1,207,050) |
| | | **Total** | | **315,186,435** | **8,969,430** | **-** | **324,155,865** | **(89,756,552)** | **(8,615,893)** | **-** | **(98,372,446)** | **225,783,421** |

Exhibit 2, Tab 2, Schedule 2

Customer Additions and System Expansions

## CUSTOMER ADDITIONS AND SYSTEM EXPANSIONS

GLPT anticipates no customer additions or system expansions in the 2011 and 2012 test year.

Exhibit 2, Tab 3, Schedule 1

Accumulated Depreciation

# ACCUMULATED DEPRECIATION

*Table 2-3-1 A – Accumulated Depreciation Continuity*

| ($000's) USofA | Description | 2007 Opening Accumulated Depreciation | 2007 Annual Depreciation | 2007 Disposals | 2008 Opening Accumulated Depreciation | 2008 Annual Depreciation | 2008 Disposals | 2008 Closing Accumulated Depreciation | 2009 Annual Depreciation | 2009 Disposals & Adjustments | 2009 Closing Accumulated Depreciation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | - | - | - | - | - | - | - | - | - | - |
| 1715 | Station Equipment | $28,780.6 | $2,966.4 | ($34.1) | $31,713.0 | $3,387.8 | $179.3 | $34,921.5 | $3,614.5 | $0.0 | $38,536.0 |
| 1720 | Towers and Fixtures | 7,017.1 | 592.1 | - | 7,609.2 | 592.1 | - | 8,201.3 | 590.7 | - | 8,792.0 |
| 1725 | Poles and Fixtures | 8,839.8 | 1,404.2 | - | 10,243.9 | 1,450.0 | - | 11,694.0 | 1,464.3 | - | 13,158.3 |
| 1730 | Overhead Conductors & Devices | 6,580.6 | 1,060.1 | - | 7,640.7 | 1,046.7 | - | 8,687.4 | 1,046.2 | - | 9,733.6 |
| 1740 | Underground Conductors & Devices | 157.2 | 3.2 | - | 160.4 | - | - | 160.4 | - | - | 160.4 |
| 1745 | Road and Trails | 393.2 | 9.8 | - | 403.0 | 9.8 | - | 412.8 | 8.8 | - | 421.6 |
| 1908 | Buildings and Fixtures | 4.5 | 1.3 | - | 5.9 | 1.3 | - | 7.2 | 1.3 | - | 8.5 |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | - | 11.6 | - | 11.6 |
| 1920 | Computer Equipment - Hardware | 19.1 | - | - | 19.1 | 0.1 | - | 19.2 | 125.1 | (1,037.6) | 1,181.9 |
| 1925 | Computer Software | 25.5 | 3.7 | - | 29.2 | 2.0 | - | 31.2 | 25.7 | (717.4) | 774.4 |
| 1930 | Transportation Equipment | - | - | - | - | - | - | - | 58.5 | (475.6) | 534.1 |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | - | 0.8 | (7.5) | 8.3 |
| 1955 | Communication Equipment | 1,236.4 | 80.0 | - | 1,316.4 | 57.2 | - | 1,373.6 | 24.3 | - | 1,397.9 |
| 1960 | Miscellaneous Equipment | 5.5 | 1.7 | - | 7.2 | 1.7 | - | 8.9 | 1.7 | - | 10.6 |
| 1990 | Other Tangible Property | 757.0 | - | - | 757.0 | - | - | 757.0 | - | - | 757.0 |
| | Less: Disallowed 2005 Addition | (55.7) | (37.1) | - | (92.8) | (37.1) | - | (130.0) | (37.1) | - | (167.1) |
| | **Totals** | **$53,760.9** | **$6,085.3** | **($34.1)** | **$59,812.1** | **$6,511.6** | **$179.3** | **$66,144.4** | **$6,936.4** | **($2,238.1)** | **$75,318.8** |

*Table 2-3-1 A – Accumulated Depreciation Continuity (Cont'd)*

| ($000's) USofA | Description | 2010 Opening Accumulated Depreciation | Forecasted 2010 Annual Depreciation | Forecasted 2010 Disposals | 2010 Closing Accumulated Depreciation | Forecasted 2011 Annual Depreciation | Forecasted 2011 Disposals | 2011 Closing Accumulated Depreciation | Forecasted 2012 Annual Depreciation | Forecasted 2012 Disposals | 2012 Closing Accumulated Depreciation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | - | - | - | - | - | - | - | - | - | - |
| 1715 | Station Equipment | 38,536.0 | 3,785.5 | $0.0 | $42,321.5 | 4,109.3 | $993.4 | $45,437.4 | $4,510.6 | $0.0 | $49,948.1 |
| 1720 | Towers and Fixtures | 8,792.0 | 589.2 | - | 9,381.2 | 589.2 | - | 9,970.5 | 589.2 | - | 10,559.7 |
| 1725 | Poles and Fixtures | 13,158.3 | 1,467.1 | - | 14,625.4 | 1,460.6 | 3.5 | 16,082.5 | 1,460.3 | - | 17,542.8 |
| 1730 | Overhead Conductors & Devices | 9,733.6 | 1,042.8 | - | 10,776.3 | 1,038.1 | 1.1 | 11,813.3 | 1,040.2 | - | 12,853.6 |
| 1740 | Underground Conductors & Devices | 160.4 | - | - | 160.4 | - | - | 160.4 | - | - | 160.4 |
| 1745 | Road and Trails | 421.6 | 18.3 | - | 439.9 | 20.2 | - | 460.0 | 20.2 | - | 480.2 |
| 1908 | Buildings and Fixtures | 8.5 | 12.2 | - | 20.7 | 33.9 | - | 54.6 | 47.4 | - | 102.0 |
| 1915 | Office Furniture & Equipment | 11.6 | 20.4 | - | 32.0 | 20.4 | - | 52.3 | 20.4 | - | 72.7 |
| 1920 | Computer Equipment - Hardware | 1,181.9 | 223.1 | - | 1,404.9 | 215.2 | - | 1,620.1 | 213.7 | - | 1,833.8 |
| 1925 | Computer Software | 774.4 | 195.0 | - | 969.3 | 333.0 | - | 1,302.3 | 495.9 | - | 1,798.3 |
| 1930 | Transportation Equipment | 534.1 | 122.9 | - | 656.9 | 145.5 | - | 802.4 | 177.8 | - | 980.2 |
| 1940 | Tools, Shop and Garage Equipment | 8.3 | 1.5 | - | 9.8 | 1.5 | - | 11.3 | 1.5 | - | 12.8 |
| 1955 | Communication Equipment | 1,397.9 | 18.3 | - | 1,416.2 | 43.6 | - | 1,459.8 | 74.1 | - | 1,533.9 |
| 1960 | Miscellaneous Equipment | 10.6 | 1.7 | - | 12.2 | 1.7 | - | 13.9 | 1.7 | - | 15.6 |
| 1990 | Other Tangible Property | 757.0 | - | - | 757.0 | - | - | 757.0 | - | - | 757.0 |
| | Less: Disallowed 2005 Addition | (167.1) | (37.1) | - | (204.3) | (37.1) | - | (241.4) | (37.1) | - | (278.5) |
| | **Totals** | **$75,318.8** | **$7,460.7** | **$0.0** | **$82,779.5** | **$7,975.1** | **$998.0** | **$89,756.6** | **$8,615.9** | **$0.0** | **$98,372.4** |

Exhibit 2, Tab 4, Schedule 1

Working Capital Allowance

# WORKING CAPITAL ALLOWANCE

## 1.0 Summary

GLPT's total working capital requirements for 2011 and 2012 are $621,133 and $513,799 respectively. This is made up of a working capital amount calculated through a lead lag study prepared by Navigant Consulting Inc. ("NCI"), plus an allowance for materials and supplies inventory which forms a part of GLPT's working capital but did not form a part of NCI's lead lag study. The breakdown is summarized below in *Table 2-4-1 A*.

*Table 2-4-1 A – Working Capital Requirements of GLPT*

| ($000's) | 2011 | 2012 |
|---|---|---|
| Lead Lag Working Capital | $371.1 | $263.8 |
| Materials and Supplies | 250.0 | 250.0 |
| **Total Working Capital Requirement** | **$621.1** | **$513.8** |

## 2.0 Lead Lag Study

In 2010, GLPT retained NCI to undertake a lead lag study for the purposes of updating the calculation of GLPT's working capital. The provision for working capital in 2011 and 2012 incorporates the results of this new study.

**Appendix "A"** of this schedule contains NCI's lead lag study. NCI's key findings can be summarized as follows:

- The Revenue Lag Days and Expense Lead Days identified by NCI are either generally consistent or in line with that presented by the Company in its prior rate application, i.e., EB-2009-0408.
- The implementation of the Harmonized Sales Tax (or "HST") in Ontario results in a working capital requirement lower than what it might have been under the previously applicable Goods and Services Tax (or "GST") regime.
- Results from the study applied to the Company's proposed transmission expenses indicate that working capital amounts of $371,133 and $263,799 will be required by the Company in 2011 and 2012 respectively. These amounts represent approximately 4.2% and 3.0% of the Company proposed Operations, Maintenance, and Administration (or "OM&A") Expenses in 2011 and 2012.

## 3.0 Materials and Supplies Inventory

Beginning in 2010, GLPT will own and maintain a materials and supplies inventory to support reliability and operability of the transmission system. Prior to 2010, and as a part of Great Lakes Power Limited ("GLPL"), GLPT used the materials and supplies inventory that was shared with the distribution business of GLPL. In 2010, GLPT, as a stand-alone and independent business, will be taking on and maintaining its own inventory for accounting purposes and for operational purposes. This will assist GLPT in maximizing reliability and customer satisfaction, as having the appropriate materials on hand at the appropriate times is critical to meet those objectives.

GLPT's inventory levels are forecast to be approximately $250,000 in each of 2010, 2011 and 2012, with minor variations expected throughout each year as inventory is turned over. Inventory consists primarily of routine materials and supplies inventory, with relatively low value and high turnover.

# <u>APPENDIX "A"</u>

## Navigant Consulting Inc. Report on GLPT's Working Capital

# A DETERMINATION OF THE WORKING CAPITAL REQUIREMENTS OF GREAT LAKES POWER TRANSMISSION LP ("GLPT")

**Presented to:**

Great Lakes Power

**AUGUST 11, 2010**

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Navigant Consulting has prepared this report at the request of Great Lakes Power Transmission LP ("the Company"). In preparing this report Navigant Consulting has relied upon the Company's revenue and expense data for 2011 and 2012. Navigant Consulting has not independently confirmed the accuracy of such data supplied by the Company.

# TABLE OF CONTENTS

# SECTION I: INTRODUCTION AND OVERVIEW

## Summary

Navigant Consulting Inc. ("NCI") was retained by Great Lakes Power Transmission LP ("GLPT" or "The Company") to review the working capital requirements of the Company. The purpose of the review was to update the Company's study filed in the Ontario Energy Board's ("OEB" or "The Board") docket EB-2009-0408 as well as develop an estimate of working capital requirements for the Company to include in its upcoming 2011-2012 rate application before the Board. This report discusses the results of NCI's review and update.

The following are key findings from the review and update:

1. The Revenue Lag Days and Expense Lead Days identified by NCI are either generally consistent or in line with that presented by the Company in its prior rate application, i.e., EB-2009-0408.

2. The implementation of the Harmonized Sales Tax (or "HST") in Ontario results in a working capital requirement lower than what it might have been under the previously applicable Goods and Services Tax (or "GST") regime.

3. Results from the study applied to the Company's proposed transmission expenses indicate that working capital amounts of approximately $371,000 and $264,000 will be required by the Company in 2011 and 2012 respectively. These amounts represent approximately 4.0% and 2.8% of the Company proposed Operations, Maintenance, and Administration (or "OM&A") Expenses in 2011 and 2012.

## Working Capital

Working capital is the amount of funds required to finance the day-to-day operations of a regulated utility and are included as part of a rate base for ratemaking purposes. A lead-lag study is the most accurate basis for determination of working capital and was used by NCI for this purpose.

A lead-lag study generally analyzes two time periods:

- the time between the date customers receive service and the date that customers' payments are available to the Company (or "lag") and,
- the time between the Company receipt of goods and services from its vendors and payment for those goods and services at a later date (or "lead")[1].

"Leads" and "Lags" are both measured in days and are generally dollar-weighted. The dollar-weighted net lag (i.e., lag minus lead) days is then divided by 365 (or 366 if a leap year is selected) and then multiplied by the annual test year cash expenses to determine the amount of working capital required for operations. The resulting amount of working capital is then included as part of the Company's rate base for the purpose of determining revenue requirements.

[1] A positive lag (or lead) indicates that payments are received (or paid for) after the provision of a good or service.

## Key Concepts

Several key concepts need to be defined up-front as they surface throughout the lead-lag study described in this report.

**Mid-Point Method**: When a service is provided to (or by) the Company over a period of time, the service is deemed to have been received (or provided) evenly over the midpoint of the period, unless specific information regarding the provision (or receipt) of that service is available indicating otherwise. If both the service end date ("Y") and the service start date ("X") are known, the mid-point of a service period can be calculated using the formula:

$$\text{Mid-Point} = \frac{([Y-X]+1)}{2}$$

When specific start and end dates are unknown but it is known that a service is evenly distributed over the mid-point of a period, an alternative formula that is typically used is shown below. The formula uses the number of days in a year (A) and the number of periods in a year (B):

$$\text{Mid-Point} = \frac{A/B}{2}$$

**Statutory Approach**: In conjunction with the use of the mid-point method, it is important to note that not all areas of this study may utilize dates on which actual payments were made by the Company. In some instances, particularly the Goods and Services Tax ("or GST") and its successor, the Harmonized Sales Tax ("HST"), the due date for payments are established by statute or by regulation with significant penalties in place for missing the due date. In these instances, the due date established by statute has been used in lieu of when payments were actually made or will be made.

**Expense Lead Components**: As used in this study, Expense Leads are defined to consist of two components: a) a Service Lead component, i.e., services are assumed to be provided to the Company evenly around the mid-point of the service period, and b) a Payment Lead component, i.e., the time period from the end of the service period to the time payment was made and the funds left the Company's possession.

**Dollar Weighting**: Both lags and leads should be dollar-weighted to more accurately reflect the flow of dollars. To use an example, let's suppose that a particular transaction has a Cash Outflow Lead time of 100 days and its dollar value was $100. Let's suppose further that another transaction has a Cash Outflow Lead time of 30 days with a dollar value of $1 Million. A simple un-weighted average of the two transactions would give us a Cash Outflow Lead time of 65 days (100+30 divided by 2). On the other hand, dollar weighting the two transactions gives us a Cash Outflow Lead time that would be closer to 30 days, an answer which is more representative of how the dollars actually flowed in this example.

## Method

Performing a lead-lag study requires two key undertakings:

1. Developing an understanding of how the regulated business works, i.e., in terms of products and services sold to customers or purchased from vendors and the collections and payment policies and procedures that govern such transactions; and

2. Modelling such operations using data from a relevant period of time and a representative data set. It is important to ascertain and factor into the study whether (or not) there are known changes to existing business policies and procedures going forward. Where such changes are known and material, they should be factored into the study.

To develop an understanding of the Company's operations, interviews with the regulated utility's Controller and Staff from the Payroll department were conducted. Some key questions that were addressed during the course of the interviews included:

a. What is being sold (or bought)? If a service is being provided (purchased), over what time period was the service provided (or purchased)?
b. Who are the buyers (sellers)?
c. What are the terms for payment? Are the terms for payment driven by industry norms or by company policy? Is there flexibility in the terms for payment?
d. Are any changes expected to the terms for payment either driven by industry or internally by the Company? What is the basis for such changes (if any)?
e. How is payment made (e.g., cash, check, electronic funds transfer)?

Except where otherwise noted, the twelve months ended June 30, 2010 was used in the analysis. Development of the data set entailed gathering raw data from GLPT's accounting systems. Once the raw data had been gathered from the multiple in-house systems, sampling and data validation was performed to the extent necessary and appropriate.

## Organization of the Report

Section II of this report discusses the lags associated with the Company's collections of revenues. Included in Section II is a description of the sources of such revenues and how they were treated for the purposes of deriving an overall revenue lag.

Section III presents a description of the various expenses and their attendant lead times. Included in the discussion on expense leads are the lead times on OM&A costs and the GST/HST. The methods used to calculate the expense lead times associated with each of the items as well as the results from the application of the methods are described.

Finally, Section IV presents the working capital requirements of GLPT including those associated with the GST and HST.

## SECTION II: REVENUE LAGS

GLPT has two sources of revenues: a) from the Ontario Independent System Operator ("IESO") for the provision of transmission service, and b) from miscellaneous jobs performed for its larger transmission level customers. For the 12 months ended June 30, 2010, approximately 99% of its revenues were derived from the IESO with the remainder derived from other sources. When the invoice amounts and individual lag times associated with both these sources of revenues are combined on a dollar-weighted basis, an overall revenue lag time of 35.84 days is derived for GLPT's Transmission operations. The information is shown on Table 1 below.

*Table 1. Calculation of Total Revenue Lag*

| Description | Amount $s | Lag Time Days | Weighting Factor | Weighted Lag Time Days |
|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) |
| IESO Revenues | 35,977,107 | 35.44 | 98.96% | 35.07 |
| Other Revenues | 379,763 | 73.11 | 1.04% | 0.76 |
| Total | 36,356,870 | | | **35.84 days** |

### IESO Revenues

As mentioned earlier, the Company derives approximately 99% of its revenues from the sales of transmission service to the IESO. This service is provided to the IESO on a monthly basis. When actual transactions for the twelve months ended June 30, 2010 were examined, a dollar-weighted revenue lag time of 35.44 days was determined and reflected in Table 1. This revenue lag time takes into consideration both the service lag time (a half month) and the time taken to collect the revenues (generally around the 20th of the month following the end of a service month).

### Other Revenues

GLPT generally realizes other (Miscellaneous) revenues from jobbing and contracting activities. Taking into account funds received from actual work performed for the twelve months ended June 30, 2010, the period over which the work was performed, and the date on which the funds were received by the Company, a dollar-weighted revenue lag time of 73.11 days was determined and reflected in Table 1.

# SECTION III: EXPENSE LEADS

A determination of working capital requires not only a determination of how long it takes a Company such as GLPT to collect revenues (revenue lag) but also, how long it takes to pay expenses (or expense leads). An Expense Lead is the time period between when a good or service is provided to the Company and when the Company generally pays for that service. And, as mentioned earlier in this report, expense leads have two components: a) a service lead time, and b) a payment lead time.

The following items, recorded as Operations, Maintenance, and Administration ("OM&A") expenses by GLPT, were considered in NCI's study:

1. Payroll and Benefits
2. Rents and Leases
3. Office Supplies
4. Outside Services
5. Property Insurance
6. Regulatory Expenses

In addition, the working capital requirements associated with the Company's payment of Property Taxes was also considered in NCI's study. The net benefit associated with the Goods and Services Tax ("GST") and its successor, the Harmonized Sales Tax ("HST") is discussed separately following the discussion on the leads associated with the expense items listed above and property taxes.

## Payroll and Benefits

Based on interviews with Company Staff, NCI identified that payroll and benefits consisted of the following items:

- Basic Payroll for Salaried, Union, and Retired Employees
- Pension Contributions (both defined contribution and defined benefit)
- Group Health, Dental, and Life Insurance
- Employer Health Tax Premiums
- Payments for Long Term Disability Coverage
- Payments made by the Company to the Workers Safety Improvement Board (WSIB)
- Canadian Revenue Agency Payments (Canada Pension Plan, Employment insurance, and Income Taxes) and Miscellaneous Deductions

On a dollar-weighted basis, these items were identified to have an expense lead time 15.94 days in 2011 and 2012.

A summary of the expense lead time associated with payroll and benefits is shown in Table 2. Note that the dollar amounts shown in Table 2 are amounts estimated to be charged to expense and exclude payroll related dollars that are estimated to be charged to Capital accounts.

*Table 2:Payroll and Benefits Expense Lead Time 2011-2012*

| Item | Expense Lead Days | 2009/10 Amounts $s | Weighting Factor | Weighted Lead Time Days |
|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) |
| Basic Payroll – Salary | 16.09 | 1,968,799 | 34.02% | 5.47 |
| Basic Payroll – Union | 16.15 | 1,689,949 | 29.20% | 4.72 |
| Basic Payroll – Retirees | 45.58 | 66,148 | 1.14% | 0.52 |
| Pensions - Defined Contribution | 20.06 | 120,200 | 2.08% | 0.42 |
| Pensions - Defined Benefit | 17.96 | 327,947 | 5.67% | 1.02 |
| Group Health, Dental, and Life Insurance | 19.38 | 271,206 | 4.69% | 0.91 |
| Employer Health Tax Premiums | 28.40 | 74,740 | 1.29% | 0.37 |
| Long Term Disability | (1.64) | 49,184 | 0.85% | (0.01) |
| WSIB | 44.67 | 42,807 | 0.74% | 0.33 |
| Canadian Revenue Agency Payments | 10.71 | 1,147,154 | 19.82% | 2.12 |
| Miscellaneous Deductions – Salary | 16.00 | 2,682 | 0.05% | 0.01 |
| Miscellaneous Deductions – Union | 16.00 | 26,219 | 0.45% | 0.07 |
| **Total** | | 5,787,037 | 100.00% | **15.94 days** |

The derivation of this expense lead time took into account the following:

- Salaried and Union Employees are paid bi-weekly with, on average, a nine day lag; Retirees were paid quarterly typically on the last day of any given quarter.
- Remittances to the Canadian Revenue Agency were determined based on the required schedule for payments in 2011 and 2012. Pay periods from the 1st - 7th are due the 10th of the month, pay periods from the 8th -14th are due the 17th of the month, pay periods from the 15th - 21st are due the 24th of the month and pay periods from the 22nd to the end of the month are due the 3rd of the month.
- Payments by the Company to both the defined contribution and defined benefit pension plans were generally made in the current month for the current month. The actual remittance dates varied by month.
- Payments to the Company's provider of Group Health, Dental, and Life Insurance were generally made after the fact.
- Remittances by the Company on account of the Employer Health Tax were generally made after the fact, i.e., around the middle of the month following.
- Long Term Disability Contributions were generally pre-paid, and
- Consistent with the requirements of the WSIB, payments by the Company were generally made around the last business day of the month following.

## Rents and Leases

The Company has four types of leases in place with Great Lakes Power Limited; Building, Supervisory Control and Data Acquisition (SCADA) equipment, Fibre Optics, and Radio leases. The lessor in the first three instances is Great Lakes Power Limited, whereas GLPT is the lessor in the Radio lease arrangement. Based on the payment terms of each lease and the expected amount of periodic lease payments for calendar year 2010, a weighted average expense lead time of 45.35 days was determined for all four leases.

## Office Supplies and Expenses

Office supplies and expenses consist generally of expense related to the day-to-day running of GLPT's offices, Executive Committee membership dues, and travel expenses of GLPT Staff. Taking into account the service period covered under membership dues, when staff travel occurred, and when dues were paid or expenses reimbursed during calendar year 2009, a weighted average expense lead time of 20.98 days was determined for GLPT's operations.

## Outside Services

For the twelve months ended June 30, 2010, the Company hired a number of outside vendors to provide it with legal, accounting, technical and operations related services. Using a sample of invoices from such vendors and information on when such vendors were paid, a dollar-weighted average expense lead time of 32.42 days was determined for GLPT's operations. The sample was selected such that all vendors of outside services, not necessarily all transactions, were included.

## Property Insurance

The Company's insurance provider provides a basket of insurance products to the Company including automobile, comprehensive general liability, umbrella liability, engineer's professional liability, and general property. General property insurance is the major item in the basket. The Company pre-pays its insurance typically around the beginning of the coverage period. Using actual payments made for the coverage period 2009-2010, a dollar-weighted expense lead time of (156.17) days was determined for GLPT's operations. Note the parentheses around the lead time indicating a pre-payment or expense "lag".

## Regulatory Expenses

The Company makes quarterly payments to the Ontario Energy Board and an annual payment to the Canadian Electricity Association ("CEA"). Payments to the Board are typically made around the beginning of each quarter. Payments to CEA are made in January for the current year. Using this information and considering actual payments made in 2009-10 an expense lead time of (70.67) days was determined. Again, the parentheses around the lead time indicates that these are pre-payments and thus constitute an expense payment "lag".

## Property Taxes

The Company pays property taxes in four instalments to the City of Sault Ste. Marie and the municipality of Wawa. Additionally, the Company makes an annual payment to Indian and Northern Affairs Canada.

All payments are made in the current year for the current year. Taking into account actual payments made for the 2009 tax year, a dollar-weighted expense lead time of (107.41) days was determined for the Company's operations. Again, the parentheses around the expense lead time indicates that on average, property taxes are being pre-paid and is thus an expense "lag".

## Goods and Services Tax (GST) and Harmonized Sales Tax (HST)

The expense lead times associated with the following items that attract GST and HST were considered in the NCI study:

- IESO Revenues;
- Rents and Leases;
- Office Supplies;
- Outside Services;
- Regulatory Expenses; and
- Capital Expenditures.

A summary of the expense lead times associated with each of the above items is provided in Table 3. Note that the statutory approach described earlier in this report was used to determine the expense lead times associated with the Company's remittances and collections of GST and HST, i.e., both remittances and collections are generally on the last day of the month following the date of the applicable invoice.

*Table 3. Expense Lead Times Associated With GST/HST payments (receipts)*

| Description | Lag or Lead Days | 2011 GST/HST Factor | 2012 GST/HST Factor |
|---|---|---|---|
| (A) | (B) | (C) | (D) |
| Revenues | (46.21) | -12.66% | -12.62% |
| Rents and Leases | 45.29 | 12.41% | 12.37% |
| Office Supplies | 45.65 | 12.51% | 12.47% |
| Outside Services | 37.10 | 10.16% | 10.14% |
| Regulatory Expenses | 58.14 | 15.93% | 15.89% |
| Capital Expenditures | 37.10 | 10.16% | 10.14% |

The Ontario government has harmonized the Ontario Provincial Sales Tax with the federal GST into a harmonized single sales tax effective July 1, 2010. Based on current information, there appears to be no change to the current schedule of both remittances and receipts of the HST compared with what existed under the GST regime. Thus, no changes to the schedule of either remittances or receipts of the HST relative to the schedule that governed the GST have been considered in this study and reflected in Table 3 above.

## SECTION IV: GLPT – WORKING CAPITAL REQUIREMENTS

Having calculated the revenue lag, expense lead, and the net lag times, the next step in the process is to calculate the Company's working capital requirement. Using the results described under the discussion of revenue lags and expense leads, and applying them to the Company's expenses for 2011-2012, the Company's working capital requirements are $371,000 in 2011, and $264,000 in 2012. These amounts represent approximately 4.0%, and 2.8% of the Company's OM&A expense (excluding property taxes) for each of the years.

A summary of the Company's working capital requirements is provided in Tables 4-5 for each year 2011-2012. Included within the working capital amounts shown in Tables 4-5 are GST/HST net benefits of $(226,000) and $(347,000) for each year 2011-2012. The derivation of these amounts is shown in Table 6.

*Table 4. Working Capital Requirements Associated With Transmission Operations - 2011*

| Description | 2011 Amounts $s | Revenue Lag Time Days | Expense Lead Time Days | Net Lag Days | Working Capital Factor | Working Capital Requirements $s | (Less) GST/HST | Net Working Capital Requirements $s |
|---|---|---|---|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
| Payroll and Benefits | 5,931,713 | 35.84 | 15.94 | 19.90 | 5.45% | 323,371 | | |
| Rents and Leases | 661,273 | 35.84 | 45.35 | (9.51) | -2.61% | (17,237) | | |
| Office Supplies | 174,993 | 35.84 | 20.98 | 14.86 | 4.07% | 7,124 | | |
| Outside Services | 2,079,309 | 35.84 | 32.42 | 3.42 | 0.94% | 19,458 | | |
| Property Insurance | 216,788 | 35.84 | (156.17) | 192.01 | 52.61% | 114,042 | | |
| Regulatory Expenses | 160,925 | 35.84 | (70.67) | 106.50 | 29.18% | 46,957 | | |
| Property Taxes | 264,655 | 35.84 | (107.41) | 143.25 | 39.25% | 103,866 | | |
| Total | **$9,489,655** | | | | | **$597,581** | **$(226,448)** | **$371,133** |

*Table 5. Working Capital Requirements Associated With Transmission Operations - 2012*

| Description | 2012 Amounts $s | Revenue Lag Time Days | Expense Lead Time Days | Net Lag Days | Working Capital Factor | Working Capital Requirements $s | (Less) GST/HST | Net Working Capital Requirements $s |
|---|---|---|---|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
| Payroll and Benefits | 6,080,006 | 35.84 | 15.94 | 19.90 | 5.44% | 330,550 | | |
| Rents and Leases | 677,804 | 35.84 | 45.35 | (9.51) | -2.60% | (17,619) | | |
| Office Supplies | 179,368 | 35.84 | 20.98 | 14.86 | 4.06% | 7,283 | | |
| Outside Services | 2,131,292 | 35.84 | 32.42 | 3.42 | 0.93% | 19,890 | | |
| Property Insurance | 222,207 | 35.84 | (156.17) | 192.01 | 52.46% | 116,573 | | |
| Regulatory Expenses | 164,948 | 35.84 | (70.67) | 106.50 | 29.10% | 47,999 | | |
| Property Taxes | 271,271 | 35.84 | (107.41) | 143.25 | 39.14% | 106,172 | | |
| Total | **$9,726,896** | | | | | **$610,847** | **$(347,048)** | **$263,799** |

Shown in Table 6 below is the derivation of the GST/HST Benefits and Costs included within Tables 4-5, column (H).

*Table 6. GST/HST Related Working Capital Requirements*

| Description | 2011 $s | 2012 $s | Lag or Lead Days | 2011 GST/HST Factor | 2012 GST/HST Factor | 2011 GST/HST Working Capital | 2012 GST/HST Working Capital |
|---|---|---|---|---|---|---|---|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
| Revenues | 36,356,870 | 36,356,870 | (46.21) | -12.66% | -12.62% | (598,310) | (596,675) |
| Rents and Leases | 661,273 | 677,804 | 45.29 | 12.41% | 12.37% | 10,667 | 10,904 |
| Office Supplies | 174,993 | 179,368 | 45.65 | 12.51% | 12.47% | 2,845 | 2,908 |
| Outside Services | 2,079,309 | 2,131,292 | 37.10 | 10.16% | 10.14% | 27,472 | 28,082 |
| Regulatory Expenses | 216,788 | 222,207 | 58.14 | 15.93% | 15.89% | 4,489 | 4,589 |
| Capital Expenditures | 24,703,926 | 15,417,884 | 37.10 | 10.16% | 10.14% | 326,388 | 203,145 |
| Total | | | | | | (226,448) | (347,048) |

Exhibit 2, Tab 5, Schedule 1

Asset Management

# ASSET MANAGEMENT AND CAPITAL BUDGETING

## 1.0 GLPT's Approach to Asset Management

GLPT's approach to asset management involves managing existing infrastructure and optimizing the replacement of assets.

## 1.1 Managing Existing Infrastructure

As part of managing existing infrastructure, GLPT deploys a comprehensive maintenance program which includes a variety of activities for inspecting and maintaining its lines and stations.

### 1.1.1 Lines

For transmission lines, visual inspections are carried out either by GLPT crews or by external consultants. GLPT crews conduct patrol inspections of transmission lines annually to assess condition and to identify structural problems and hazards. Because GLPT's transmission lines are primarily located in rural areas of northern Ontario, where the terrain is rugged and the vegetation is dense, specialized equipment or expertise is required. Analyses may also be performed by external consultants to provide additional detailed information on structures, conductors and insulators.

Where these inspections identify immediate deficiencies or potential hazards, GLPT undertakes the appropriate corrective maintenance to resolve the identified issue.

The information collected through inspections is used for long term maintenance planning and to identify trends in asset conditions.

GLPT collects real-time data from lines on a continuous basis using its Supervisory Control and Data Acquisition system ("SCADA"). The data collected through SCADA relates to power flow, fault data and power quality, and supplements the information collected through the inspection activities identified above.

GLPT also makes use of recently acquired LiDAR data as well as a GIS system. These tools provide detailed information on transmission lines, structures and vegetation, and support the collection and maintenance of information regarding the transmission circuits. These tools provide vital field information to front line crews to allow for a more efficient, effective and safe program.

### 1.1.2 Stations

For transmission stations, a range of inspection and maintenance activities are carried out by GLPT. These include visual inspections, functional tests, infra-red inspections, oil sampling and dissolved gas analysis ("DGA"). These activities are conducted primarily by GLPT crews. However, where specialized equipment or expertise is required (for example infra-red inspections), those activities are conducted by external consultants. A more detailed list of activities and their frequencies are set out in *Table 2-5-1* A below. The preventative maintenance activities listed in the table are based on good utility practice and manufacturer specifications.

1 *Table 2-5-1 A – Frequency of Maintenance Activities*

| Equipment | 1 Month | 6 Months | 1 Year | 2 Years | 4 Years | 6 Years | Overhauls (Based on duty) |
|---|---|---|---|---|---|---|---|
| Power, SS and grounding transformers | | Visual inspection, operate fans and heaters | | | | Insulation, winding resistance, ratio, Doble, check and calibrate temp/gas alarms and trips, connections, arresters, DGA | |
| ULTC & Voltage Regulators | | Visual inspection, operate +/- 1 tap, record counter reading | Full range operation, Doble, megger, calibrate controls | | | Oil filtering | Contact inspection (50k for MR) |
| Breaker – Vacuum | | Visual inspection, check heaters, AC/DC, etc. | Operate via SCADA | | | Functional tests, timing, contact resistance, Doble, lubrication | |
| SFG Capacitor Bank Breaker (High Duty) | | | Functional tests, timing contact resistance, Doble, lubrication | | | | |
| SFG Reactor Breaker (High Duty) | | | Functional tests, timing contact resistance, Doble, lubrication | | | | |

| Equipment | 1 Month | 6 Months | 1 Year | 2 Years | 4 Years | 6 Years | Overhauls (Based on duty) |
|---|---|---|---|---|---|---|---|
| Breaker – SF6 | | Visual inspection, check gas pressure, heaters, AC/DC, etc. | Operate via SCADA | Functional tests, timing, contact resistance, Doble, lubrication . Metalclad only. | | Functional tests, timing, contact resistance, Doble, lubrication | Contact inspection based on duty |
| Breaker – Bulk oil | | Visual inspection, draining water, operate compressor, check heaters, AC/DC, | Operate via SCADA | | Functional tests, timing, pressure relief valve, contact resistance, Doble, lubrication | | Contact inspection based on duty |
| Breaker – Min. oil | | Visual inspection, check gas and oil levels, heaters, AC/DC, etc. | Operate via SCADA | Functional tests, timing, contact resistance, Doble, lubrication. Metalclad only. | | Functional tests, timing, contact resistance, Doble, lubrication | Contact inspection based on duty |

| Equipment | 1 Month | 6 Months | 1 Year | 2 Years | 4 Years | 6 Years | Overhauls (Based on duty) |
|---|---|---|---|---|---|---|---|
| Circuit Switcher | | Visual inspection, check mech box heater, AC/DC | Operate via SCADA | | | Functional tests, contact resistance, Doble, lubrication | |
| Metal Clad Switch Gear | | | Full inspection and cleaning | | | | |
| Disconnect Switch | | Visual inspection, check mech box heater, AC/DC | | | | Contact resistance and pressure, insulation, connections, adjustment, lubrication | |
| Motorized Operated Air Break | | Visual inspection, check mech box heater, AC/DC | Operate via SCADA | | | Contact resistance and pressure, insulation, connections, adjustment, lubrication , doble | Inspection based on duty |
| Current Transformers | | Visual inspection | | | | DGA, Doble, ratio, connections | |

| Equipment | 1 Month | 6 Months | 1 Year | 2 Years | 4 Years | 6 Years | Overhauls (Based on duty) |
|---|---|---|---|---|---|---|---|
| Capacitors | | Visual inspection | Capacitance, df, connections | | | | |
| Reactors | | Visual inspection | Reactance, connections | | | | |
| Infrared | | | Annual Station Infrared Scans. | | | | |
| Oil Containment | Visual – check Imbiber, take sample, | | | | | | |
| Stations - General | | Grounding, structures, foundations, vegetation, housekeeping | Thermal scan, oil containment systems | | | Grounding assessment, insulator cleaning, connections, arresters, metalclad | |
| Batteries / chargers | Visual inspection, check voltage, record SG of pilot cell | Top up electrolyte if applicable, equalize | Capacity test, intercell and internal resistance, SG on all cells, calibrate charger | | | | |
| PT’s and CVT’s | | Visual inspection | | | | DGA, Doble, ratio, capacitance, connections | |

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The information gathered from the activities described in the table is documented and reviewed. Where immediate deficiencies or potential hazards are identified, GLPT undertakes the appropriate corrective maintenance to resolve the identified issue. Where corrective maintenance is not required, the information is retained in order to support GLPT's long term station maintenance planning and to assist in the identification of asset condition trends.

GLPT also collects real-time system data on a continuous basis using SCADA. The data collected through SCADA relates to power flow, fault data and power quality, and supplements the information collected through the inspection and maintenance activities identified above.

### 1.1.3 Station Asset Condition Assessments

In addition to the activities undertaken specifically for lines and stations, GLPT annually carries out asset condition assessments using internal staff. Periodically, GLPT retains external consultants to undertake additional asset condition assessments. Once complete, these condition assessments are incorporated into the Asset Management program and provide information for GLPT to make well informed decisions regarding the maintenance and capital programs.

## 1.2 Optimizing Asset Replacement

In order to optimize GLPT's asset replacement strategy, the maintenance and condition assessment program documentation is reviewed and assessed. The combination of the inspection and maintenance reports, coupled with the internal condition assessments, as well as third party analyses and SCADA information allow GLPT's engineering staff to effectively determine which facilities require capital improvements. This becomes GLPT's list of capital expenditure proposals. The capital expenditure proposals are analyzed using the information collected through all of the above noted sources and are reviewed in conjunction with the criteria described below in order to assist in the prioritization of projects. The prioritization of projects is based on:

- Health and Safety:
  - exposure to the public and employees;
  - likelihood of an event occurring; and
  - consequences of an event.
- Environment:
  - exposure to the public and employees;
  - likelihood of an event occurring; and
  - consequences of an event.
- Reliability:
  - customer delivery point reliability statistics;
  - unsupplied energy statistics; and
  - specific system events (i.e. faults, equipment overloading, etc.).
- Regulatory:
  - applicable standards as per the TSC;
  - compliance with mandated requirements, such as:
    - ⇨ cyber security;
    - ⇨ environmental protection (i.e. oil containment); and
    - ⇨ vegetation management (i.e. NERC FAC-003).

- Resourcing:
  - resource adequacy – equipment and human;
  - market conditions – contractors and raw materials; and
  - timelines and budget constraints.
- Synergies:
  - location relative to other projects (i.e. coordination of crews for multiple projects within close proximity reduces costs).
- Stakeholder Feedback:
  - suggestions and feedback from annual customer meetings.

Once prioritized and approved, the list of proposals becomes GLPT's capital program portfolio.

# EXHIBIT 3 - OPERATING REVENUE

Exhibit 3, Tab 1, Schedule 1

Operating Revenue

# OPERATING REVENUE

## 1.0 Revenues

GLPT's operating revenue consists of transmission services revenue earned in the normal course of business. This revenue is received monthly from the Independent Electricity System Operator ("IESO") 14 business days after the end of the month in which it was earned.

A numerical summary of GLPT's revenue for the period of 2007 actual to the 2011 and 2012 Forecast is set out below. Variances in operating revenue are driven primarily by variations in provincial peak loads from year to year.

*Table 3-1-1 A – Numerical Summary of Operating Revenue*

| USofA | Description | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|---|
| 4110 | Transmission Services Revenue | $35,567.6 | $35,073.4 | $31,888.0 | $35,141.6 | $35,141.6 | $35,141.6 | $35,141.6 |
| | **Year-over-year Variance** | | ($494.2) | ($3,185.4) | $3,253.6 | $0.0 | $0.0 | $0.0 |

GLPT's 2007 actual revenue for January through October is based on the Uniform Transmission Rates and revenue allocators for transmitters approved in 2005.[1] Actual revenue for November and December of 2007 is based on the rates and allocators approved in EB-2007-0759, a result of a revenue requirement application from Hydro One Networks Inc. ("HONI").

[1] Board Order EB-2005-0241, RP-2001-0034, RP-2001-0035, RP-2001-0036, RP-1999-0044

GLPT's 2008 actual revenue is based on the same EB-2007-0759 rates and allocators.

GLPT's 2009 revenue for January through June is based on the rates and allocators approved in EB-2008-0113, a result of an application from HONI. Beginning July 1, 2009, GLPT's revenue is based on the rates and allocators approved in EB-2008-0272, also a result of an application from HONI.

GLPT's 2010 approved transmission services revenue is based on the revenue requirement approved by the Board for GLPT in EB-2009-0408.

In calculating a 2010, 2011 and 2012 revenue forecast, GLPT has assumed the actual provincial peak volumes will be equal to the approved provincial charge determinant forecast, resulting in forecasted revenue for each year being equal to approved 2010 revenue requirement. The resultant revenue forecast is the revenue that GLPT would expect to receive in each year if there is no change to the Uniform Transmission Rates. The forecast demonstrates the deficiency that GLPT would expect to incur in 2011 and 2012 with no change in revenue requirement.

*Table 3-1-1 B – 2011 Test Year Revenue Deficiency*

| | |
|---|---|
| 2011 GLPT Revenue Forecast ($) | **$35,141,618** |
| 2011 Test Year Revenue Requirement | **36,416,897** |
| Gross Revenue Deficiency/(Sufficiency) | **$1,275,279** |

1 *Table 3-1-1 C – 2012 Test Year Revenue Deficiency*

| | |
|---|---|
| 2012 GLPT Revenue Forecast ($) | **$35,141,618** |
| 2012 Test Year Revenue Requirement | **38,337,491** |
| Gross Revenue Deficiency/(Sufficiency) | **$3,195,873** |

2

Exhibit 3, Tab 1, Schedule 2

Other Revenue

# OTHER INCOME

## 1.0 Other Income

GLPT's other income consists of:

- Net Rent from Electric Property;
- Revenues and Expenses from Merchandising, Jobbing, Etc.;
- Gains and Losses on Disposition of Utility and Other Property; and
- Interest and Dividend Income.

The table below outlines the trend of other income between periods of 2007 actual to the 2011 and 2012 test year figures.

*Table 3-1-2 A – Summary of Other Income*

| ($000's) USofA | Description | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|---|
| 4210 | Net Rent from Electric Property | - | - | (10.4) | - | (20.8) | (20.8) | (20.8) |
| 4325 | Revenues from Merchandising, Jobbing, Etc. | (92.2) | 66.4 | (590.0) | (42.3) | (215.0) | (75.0) | (75.0) |
| 4330 | Expenses of Merchandising, Jobbing, Etc. | 119.2 | (66.5) | 583.9 | 42.3 | 215.0 | 75.0 | 75.0 |
| 4355 | Gain on Disposition of Utility and Other Property | - | - | - | - | - | - | - |
| 4360 | Loss on Disposition of Utility and Other Property | 5.3 | 100.1 | - | - | - | - | - |
| 4405 | Interest and Dividend Income | | | | | | | |
| | *Carrying charges* | 53.7 | 121.1 | 18.4 | - | - | - | - |
| | *Interest on bank balance* | (120.9) | (92.7) | (12.9) | (7.2) | (9.8) | (10.0) | (10.3) |
| | **Total Other Income** | **($34.9)** | **$128.4** | **($10.9)** | **($7.2)** | **($30.6)** | **($30.8)** | **($31.1)** |
| | **Year-over-year Variance** | | **$163.3** | **($139.3)** | **$3.7** | **($23.4)** | **($0.2)** | **($0.3)** |

Net Rent from Electric Property represents the net funds GLPT will collect in each year related to fibre optic cable attachments on its transmission structures. GLPT anticipates the net annual rent to be approximately $20,800 in each of 2011 and 2012 test years.

With respect to Merchandising and Jobbing, these revenues and expenses are expected to net to zero in each of the test years. The amounts represent the costs and expenses of fully recoverable services provided by GLPT to other parties. GLPT does not actively pursue merchandising and jobbing activities, but will provide them under circumstances when they are required (for example, to act as an emergency responder).

With respect to Gains and Losses on Disposition of Utility and Other Property, GLPT anticipates that it will dispose of assets in 2011 related to the Third Line Refurbishment project (described in more detail in Exhibit 2, Tab 1, Schedule 1). These asset disposals are outside the ordinary course of GLPT's business, and are therefore not accounted for in this section of the application. The costs related to the asset disposals are instead discussed as part of Exhibit 9, Tab 1, Schedule 5 in this application.

With respect to Interest and Dividend Income, it is anticipated that GLPT will earn approximately $10,000 in 2011 and $10,300 in 2012 related to interest earned on cash held in GLPT's bank account.

## EXHIBIT 4 - OPERATING COSTS

Exhibit 4, Tab 1, Schedule 1

Summary of Operating Costs

# SUMMARY OF OPERATING COSTS

## 1.0 Overview of GLPT's Operating Costs

GLPT's operating costs for the 2011 and 2012 test years include operations, maintenance and administration ("OM&A"); depreciation and amortization; income taxes; and capital and property taxes. A summary of GLPT's operating costs is set out in the table below:

*Table 4-1-1 A – Summary of Operating Costs*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Operations, Maintenance & Administration | $6,089.6 | $7,201.9 | $7,679.4 | $9,000.0 | $9,750.0 | $9,225.0 | $9,455.6 |
| Depreciation & Amortization | 6,085.3 | 6,511.6 | 6,936.4 | 7,406.9 | 7,460.7 | 7,975.1 | 8,615.9 |
| Income Taxes | 4,590.8 | 3,384.6 | 1,187.5 | 1,729.8 | 1,443.6 | 1,457.6 | 1,521.9 |
| Capital & Property Taxes | 626.1 | 632.0 | 658.0 | 403.7 | 403.8 | 264.7 | 271.3 |
| Retirement of Readily Identifiable Assets | 1,649.1 | 1,649.1 | 1,649.1 | - | - | - | - |
| **Total Operating Costs** | **$19,040.9** | **$19,379.3** | **$18,110.4** | **$18,540.4** | **$19,058.1** | **$18,922.3** | **$19,864.7** |

Additional information for each item in the table can be found as follows:

- *OM&A* – Exhibit 4, Tab 2, Schedule 1,
- *Depreciation & Amortization* – Exhibit 4, Tab 2, Schedule 5,
- *Income Taxes* – Exhibit 4, Tab 3, Schedule 2, and
- *Capital & Property Taxes* – Exhibit 4, Tab 3, Schedules 3 and 4, respectively.

Exhibit 4, Tab 2, Schedule 1

OM&A Overview

# OM&A OVERVIEW

## 1.0 Summary

This evidence provides an overview of GLPT's operations, maintenance and administration (OM&A) expenditures. GLPT's proposed OM&A expenditures for the 2011 and 2012 test years will allow for the continued safe, reliable and cost-efficient operation of the transmission system. According to EB-2009-0408's Board Approved Settlement Agreement, OM&A increases sought by GLPT for each of 2011 and 2012 would not exceed 2.5% per year.

GLPT has determined these expenditure levels through its OM&A budgeting process and asset management program. GLPT's OM&A budgeting process is further discussed at Exhibit 1, Tab 2, Schedule 2 and its approach to asset management is further discussed at Exhibit 2, Tab 5, Schedule 1. Based upon this process, GLPT is seeking overall OM&A increases of 2.5% per year for each of 2011 and 2012.

GLPT's OM&A activities include but are not limited to the following:

- *Operations* includes activities relating to inspection, general engineering, testing, system control and work planning.
- *Maintenance* relates to preventative maintenance activities and corrective maintenance. Preventative maintenance includes maintenance carried out on a cyclical basis for structures and devices to avoid failure. Corrective maintenance

is activity relating to the repair and replacement of equipment that either has failed or is about to fail.

- *Administration* relates to activities which include accounting, general administration, health and safety, information technology and regulatory activities.

A summary of GLPT's OM&A expenses is presented in *Table 4-2-1 A*, below.

*Table 4-2-1 A - Summary of OM&A Expenses*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Total OM&A | $6,089.6 | $7,201.9 | $7,679.4 | $9,000.0 | $9,750.0 | $9,225.0 | $9,455.6 |
| Variance | | $1,112.3 | $477.5 | $1,320.6 | $750.0 | ($525.0) | $230.6 |

EB-2009-0408's Board Approved Settlement Agreement did not address the allocation of approved OM&A expenditures over the various USofA accounts. Therefore, GLPT has not displayed the 2010 approved OM&A figures by functional area or on an account-by-account basis. Base upon the budgeting process described at Exhibit 1, Tab 2, Schedule 2, which incorporated the primary drivers of inflation and wage and benefit increases, GLPT is seeking overall OM&A increases of 2.5% per year for each of 2011 and 2012. As stated at Exhibit 1, Tab 2, Schedule 2, GLPT used a CPI of 2.5% and a wage and benefit increase of 2.5%.[1] Based on these drivers, GLPT's OM&A budgets were

[1] GLPT's current collective agreement covers 2010, 2011 and 2012, and provides for wage increases of 2.5% per year for each year.

developed using a top-down approach. Using this approach, GLPT considered those budget items that would be impacted by changes in the CPI or negotiated wage and benefit increases. For example, in excess of 95% of OM&A expenditures occur because of third party contracts, materials and supplies or internal labour, all of which are subject to either inflation or wage and benefit changes. GLPT also considered budget items related to operational needs and also expenditures for which no change would occur due to inflation or wages and benefits. To ensure the budgeted OM&A expenditures for the 2011 and 2012 test years would provide sufficient funding to allow for the continued safe, reliable and cost-efficient operation of the transmission system, GLPT confirmed the budgeted OM&A expenditures for the 2011 and 2012 test years with operations via a bottom-up approach by reviewing budgets with front line managers.

GLPT's OM&A expenses are summarized by functional area, with the exception of the 2010 Approved amounts, in *Table 4-2-1 B*, below (OM&A year-over-year comparisons are set out in **Appendix "A"**):

*Table 4-2-1 B – OM&A Expenses by Functional Areas*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|
| Operations | $2,167.4 | $2,634.6 | $3,369.5 | $3,824.1 | $3,919.7 | $4,017.7 |
| Maintenance | 1,607.0 | 2,194.4 | 1,625.2 | 2,034.0 | 2,084.8 | 2,136.9 |
| Administration | 2,315.2 | 2,372.9 | 2,684.7 | 3,892.0 | 3,220.5 | 3,301.0 |
| **Total OM&A** | **$6,089.6** | **$7,201.9** | **$7,679.4** | **$9,750.0** | **$9,225.0** | **$9,455.6** |

## 2.0 OM&A Cost Drivers

An account-by-account summary of GLPT's OM&A costs for 2007 through the 2011 and 2012 test years is provided in Table 4-2-1 C. As a result of the forgoing, GLPT does not have material variances year-over-year between the Board-Approved 2010 OM&A and the 2011 and 2012 test year OM&A in total or on an account basis. No variance on an account basis exceeds GLPT's materiality threshold of $182,343 for 2011 or $194,063 for 2012. Consequently, GLPT has not provided an account by account variance analysis.

*Table 4-2-1 C – OM&A Costs by Uniform System of Accounts*

| ($000's) USofA | Description | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| | **Transmission Expenses - Operation** | | | | | | |
| 4805 | Operation Supervision and Engineering | $383.1 | $641.5 | $482.4 | $363.5 | $381.1 | $390.6 |
| 4810 | Load Dispatching | 1,024.0 | 945.9 | 1,107.3 | 1,500.2 | 1,530.7 | 1,569.0 |
| 4815 | Station Buildings and Fixtures Expense | 247.9 | 258.9 | 648.5 | 811.7 | 832.0 | 852.8 |
| 4820 | Transformer Station Equipment - Labour | 81.6 | 294.8 | 461.3 | 366.1 | 375.3 | 384.7 |
| 4825 | Transformer Station Equipment - Supplies and Exp. | 68.0 | 83.4 | 261.4 | 82.2 | 84.2 | 86.3 |
| 4830 | Overhead Line Expenses | 124.4 | 153.9 | 116.7 | 157.0 | 160.9 | 164.9 |
| 4845 | Miscellaneous Transmission Expenses | 177.9 | 166.9 | 217.3 | 462.5 | 472.6 | 484.4 |
| 4850 | Rents | 60.5 | 89.2 | 74.6 | 80.9 | 82.9 | 85.0 |
| | **Transmission Expenses - Maintenance** | | | | | | |
| 4910 | Mtce of Transformer Station Buildings and Fixtures | 23.2 | 17.5 | 20.3 | 91.8 | 94.1 | 96.5 |
| 4916 | Mtce of Transformer Station Equipment | 556.8 | 377.2 | 321.7 | 430.8 | 441.6 | 452.6 |
| 4930 | Mtce of Poles, Towers, and Fixtures | 18.7 | 24.5 | 5.1 | 18.5 | 19.0 | 19.4 |
| 4935 | Mtce of Overhead Conductors and Devices | 157.2 | 271.1 | 58.8 | 182.8 | 187.4 | 192.1 |
| 4940 | Mtce of Overhead Lines - Right of Way | 851.1 | 1,400.8 | 1,121.7 | 1,200.0 | 1,230.0 | 1,260.8 |
| 4945 | Mtce of Overhead Lines - Roads and Trails Repairs | - | 103.2 | 97.8 | 110.0 | 112.8 | 115.6 |
| | **Administrative and General Expenses** | | | | | | |
| 5605 | Executive Salaries and Expenses | 401.3 | 403.4 | 417.6 | 718.4 | 836.4 | 957.3 |
| 5615 | General Administrative Salaries and Expenses | 1,056.6 | 988.6 | 924.6 | 925.7 | 948.8 | 972.6 |
| 5620 | Office Supplies and Expenses | - | - | 53.9 | 170.7 | 175.0 | 179.4 |
| 5630 | Outside Services Employed | 553.4 | 675.6 | 910.7 | 1,649.1 | 821.6 | 742.1 |
| 5635 | Property Insurance | 116.4 | 115.1 | 179.4 | 211.5 | 216.8 | 222.2 |
| 5655 | Regulatory Expenses | 167.4 | 153.6 | 149.7 | 157.0 | 160.9 | 164.9 |
| 5665 | Miscellaneous General Expenses | - | 15.3 | 27.4 | 36.5 | 37.4 | 38.3 |
| 5680 | Electrical Safety Authority Fees | 20.1 | 21.4 | 21.4 | 23.0 | 23.6 | 24.2 |
| | Subtotal Operations | 2,167.4 | 2,634.6 | 3,369.5 | 3,824.1 | 3,919.7 | 4,017.7 |
| | Subtotal Maintenance | 1,607.0 | 2,194.4 | 1,625.2 | 2,034.0 | 2,084.8 | 2,136.9 |
| | Subtotal A&G | 2,315.2 | 2,372.9 | 2,684.7 | 3,892.0 | 3,220.5 | 3,301.0 |
| | **Total OM&A** | **$6,089.6** | **$7,201.9** | **$7,679.4** | **$9,750.0** | **$9,225.0** | **$9,455.6** |

## 3.0 Benchmarking

In EB-2009-0408, GLPT provided the Board with a benchmarking report prepared by First Quartile Consulting (1QC). GLPT engaged 1QC to update the benchmarking report. 1QC was engaged to analyze the costs of operation of the GLPT transmission system, in comparison with those of other transmission providers in North America. There are very few true “peers” for comparison, since GLPT is somewhat unique in terms of its size, rural geographic location, and dense vegetation. Nevertheless, it is important to gain some understanding of the relative costs of operation of the system in comparison to other transmission providers, in order to determine reasonable rates for operating the company. 1QC used the data from a panel of companies who have provided that data during detailed annual benchmark studies of North American transmission utilities as a basis for comparison against GLPT. Based upon 1QC's primary comparison, GLPT generally falls below average on a cost per asset basis, and for OM&A GLPT is in the fourth quartile (lowest cost). 1QC's report is found at **Appendix "B"** to this schedule.

## 4.0 Regulatory Costs

For an overview of regulatory costs for test years 2011 and 2012 is set out in **Appendix "C"**.

## 5.0 OM&A Costs per FTE

The OM&A costs per FTE for test years 2011 and 2012 is set out in **Appendix "D"**.

# <u>APPENDIX "A"</u>

**Summary of OM&A Expenses**

**Appendix 2-E of Filing Requirements**

## Table 1: OM&A Year over Year Comparisons

| ($000's) | 2007 Actuals | 2008 Actuals | Variance $000's | Variance % |
|---|---|---|---|---|
| Operations | 2,167.4 | 2,634.6 | 467.2 | 21.6% |
| Maintenance | 1,607.0 | 2,194.4 | 587.4 | 36.6% |
| Administration & General | 2,315.2 | 2,372.9 | 57.7 | 2.5% |
| **Total OM&A Expenses** | **6,089.6** | **7,201.9** | **1,112.3** | 18.3% |
| Inflation Rate | 2.5% | 2.5% | | |

| ($000's) | 2008 Actuals | 2009 Actuals | Variance $000's | Variance % |
|---|---|---|---|---|
| Operations | 2,634.6 | 3,369.5 | 734.9 | 27.9% |
| Maintenance | 2,194.4 | 1,625.2 | (569.2) | -25.9% |
| Administration & General | 2,372.9 | 2,684.7 | 311.8 | 13.1% |
| **Total OM&A Expenses** | **7,201.9** | **7,679.4** | **477.5** | 6.6% |
| Inflation Rate | 2.5% | 2.5% | | |

| ($000's) | 2009 Actuals | 2010 Forecast | Variance $000's | Variance % |
|---|---|---|---|---|
| Operations | 3,369.5 | 3,824.1 | 454.6 | 13.5% |
| Maintenance | 1,625.2 | 2,034.0 | 408.7 | 25.1% |
| Administration & General | 2,684.7 | 3,892.0 | 1,207.2 | 45.0% |
| **Total OM&A Expenses** | **7,679.4** | **9,750.0** | **2,070.6** | 27.0% |
| Inflation Rate | 2.5% | 2.5% | | |

| ($000's) | 2010 Forecast | 2011 Test Year | Variance $000's | Variance % |
|---|---|---|---|---|
| Operations | 3,824.1 | 3,919.7 | 95.6 | 2.5% |
| Maintenance | 2,034.0 | 2,084.8 | 50.8 | 2.5% |
| Administration & General | 3,892.0 | 3,220.5 | (671.5) | -17.3% |
| **Total OM&A Expenses** | **9,750.0** | **9,225.0** | **(525.0)** | -5.4% |
| Inflation Rate | 2.5% | 2.5% | | |

| ($000's) | 2011 Test Year | 2012 Test Year | Variance $000's | Variance % |
|---|---|---|---|---|
| Operations | 3,919.7 | 4,017.7 | 98.0 | 2.5% |
| Maintenance | 2,084.8 | 2,136.9 | 52.1 | 2.5% |
| Administration & General | 3,220.5 | 3,301.0 | 80.5 | 2.5% |
| **Total OM&A Expenses** | **9,225.0** | **9,455.6** | **230.6** | 2.5% |
| Inflation Rate | 2.5% | 2.5% | | |

**Table 2: Additional Total OM&A Expense Comparative Information Table**

| Required Total OM&A Comparison | % |
|---|---:|
| 2011 Test Year versus 2009 Actuals | 20.1% |
| 2012 Test Year versus 2009 Actuals | 23.1% |
| 2011 Test Year versus 2010 Board Approved | 2.5% |
| 2012 Test Year versus 2010 Board Approved | 5.1% |
| Simple average of variance % for all actual years | 12.4% |
| Compound annual growth rate for actual years | 12.3% |

# APPENDIX "B"

## First Quartile Consulting Benchmarking Report

# Great Lakes Power Transmission operation Cost Analysis

Prepared by:
First Quartile Consulting, LLC

September 9, 2010

FIRST QUARTILE CONSULTING

## Introduction

Great Lakes Power Transmission LP (GLPT) is a transmission owner and operator serving a portion of northern Ontario, Canada. GLPT was established as part of a series of reorganizations of Great Lakes Power Limited (GLPL) in which GLPT became the owner and operator of GLPL's transmission business. Prior to these reorganizations GLPL ran the transmission business financially separate from its generation and distribution businesses and operationally in conjunction with the distribution business. Previously the transmission business of GLPL has been through a full cost of service review. This is the second application of GLPT as a stand-alone transmitter, i.e., both financially and operationally.

First Quartile Consulting (1QC) was engaged to analyze the costs of operation of the GLPT transmission system, in comparison with those of other transmission providers in North America. There are very few true "peers" for comparison, since GLPT is somewhat unique in terms of its size, rural geographic location, and dense vegetation. Nevertheless, it is important to gain some understanding of the relative costs of operation of the system in comparison to other transmission providers, in order to determine reasonable rates for operating the company. 1QC used the data from a panel of companies who have provided that data during detailed annual benchmark studies of North American transmission utilities as a basis for comparison against GLPT.

## Analysis Approach

1QC performed a set of analyses to determine how GLPT compared against a panel of companies with regard to Transmission Line, Transmission Substation and related Administrative and General (A&G) expenses. The primary basis for the comparison was a data set of Transmission Lines & Substations O&M expenses which is gathered during the annual 1QC transmission and distribution benchmark study. That study doesn't collect A&G costs as part of the standard comparisons.

The definitions used for separation of direct O&M costs versus A&G costs in the 1QC study are those used in the FERC uniform system of accounts. Canadian utilities (some of whom are included in the comparison panel) typically capture the A&G costs together with the O&M costs, and report them as OM&A. The experience from the annual 1QC benchmark studies is that the Canadian utilities are able to separate out the A&G costs effectively, by following the definitions provided in the uniform system of accounts, so their results are directly comparable,

To address the need to include A&G costs in the comparison, we gathered three years of A&G expenses from available FERC reports. These A&G expenses as reported to FERC are for the whole generation, transmission and distribution operation. Therefore, it was necessary to make an allocation of A&G expenses for just transmission lines & substations. A rudimentary calculation was used to allocate A&G to transmission: (transmission O&M expense / (transmission + generation + distribution O&M expense)) * total A&G expense = transmission portion of A&G expense. While this is a very simple approach to allocating the costs, it has been tested in previous years through annual benchmark studies, and has proven accurate in determining allocations that are very close to the actual allocations for each company.

GLPT's Transmission lines & substations O&M expenses and its O&M + A&G expenses were compared against the 1QC panel. To perform a valid comparison, it was necessary to normalize the data to account for the different sizes of the companies. For the primary normalizing factor we chose total transmission lines & substations assets. Through analysis over the years, we have determined that total assets is the appropriate normalization factor for transmission spending and that it is possible to accurately predict a company's O&M expenses based upon the value of the assets they have. See **Appendix A** for a more complete explanation of the selection of normalizing factor.

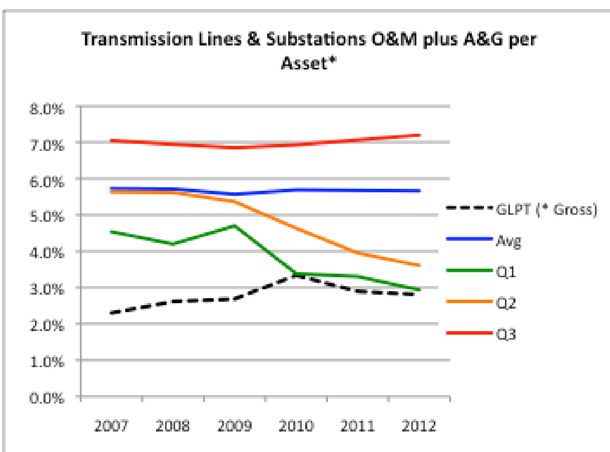
## Results and Conclusions

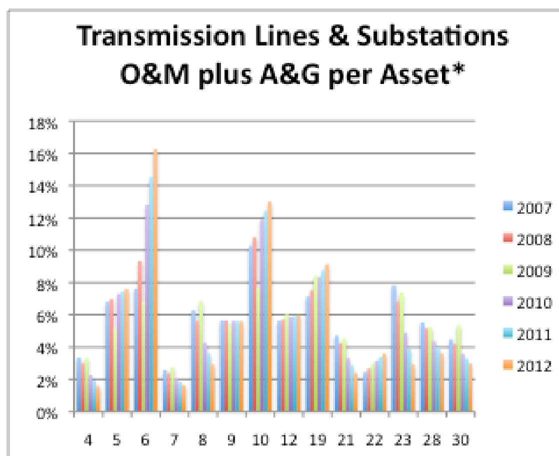
Based upon our primary comparison, GLPT generally falls below average on a cost per asset basis. In the graphs below, the mean and quartiles are calculated without GLPT's data. They are based solely on our panel of companies, so that GLPT is being compared against a data set without influencing it.

Note that in graphs years 2010 to 2012 are projected based upon 2007 to 2009 actual data for all companies other than GLPT.

For all of the graphs only companies for which A&G data was available were used. GLPT compares favorably against this panel. Graph 2 shows just the A&G per asset. Clearly, while GLPT shows slightly increasing A&G costs, the result is still well below the median cost within the panel

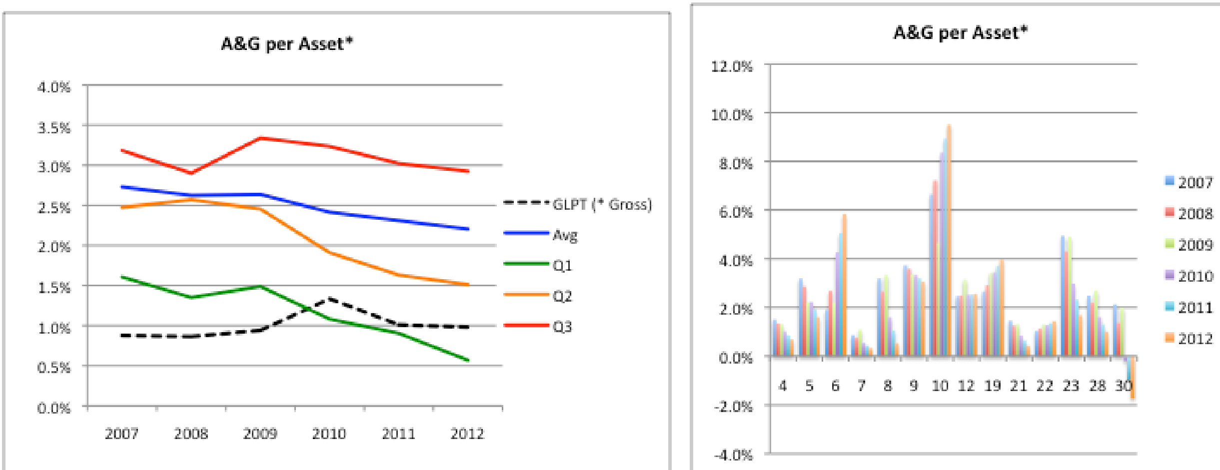
**Graph 1**



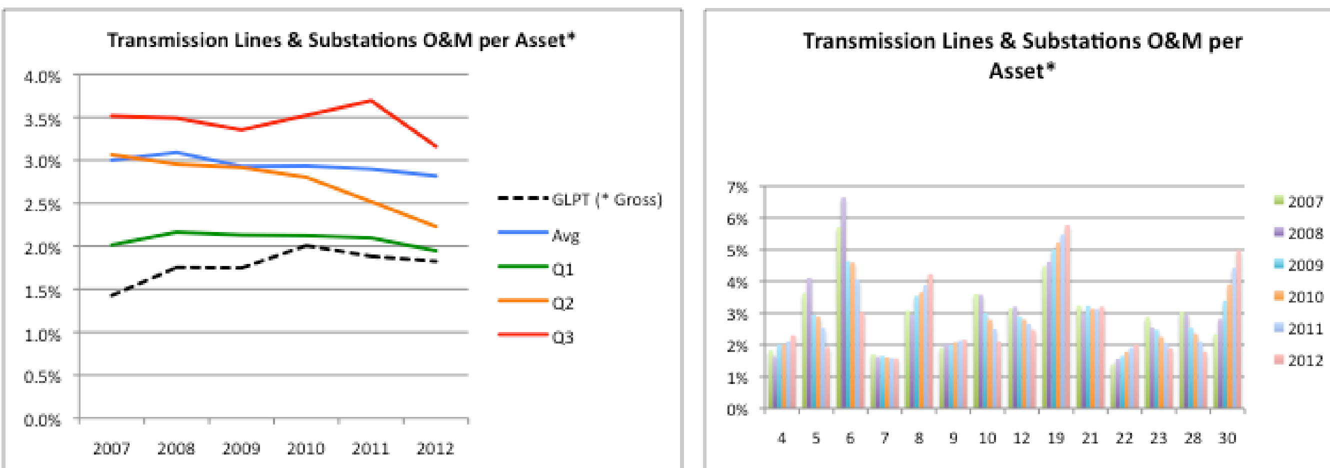

A comparison of this report with a similar report prepared during 2009 will show different values for the cost-per-asset figures for Great Lakes Power. In particular, during the 2009 study, the net assets were used for Great Lakes Power, rather than the gross assets, as was done for all other companies in the comparison. This was corrected during this year's study. The conclusions of the study don't change on the basis of the revised computation, so there is no need to go back and re-issue the previous study.

**Graph 2**




Graph 3 below shows the O&M costs without the A&G costs. GLPT, even with increases in the past two years, is and expects to remain in the first quartile for the comparison panel.

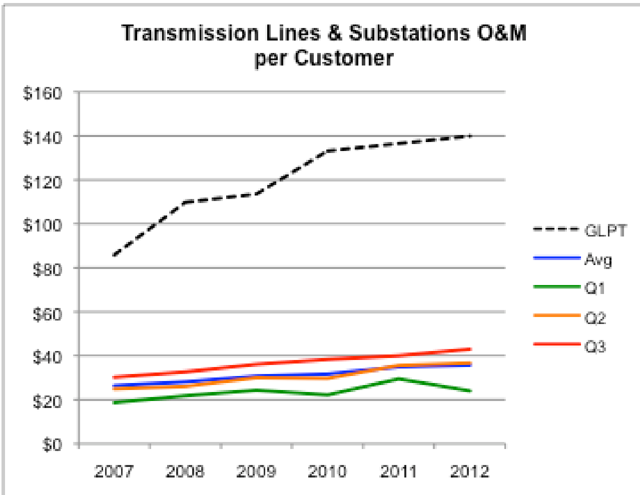
**Graph 3**



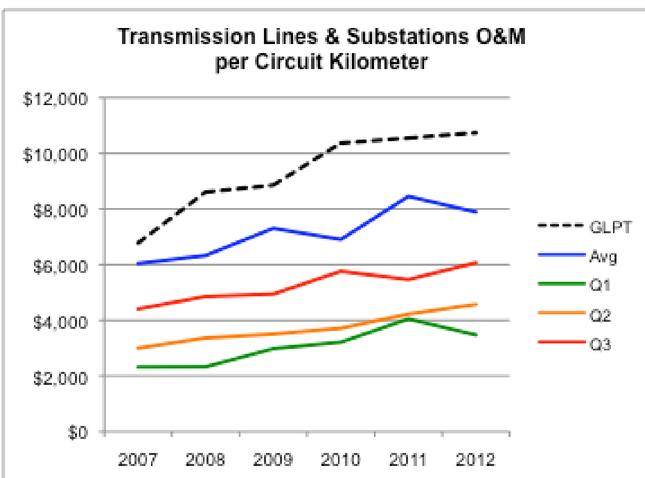

An important point about the GLPT costs for 2009 and 2010 should be noted. GLPT is in the midst of a multi-year construction program, so the asset base will be growing. These expenditures won't be reflected in the denominator of the ratio charted until 2011, because a large portion of the expenditures will be in CWIP for the forecast period, rather than in the in-service asset base. At the same time, the new assets (primarily substation assets) will require less maintenance than the assets they are replacing. The implication is that once the new assets are placed in service after 2010, there will be a dampening effect on the increasing cost/asset shown in graph 1 above.

For other comparisons, we also normalized spending based upon customers and circuit kilometers. Neither of these comparisons is recommended (see appendix) and the results are about as expected for GLPT, which is a small transmission operator.

**Graph 4**




**Graph 5**




Two other possible normalizing factors (denominators) (kWh transmitted and megawatt miles) were excluded because of lack of data, but neither has been demonstrated to be better than assets at predicting transmission & substation O&M spending.



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## Appendix A: Why "Assets" is the Appropriate Denominator.

Over a span of more than 20 years of executing benchmark studies of electric transmission and distribution operations in North American utilities, the consultants at 1QC have performed a variety of analyses of the resulting data. One question of enduring interest is how to normalize the data from different companies in order to make both fair and understandable comparisons. Through a number of different analyses and reporting efforts, it has become clear that with an appropriate normalizing factor, it is possible to make fair comparisons, and that it is also possible to explain the results in ways that make them useful to regulators and companies.

For many years, the studies have been consistent in terms of identifying the normalizing factor that produces the best predictor of operating costs in transmission and distribution. Given the difference in the functions of transmission and distribution, separate studies have been performed for transmission and distribution (and indeed for substation operations). The exact regression results change from year to year, but are generally the same direction.
In order to re-validate the results from previous years, the project team performed an analysis of the data from the most recently completed annual benchmark dataset. The results of that analysis are presented below.

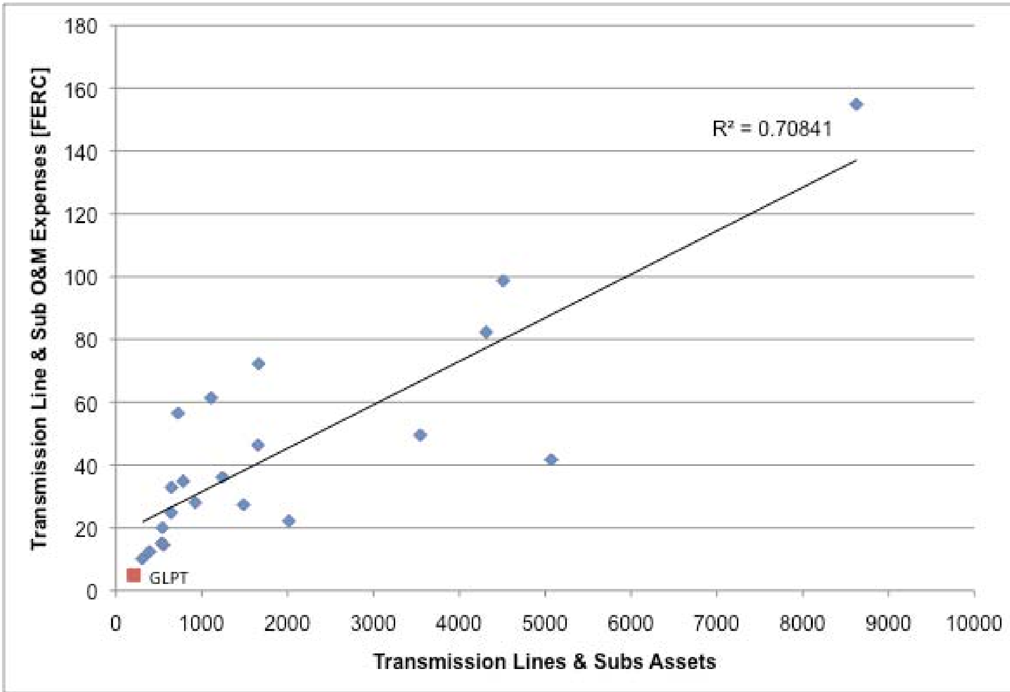
To determine the appropriate denominators (normalizing factors) to use for analysis, we compare the dependent variable, in this case O&M spending, to various independent variables: customers, circuit kilometers, and assets. We look for a strong correlation between the two variables. For transmission lines and substations O&M spending, the strongest correlation exists between spending and assets. The relationship between spending and customers or circuit km is much weaker. The table below shows $R^2$ correlation coefficient values for the dependent and independent variables. The table was generated without A&G expenses because of the method used for estimating A&G expenses. It was necessary to determine the correct normalizing factor from our most current valid data set.

| | Transmission Lines & Subs Assets | Transmission Circuit Kilometers | Customers |
|---|---|---|---|
| Transmission Line & Sub O&M Expenses (FERC) | 0.708 | 0.502 | 0.257 |

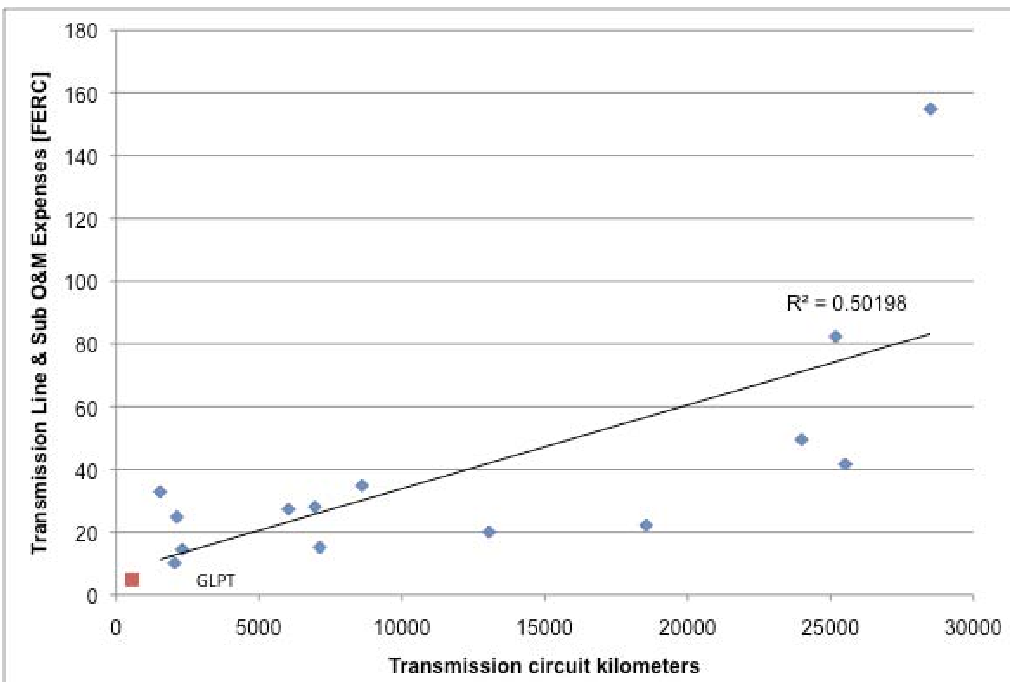
In summary, we have found assets to be the appropriate denominator because it appears to have a higher predictive value when there are big differences in customer density among the panel.

Transmission operators do not really have end-use customers, which is one reason customers is such a weak normalizing factor. Kilometers is also weak because the costs of operating substations are included in the dependent variable and substations are not accounted for when kilometers is used as a normalizing factor.

Shown below are the individual graphs from which the $R^2$ values are derived. In each graph, GLPT has been added to the graph to show where they fall compared to the other companies, but they are not included in the calculation of the correlation coefficient. 1QC decided that it was appropriate to determine the correlation coefficients independently of GLPT's data. By performing the analysis this way, GLPT's data isn't influencing the findings.




Other correlation charts between expenses and normalizing factors:




Note that the outlier on the circuit kilometers graph is on the regression line when assets are used. This is particularly noteworthy because this company has some of the same



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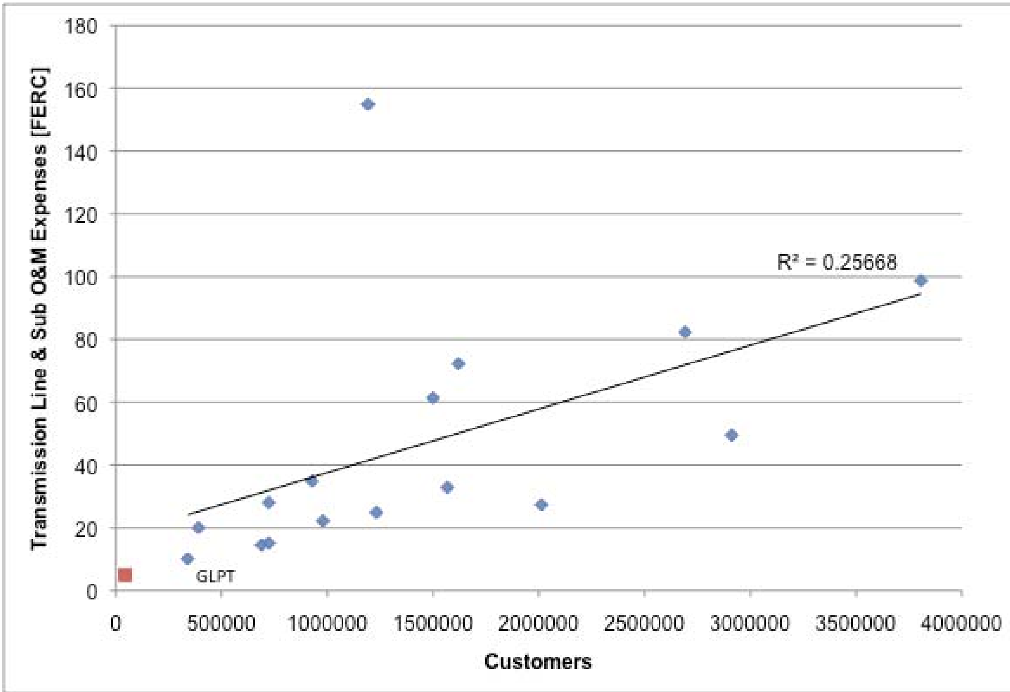
characteristics of GLPT, namely low customer density. The density issue is also illustrated on the graph below.

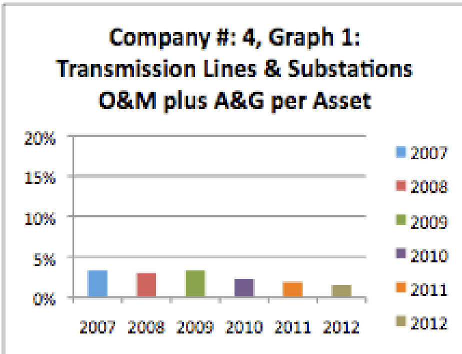


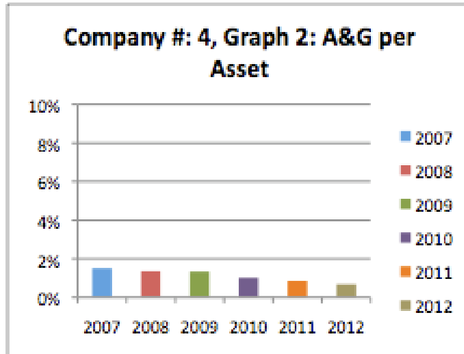
## Appendix B: Demographics of Comparison panel

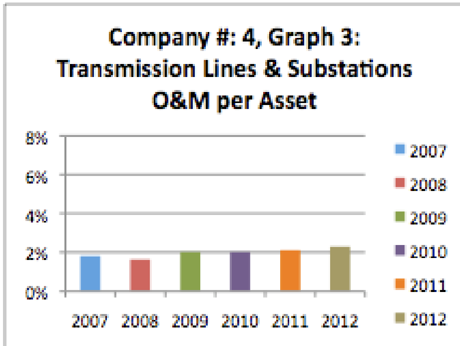
| ID | CHARACTERISTICS | GEOGRAPHIC LOCATIONS | VOLTAGES/KM | TERRAIN | NUMBER OF CUSTOMERS | INDUSTRIAL CUSTOMERS | % Ind'l |
|---|---|---|---|---|---|---|---|
| 4 | Combined D&T | Southeast US | 69kV : 684km, 100kV class : 3398km, 300kV Class and above : 1956km, | flat, dense trees | 2,011,174 | 6,951 | 0.346% |
| 5 | Combined D&T | MidAtlantic US | | flat, dense trees | 1,225,305 | 389 | 0.032% |
| 6 | Combined D&T | MidAtlantic US | 69kV : 177km, 100kV class : 211km, 200kV Class : 853km, 400kV Class and above : 302 | flat, dense trees | 1,555,343 | 3,081 | 0.198% |
| 7 | Combined D&T | Southwest US | 69kV : 4740km, 100kV class : 11128km, 300kV Class and above : 8116km, | flat, few trees | 3,077,913 | 182,018 | 5.914% |
| 8 | Combined D&T | Southeast US | 69kV : 4435km, 100kV class : 3242km, 300kV Class and above : 838km, 400kV Class and above : 92 | flat, dense trees | 934,215 | 1,981 | 0.212% |
| 9 | Combined D&T | Southeast US | <69kV : 166km, 69kV : 2541km, 100kV class : 15395km, 200kV Class : 3640km, 300kV Class and above : 156km, 400kV Class and above : 3282 | flat, dense trees | 2,656,120 | 44,373 | 1.671% |
| 10 | | MidWest US | 69kV : 1131km, 100kV class : 2428km, 300kV Class and above : 748km | flat, some trees | 510,296 | 2,342 | 0.459% |
| 12 | Combined D&T | MidWest US | <69kV : 2257km, 69kV : 2656km, 100kV class : 5701km, 200kV Class : 1562km, 300kV Class and above : 79km, 400kV Class and above : 796 | flat, few trees | 385,467 | 71 | 0.018% |
| 19 | Combined D&T | Northeast US | <69kV : 2257km, 69kV : 2656km, 100kV class : 5701km, 200kV Class : 1562km, 300kV Class and above : 79km, 400kV Class and above : 796 | flat, dense trees | 1,614,884 | 1,695 | 0.105% |
| 21 | Combined D&T | MidAtlantic US | | flat, dense trees | 3,800,000 | | 0.000% |
| 22 | Combined D&T | Southwest US | <69kV : 15km, 69kV : 4258km, 100kV class : 265km, 200kV Class : 1161km, 300kV Class and above : 963km, 400kV Class and above : 2126km | flat, few trees | 1,212,625 | 108,781 | 8.971% |
| 23 | Combined D&T | MidWest US | 69kV : 1857km, 100kV class : 3481km, 200kV Class : 668km, 300kV Class and above : 1736km | flat, some trees | 683,615 | 4,842 | 0.708% |
| 28 | Combined D&T | Southwest US | <69kV : 735km, 100kV class : 606km, 300kV Class and above : 1830km, 400kV Class and above : 853km | flat, few trees | 401,263 | 631 | 0.157% |
| 30 | Combined D&T | Northwest US | <69kV : 203km, 100kV class :2755km, 200kV Class : 506km, 400kV Class and above : 825km | flat, dense trees | 1,072,828 | 3,710 | 0.346% |

## Appendix C: Individual Bar charts for comparison panel

### Company #4

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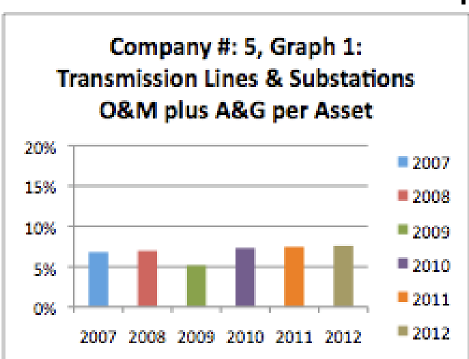


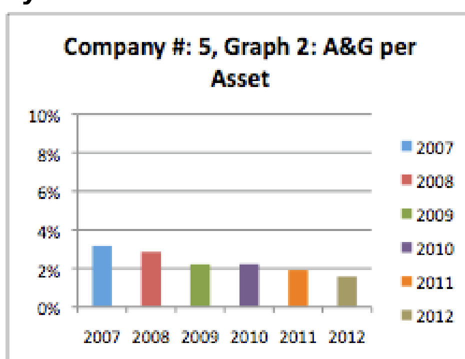


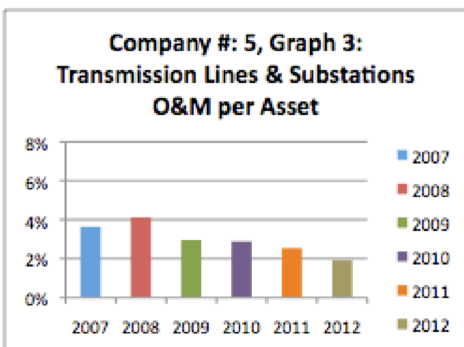

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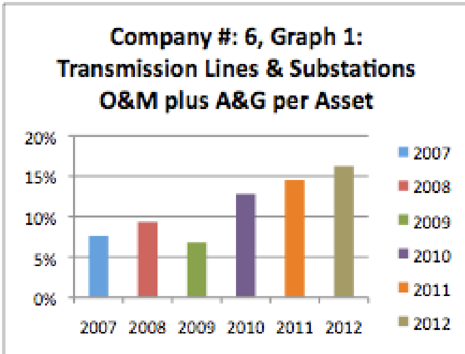


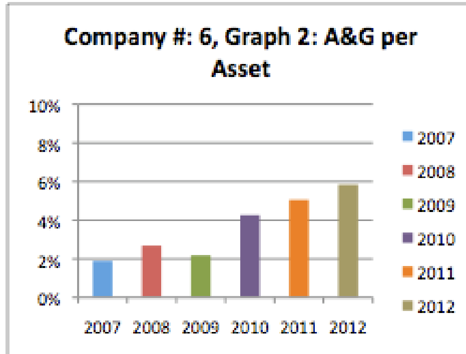


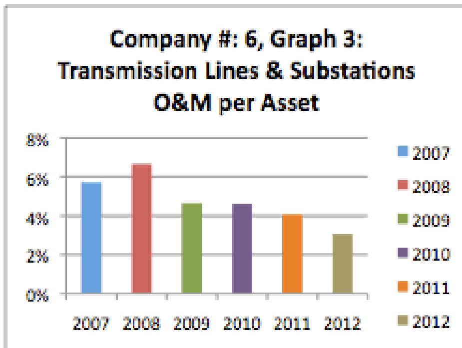


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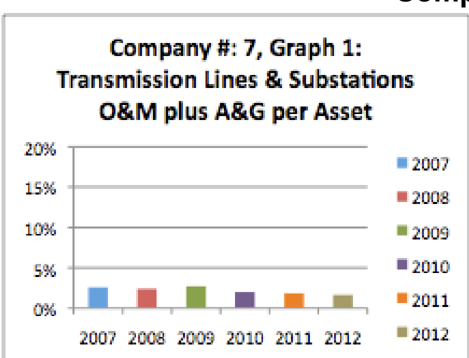


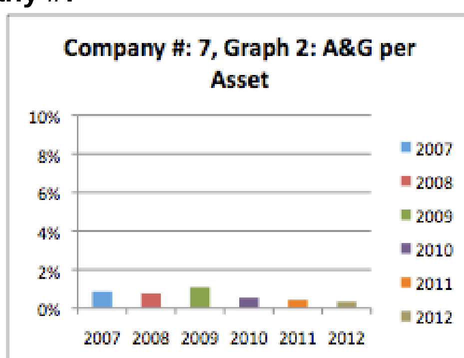


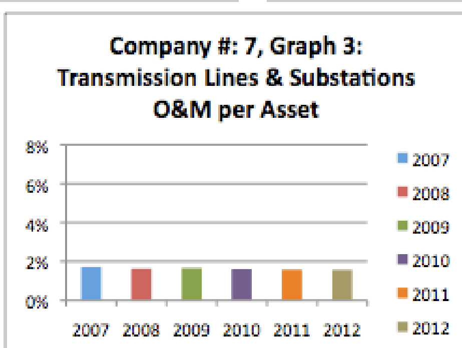

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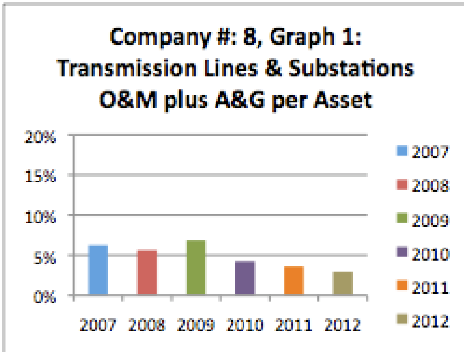


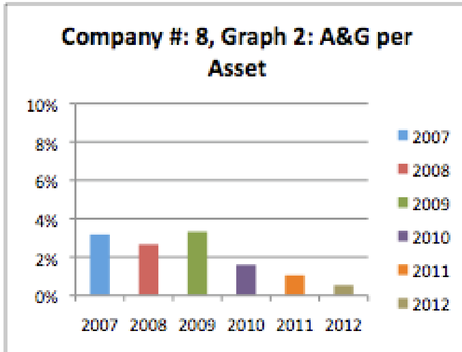


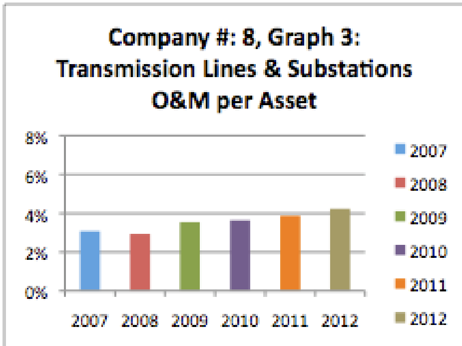


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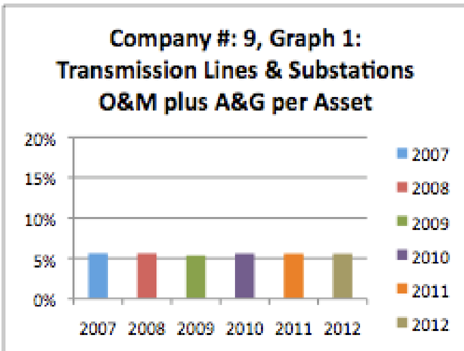


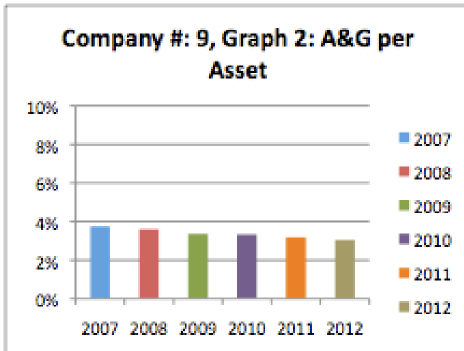


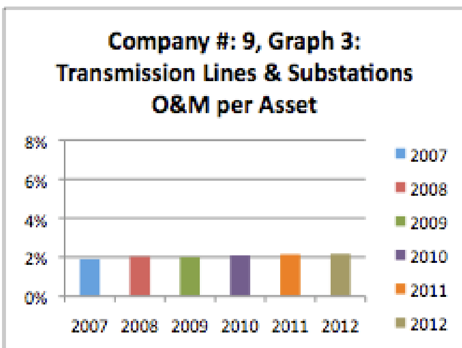

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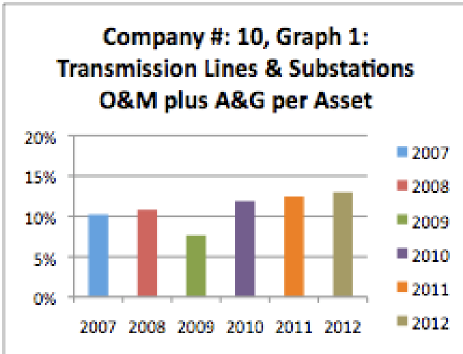


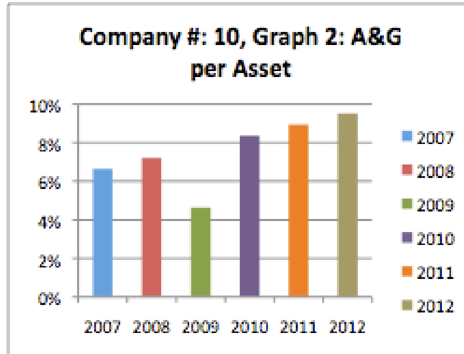


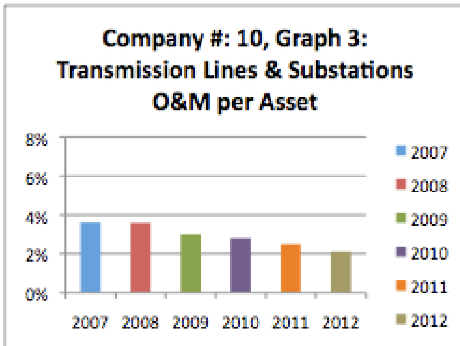


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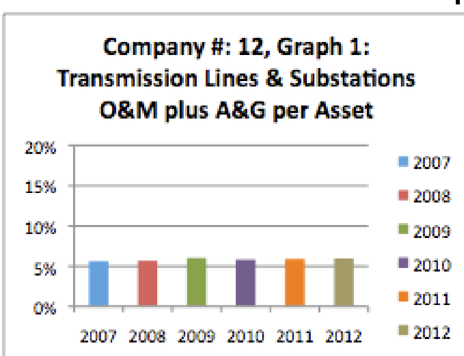


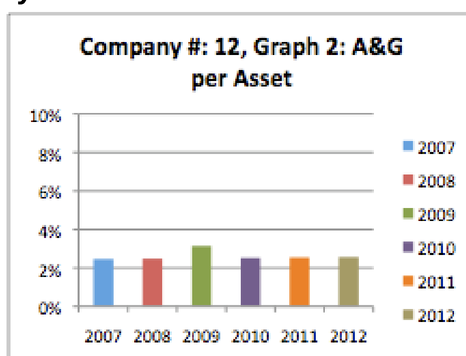


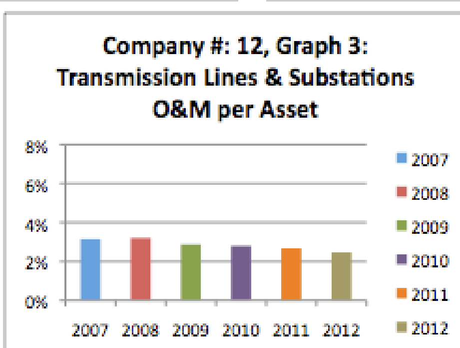

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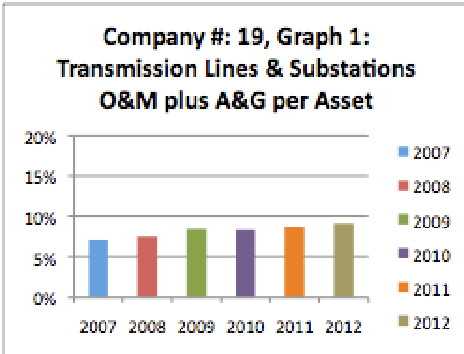


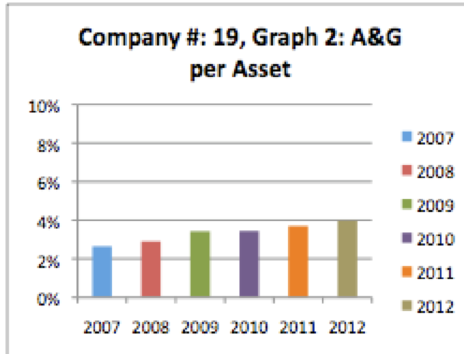


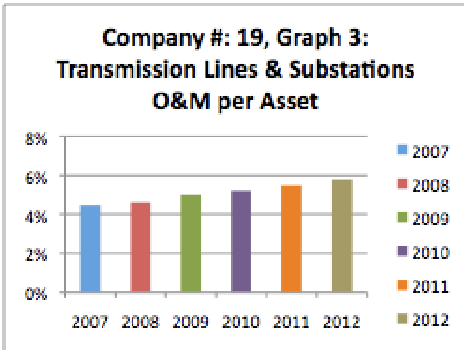


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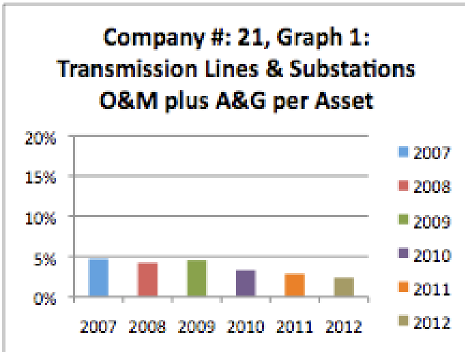


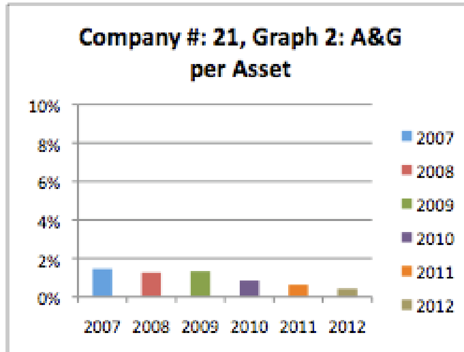


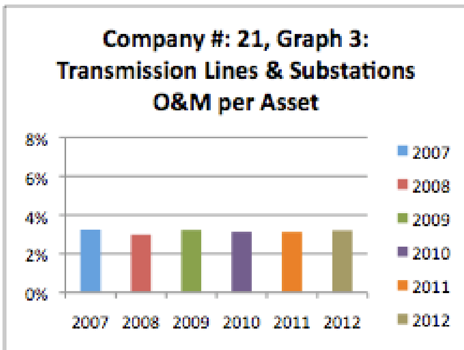




First Quartile Consulting

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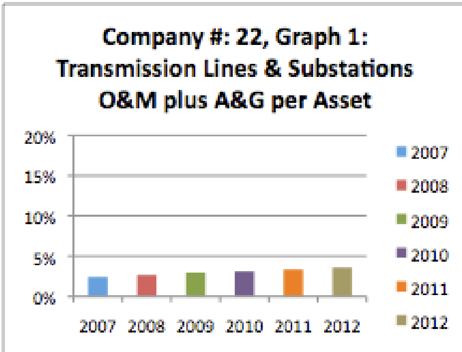


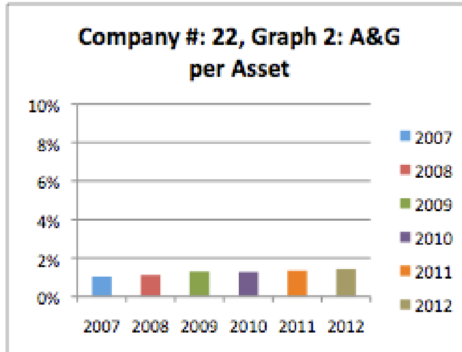


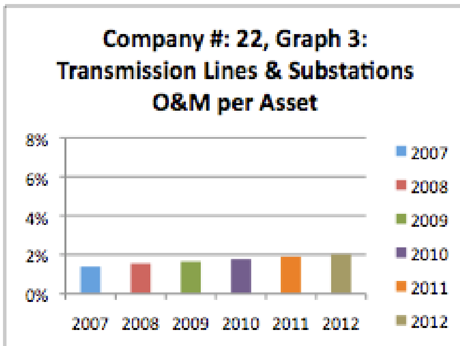


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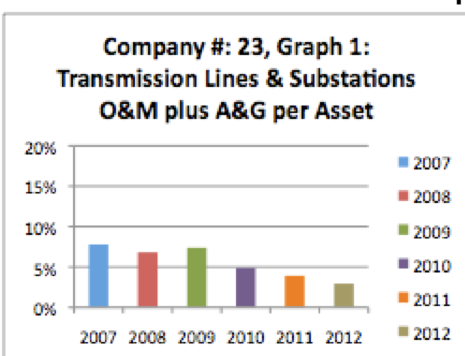


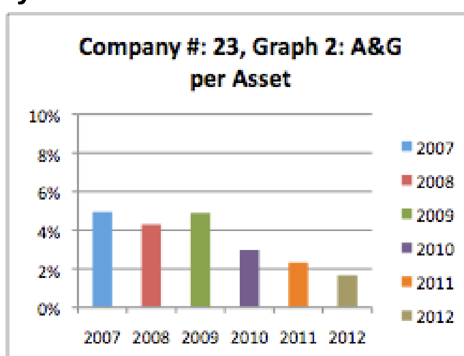


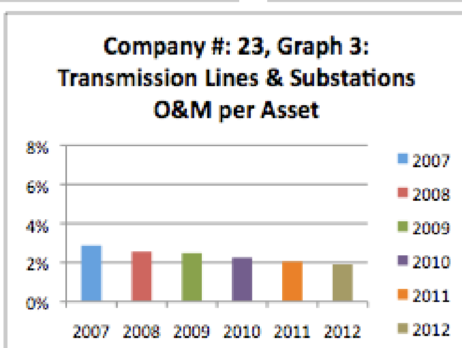

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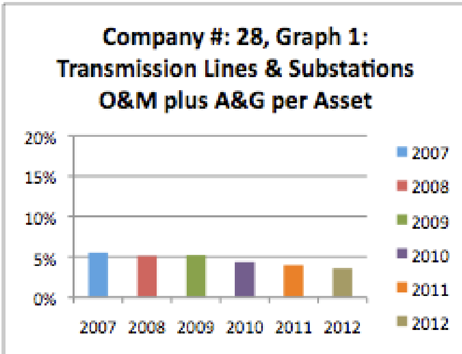


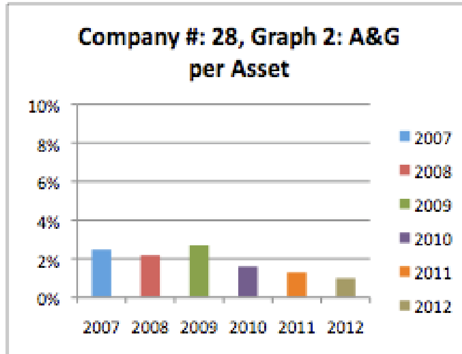


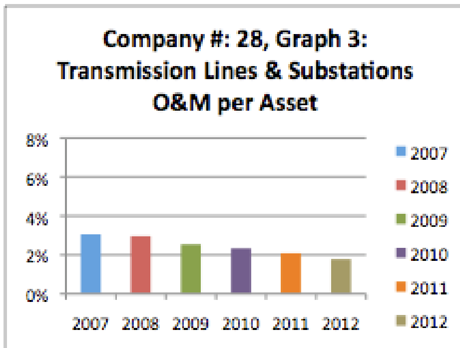


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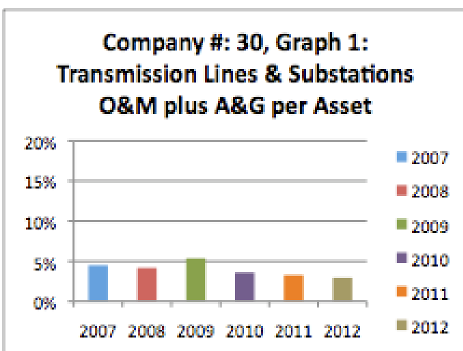


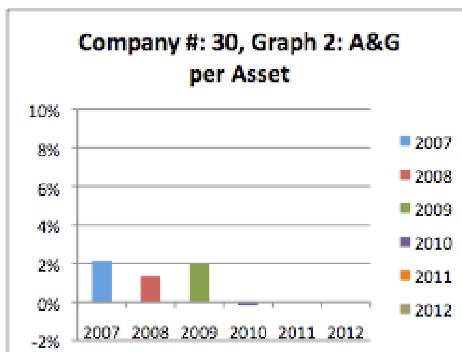


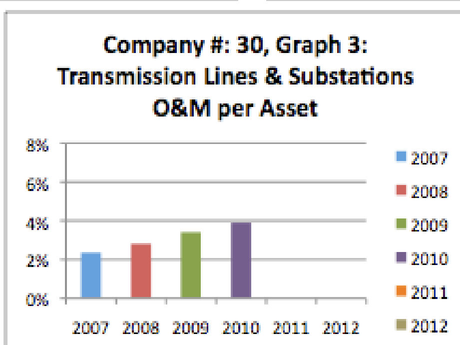

# <u>APPENDIX "C"</u>

## Regulatory Cost Schedule

## Appendix 2-H of Filing Requirements

## Table 1 – 2011 Test Year and 2012 Test Year Regulatory Costs

| **Regulatory Cost Category** | USoA Account | 2012 USoA Account Balance | Ongoing or One-time Cost? | Test Year 2011 Forecast | Test Year 2012 Forecast | % Change in Test Year vs. Test Year |
|---|---|---|---|---|---|---|
| 1. OEB Annual Assessment | 5655 | $164,900 | Ongoing | $107,625 | $110,316 | 2.5% |
| 2. OEB Hearing Assessments (applicant initiated) | 5655 | $164,900 | Ongoing | $0 | $0 | n/a |
| 3. OEB Section 30 Costs (OEB initiated) | 5655 | $164,900 | Ongoing | $0 | $0 | n/a |
| 4. Expert Witness cost for regulatory matters | 5630 | $742,100 | Ongoing | $0 | $0 | n/a |
| 5. Legal costs for regulatory matters | 5630 | $742,100 | Ongoing | $240,000 | $180,000 | -25.0% |
| 6. Consultant costs for regulatory matters | 5630 | $742,100 | Ongoing | $20,000 | $20,000 | 0.0% |
| 7. Operating expenses associated with staff resources allocated to regulatory matters *** | n/a | n/a | n/a | n/a | n/a | n/a |
| 8. Operating expenses associated with other resources allocated to regulatory mattters *** | n/a | n/a | n/a | n/a | n/a | n/a |
| 9. Other regulatory agency fees or assessments - **Canadian Electricity Association** | 5655 | $164,900 | Ongoing | $53,300 | $54,633 | 2.5% |
| 10. Any other costs for regulatory matters | n/a | n/a | n/a | n/a | n/a | n/a |
| 11. Intervenor Costs | 5630 | $742,100 | Ongoing | $40,000 | $0 | n/a |

# APPENDIX "D"

## OM&A Cost per FTE

## Appendix 2-I of Filing Requirements

| | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Bridge | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|
| Total OM&A ($000's) | $6,089.6 | $7,201.9 | $7,679.4 | $9,750.0 | $9,225.0 | $9,455.6 |
| Number of FTE's | 23.4 | 25.2 | 36.2 | 49.2 | 52.0 | 52.0 |
| **OM&A Cost per FTE ($000's)** | **$260.2** | **$286.2** | **$212.1** | **$198.1** | **$177.4** | **$181.8** |

Exhibit 4, Tab 2, Schedule 2

Employee Compensation Breakdown

# EMPLOYEE COMPENSATION

In accordance with the Filing Requirements, GLPT has provided the following table outlining employee compensation for the period of 2007 actual to the 2011 and 2012 test years.

**Appendix "A"** of this schedule outlines GLPT's approach to employee incentive pay.

**Appendix "B"** of this schedule is GLPT's current collective agreement with the Power Workers' Union.

1 *Table 4-2-2 A – Employee Compensation*

| | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|
| **Number of FTE's (Incl. Part Time)** | | | | | | |
| Union | 11.1 | 11.9 | 17.6 | 24.4 | 26.5 | 26.5 |
| Non-Union | 12.3 | 13.3 | 18.6 | 24.8 | 25.5 | 25.5 |
| **Total** | **23.4** | **25.2** | **36.2** | **49.2** | **52.0** | **52.0** |
| **Number of Part Time Employees** | | | | | | |
| Union | 0.7 | 0.9 | 1.5 | 0.7 | 0.5 | 0.5 |
| Non-Union | 2.4 | 2.4 | 3.4 | 3.8 | 0.5 | 0.5 |
| **Total** | **3.1** | **3.3** | **4.9** | **4.5** | **1.0** | **1.0** |
| **Total Salary & Wages ($000's)** | | | | | | |
| Union | $776.1 | $905.6 | $1,341.0 | $1,936.1 | $2,119.7 | $2,169.6 |
| Non-Union (Excludes Incentive Pay) | $773.3 | $877.0 | $1,346.7 | $1,849.6 | $1,984.4 | $2,034.0 |
| **Total** | **$1,549.4** | **$1,782.6** | **$2,687.8** | **$3,785.7** | **$4,104.1** | **$4,203.6** |
| **Current Benefits ($000's)** | | | | | | |
| Union | n/a | n/a | n/a | $314.9 | $350.7 | $361.1 |
| Non-Union | n/a | n/a | n/a | $279.1 | $331.2 | $341.2 |
| **Total** | **$0.0** | **$0.0** | **$0.0** | **$594.0** | **$681.9** | **$702.3** |
| **Accrued Pension & Post-Retirement Benefits ($000's)** | | | | | | |
| Union | n/a | n/a | n/a | $416.5 | $429.5 | $440.0 |
| Non-Union | n/a | n/a | n/a | $301.5 | $335.5 | $344.0 |
| **Total** | **$0.0** | **$0.0** | **$0.0** | **$718.0** | **$764.9** | **$784.1** |
| **Total Benefits ($000's)** | | | | | | |
| Union | $307.8 | $340.4 | $529.1 | $731.4 | $780.2 | $801.1 |
| Non-Union | $262.9 | $287.1 | $431.5 | $580.6 | $666.7 | $685.2 |
| **Total** | **$570.7** | **$627.5** | **$960.7** | **$1,312.0** | **$1,446.8** | **$1,486.4** |
| **Total Compensation ($000's) (Salary, Wages & Benefits)** | | | | | | |
| Union | $1,084.0 | $1,246.0 | $1,870.2 | $2,667.5 | $2,899.9 | $2,970.8 |
| Non-Union (Includes Incentive Pay) | $1,115.4 | $1,246.6 | $1,916.3 | $2,652.7 | $2,892.5 | $2,966.7 |
| **Total** | **$2,199.4** | **$2,492.7** | **$3,786.5** | **$5,320.1** | **$5,792.4** | **$5,937.5** |
| **Compensation - Average Yearly Base Wages ($000's)** | | | | | | |
| Union | $56.5 | $59.3 | $64.9 | $70.6 | $71.3 | $73.0 |
| Non-Union (Excludes Incentive Pay) | $62.7 | $65.9 | $72.3 | $74.5 | $77.8 | $79.8 |
| **Compensation - Average Yearly Overtime ($000's)** | | | | | | |
| Union | $13.6 | $17.1 | $11.0 | $8.9 | $8.7 | $8.9 |
| Non-Union | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| **Compensation - Average Incentive Pay ($000's)** | | | | | | |
| Union | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Non-Union | $8.0 | $7.6 | $7.9 | $9.0 | $9.5 | $9.7 |
| **Compensation - Average Yearly Benefits ($000's)** | | | | | | |
| Union | $27.8 | $28.7 | $30.0 | $30.0 | $29.4 | $30.2 |
| Non-Union | $21.3 | $21.6 | $23.2 | $23.4 | $26.1 | $26.9 |
| **Grand Total** | | | | | | |
| **Total Compensation** | **$2,199.4** | **$2,492.7** | **$3,786.5** | **$5,320.1** | **$5,792.4** | **$5,937.5** |
| **Total Compensation charged to OM&A** | **$1,642.9** | **$2,092.8** | **$3,428.1** | **$4,691.0** | **$5,105.9** | **$5,234.1** |
| **Total Compensation Capitalized** | **$556.5** | **$399.9** | **$358.4** | **$629.2** | **$686.5** | **$703.4** |

2

# APPENDIX "A"

## EMPLOYEE INCENTIVE PLAN EXPENSE

## 1.0 Description

All permanent, non-union employees with at least three months of service participate in GLPT's variable pay program. The target incentive compensation ranges from 5% to 25% of base salary. Depending on performance results, the incentive compensation paid out can range from zero to two times the target incentive compensation. GLPT's goal is to have an employee achieve an average of 100% (one times the target incentive compensation) of their incentive pay over their employment life time. As such, GLPT has only forecasted 100% of incentive pay in the test year. To the extent GLPT employees achieve higher than 100% of their budgeted incentive pay, this is at the shareholder's direct expense. GLPT believes that its performance incentives are tight but attainable.

## 2.0 Performance Measures

The employee incentive plan is based on three key performance criteria. The key performance criteria include GLPT corporate performance (40%), working group performance (40%) and individual performance (20%).

### 2.1 GLPT Corporate Performance

GLPT corporate performance objectives are determined at the beginning of the year based on the annual operating plan and is tied directly to Net Operating Income (NOI). The extent to which the Company meets its corporate objectives will determine the incentive paid under the GLPT corporate performance criteria.

### 2.2 Working Group Performance

Working group performance objectives are based against specific goals that are relevant to each working group. Working groups are determined based on duties and functions within the organization and the duties and functions of the organization as a whole. The common working group performance objectives include:

<u>Health and Safety</u>

Zero high-risk incidents and zero lost time injuries related to gravity, electrical and mechanical;

Maintain an effective health & safety management system; and

Continue to reinforce and promote safe work practices and management team commitment to health and safety, within the organization and the public.

In addition to the intrinsic, self-evident value of health and safety, this is to the benefit of the ratepayer as safety incidents affect productivity and work completion and also can be costly in respect of work stoppage, investigation, legal review and rehabilitation.

<u>Environment</u>

Maintain an effective environmental management system;

Continue to reinforce and promote strong environmental practices and maintain a management team commitment to public safety and environmental stewardship within the organization and the public; and

Zero high risk incidents (i.e. no spills or species endangerment).

This benefits ratepayers by avoiding costs from spills and other environmental issues.

<u>Operations, Maintenance and Administration Costs</u>

All planned work accomplished within established transmission OM&A budget.

<u>Capital Budget</u>

Ensure projects are managed on scope, schedule and budget; and

Ensure that all capital projects are completed as per plan with respect to budget and scope.

Project actual spending not to exceed + or – 10% variance to budget.

This benefits ratepayers by increasing the reliability and performance of the transmission system.

### 2.3 Individual Performance

Individual performance measures an individual's contribution to the achievement of the objectives of their working group and GLPT. The individual contribution is assessed in terms of results achieved by the employee against individual goals, as well as competencies demonstrated in meeting these deliverables. Key competencies include create value, foster teamwork, deliver results, make a difference, and provide leadership.

GLPT's Annual Incentive Compensation Plan expense for 2007 through the 2011 and 2012 test years can be found in *Table 4-2-3 A* above.

**APPENDIX “B”**

**COLLECTIVE AGREEMENT**

AGREEMENT entered into this 18th day of February 2010 (to take effect January 1, 2010)

Between

**GREAT LAKES POWER LIMITED(GLPL)/GREAT LAKES POWER TRANSMISSION LP(GLPT)**

(hereinafter called the "Company")

- and -

**POWER WORKERS' UNION**
**CUPE LOCAL 1000**

(hereinafter called the "Union")

## Article 1 RECOGNITION

**1.1** The Company recognizes the Power Workers' Union – CUPE Local 1000 as the bargaining agent for all employees except foreman, persons above the rank of foreman, office staff and construction staff. The Company shall recognize and bargain with the regular committees as established by this agreement.

## Article 2 RELATIONSHIP

**2.1** It is recognized that the business of the Company is continuous and that the employees must be prepared to assist in maintaining service at all hours of the day or night, if available.

**2.2** No employee shall be discriminated against by the Company or by the Union because he/she is or is not a member of the Union, because of Union activities or because of exercising his/her right provided by law or by this agreement.

**2.3** The Company recognizes the need to keep employees informed of planned technological changes that would impact significantly on jobs. The Company also recognizes the need to consider re-deployment and retraining as preferred alternatives when introducing new technology.

**2.4** Senior employees are expected to give assistance in training junior employees.

**2.5** The Company and the employees covenant that they will co-operate to the fullest extent in carrying out the terms of this agreement. This will be accomplished by the process outlined in Article 17.

**2.6** Human Rights

The Company will maintain a non-discrimination policy and actively pursue a non-discriminatory work environment.

## Article 3 MANAGEMENT RIGHTS

**3.1** The Company has and shall retain the exclusive right and power to manage its business and direct its working force including, but without limiting the generality of the foregoing, the right to hire, suspend, discharge for just cause, promote, demote and discipline any employee, subject to the terms of this agreement.

## Article 4 UNION SECURITY

**4.1** All employees, as a condition of employment, who have completed thirty (30) days employment, will be required to authorize deductions from pay in an amount equal to the current monthly union dues as determined by the Union.

**4.2** During the term of this agreement, the Company agrees to deduct regular union dues from the wages of each employee in the bargaining unit. The current monthly dues will be deducted in equal amounts from each pay received in the calendar month, and shall be remitted to the Financial Officer of the Union within ten (10) working days of the final monthly deduction.

**4.3** Notwithstanding Clause 4.2, in consideration of deductions of dues by the Company, the Union agrees to indemnify and save harmless the Company against any claim or liability arising out of or resulting from the collection of these dues.

**4.4** Employees excluded from the bargaining unit shall not perform work normally done by employees within the bargaining unit unless such work is an emergency and regular employees are not available, or for testing purposes, or for instruction or training purposes.

**4.5** When the Company schedules a meeting with an employee to discuss work performance, the employee has the right to request a Union representative to attend.

**4.6** Annually, the supervisor will review the employee file for letters of reprimand and the supervisor will determine whether the current behaviour warrants removal of the letter, if not a meeting will be arranged where the employee may have a Union representative in attendance and a plan shall be established with the employee's co-operation which, if followed, will ultimately result in removal of the letter.

## Article 5 EMPLOYEE CATEGORIES

**5.1** Definition of Employees

Temporary Employee: is an employee who is hired for a specific purpose and for a limited duration (up to nine (9) months). An extension of a maximum of an additional three (3) months will be by mutual consent of the Company and the Union. The Company may terminate his/her employment at any time by giving at least one (1) week's notice.

It is understood and agreed that only Article 4, Article 7, Article 8, and Article 21 and those benefits required by law shall apply to temporary employees.

Temporary employees will be hired at a job class which reflects the job to be done and the required skills/knowledge of the individual hired. A temporary employee may, with employer approval, be put into a job class category up to Class B in any Power Workers' Union – CUPE Local 1000 job class as outlined in this Collective Agreement.

At nine (9) months when a temporary job is to continue as per Article 5.1 or the Company's decision in other cases, the following will occur:

(a) The incumbent of a temporary position will be offered health benefit coverage equivalent to Blue Choice Hospital Health Plan. The Company will pay ninety per cent (90%) of the premium.

(b) Seniority will be established and will accumulate as from the date of hire i.e. in the event a temporary is hired into a regular job in the Company, he/she will bring seniority equivalent to the number of months of continuous service as a temporary prior to accepting the regular posting.

The Principle Steward will be notified prior to temporary employees being hired detailing the work they will be performing and the duration of the assignment.

Probationary Employee: is an employee who is hired to determine his/her suitability for employment. An employee shall be considered probationary for **six (6)** continuous calendar months. If the employee is retained, his/her seniority shall commence from his/her original date of employment.

Regular Employee: is an employee of the Company who has successfully completed the probationary period.

**5.2** Seniority shall be defined as the length of service a regular employee has established with the Company from the day the employee last entered the employ of the Company. An employee shall lose seniority rating under any of the following conditions:

(1) the employee resigns and is not rehired within ten (10) working days;

(2) the employee is discharged and not reinstated;

(3) the employee is laid off for a period exceeding eighteen (18) calendar months;

(4) the employee fails to return to work after layoff within fourteen (14) calendar days after being notified by registered mail to do so. If such failure to return is caused by sickness certified by a duly qualified medical practitioner, the time for return while prevented by illness shall be extended for a further period not to exceed a maximum of six (6) calendar months;

(5) the employee retires.

**5.3** When an employee is placed on LTD his/her vacation and recognized holiday pay shall be prorated on the basis of time worked thereafter.

An employee, receiving benefits from the Workers' Safety and Insurance Board for illness or injury arising out of the duties of their job, shall also receive an additional payment from the Company which will be the lesser of ten per cent (10%) of the employee's normal wage or the amount necessary that, when combined with the pre-tax equivalent of the compensation payments, will bring the total equivalent gross payments from the two sources to one hundred per cent (100%) of the employee's normal wage. The Union will work with the Company and the injured worker to achieve the earliest reasonable return to work for the injured worker.

When an employee is receiving WSIB benefits for a period greater than one (1) year, his/her vacation and recognized holiday pay shall be prorated on the basis of time worked thereafter.

## <u>Article 6</u> <u>STRIKES AND LOCKOUTS</u>

**6.1** There shall be no lockout by the Company and no interruption, work stoppage, strike, sit-down, or picketing of the operation of the Company's system by an employee or employees during the life of this agreement.

**6.2** The Company agrees that hourly rated employees will not be required to cross picket lines except to perform duties required for the operation of the Company's system and the maintenance of machinery and equipment within the Company's system and under no circumstances will an individual employee or group of employees be required to use force in the crossing of a picket line.

## <u>Article 7</u> <u>GRIEVANCE AND ARBITRATION PROCEDURE</u>

**7.1** Disagreements relating to the interpretation, application, administration or alleged violations of this agreement shall be considered fit matter for grievance and shall be promptly dealt with in the following manner:

All grievances and replies to grievances must be set out in writing in all steps and shall be addressed through normal line management.

Step 1

The alleged grievance must be submitted in writing to the supervisor responsible for his/her area and department within fifteen (15) working days of the event which gave rise to the grievance or, in the case of a monetary item, within fifteen (15) working days of receipt of the employee's pay. Within five (5) working days of submitting the alleged grievance, the employee, assisted by a steward, shall take up the matter with the supervisor responsible for his/her area. Failing settlement within five (5) working days of Step 1, the grievance may be processed within the next ten (10) working days to Step 2. Step 1 may be eliminated with reference to any grievance for discharge or suspension.

Step 2

Within ten (10) working days of notifying the Vice President/General Manager of the Company or his/her alternate of invoking Step 2, the grievance committee of the Union shall meet with the Vice President/General Manager or his/her alternate. The reply of the Company to the grievance at Step 2 will be made to the grievor and the Principle Steward or his/her alternate within ten (10) working days of the meeting. Failing settlement at Step 2, within thirty (30) calendar days from the date of the reply of the Vice President/General Manager, or his/her alternate, the grievance may be processed to arbitration as defined in the current Labour Relations Act of Ontario.

**7.2** Permission will be granted to stewards to deal with grievances arising in their own work areas. Time spent by the steward investigating and settling such grievances will be without loss of normal earnings. A steward will not absent himself/herself from his/her normal work area without permission of the supervisor in charge.

**7.3** The Company shall grant leave without loss of normal earnings to employees who are members of a grievance committee acting under Step 2 of the grievance procedure and to employees when attending a meeting called by the Company. When a steward who is working away from his/her normal work area attends a meeting called by the Company or attends a meeting under this procedure, the Company will provide transportation, if available, or will pay mileage in order for the said steward to attend such meetings.

**7.4** Grievances affecting more than one employee, or any grievance brought forward by the Company, or where differences arise between the Company and the Union concerning the interpretation or general application of this agreement which may be considered as policy matters, shall be submitted in writing by either party within seven (7) working days of the alleged occurrence and shall be dealt with in the manner provided in the grievance procedure commencing at Step 2. It is the intention of the parties that the filing of policy grievances by an employee or employees shall not be used to bypass the regular grievance procedure.

**7.5** Local Union officers, stewards, and committee members who are employees of the Company, shall have the right to originate a grievance for an employee on behalf of employees concerned, in the manner prescribed in the grievance procedure. The grievors involved shall be listed on the grievance form.

**7.6** The parties agree that all grievances shall be submitted to single panel arbitration. The arbitrator shall be selected from a pool of arbitrators that are mutually agreed to by the parties. It is agreed by the parties that the arbitrator shall not have the power to alter or to change any of the provisions of this agreement, or to substitute any new provisions for any existing provisions or to provide a decision which is inconsistent with the terms of this agreement, providing that they are not in conflict with any legislation affecting the parties.

**7.7** The Union shall have the right at any time to have the assistance of representatives of the Power Workers' Union - CUPE Local 1000 when dealing or negotiating with the Company.

**Article 8** **WORK SCHEDULES AND WAGE PROVISIONS RELATING THERETO**

**PART 1 – GENERATION EMPLOYEES**

**8.1** Hours of Work

**(a) Sault Ste. Marie Employees**

Normal Hours of Work

To work eight (8) hours per day, five (5) days per week, Monday through Friday, so as to work forty (40) hours per week, 0800 hours to 1630 hours with one-half (1/2) hour allowance for lunch between 1200 hours and 1300 hours, but can be adjusted through department consensus and Company approval. When an adjustment is in effect, the Company reserves the right to return to normal hours, providing they give seven (7) calendar days notice. Failure to give the appropriate notice to the employee's will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

Optional Hours of Work – Maintenance Employees

To work ten (10) hours per day on a seven (7) day shift schedule so as to work on average forty (40) hours per week.

The hours of work shall normally be from 0700 hours to 1730 hours with one-half (1/2) hour allowance for lunch between 1200 and 1300 hours.

**(b) Wawa Employees**

Normal Hours of Work

To work eight (8) hours per day, five (5) days per week, Monday through Friday, so as to work forty (40) hours per week, 0800 hours to 1630 hours, with one-half (1/2) hour for lunch between 1200 hours and 1300 hours, but can be adjusted through department consensus and Company approval. When an adjustment is in effect, the Company reserves the right to return to normal hours, providing they give seven (7) calendar days notice. Failure to give the appropriate notice to the employee's will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

Optional Hours of Work – Wawa Employees

To work ten (10) hours per day, four (4) consecutive days per week, Monday through Friday. The hours of work shall normally be from 0700 hours to 1730 hours with one-half (1/2) hour for lunch between 1200 hours and 1300 hours.

**(c) Special Shifts When Necessary (Temporary Employees Only)**

Temporary employees will work the established shift at straight time, up to forty (40) hours per week, after which the rates in 8.2 apply.

**(d)** **<u>Shift Schedule for Planned Generation Maintenance, Planned Major Maintenance and Associated Work</u>**

A shift schedule may be established at the discretion of the Company (Sault Hydro, Wawa Hydro) for planned generation maintenance, and associated work. The following provisions shall apply to every such shift schedule:

(i) An outage schedule shall be posted annually giving the dates and proposed locations of work when the schedule will apply. Applicable rates shall apply as per Article 8.1 normal hours of work and Article 8.2 overtime. The employees will be given an opportunity to volunteer to work the outage schedule. Employees shall be assigned as necessary to obtain required crew compliment. Employees shall be assigned to the schedule with a minimum of twenty-one (21) days notice. It is recognized that employees beginning or ending a scheduled vacation period will not normally be included on the weekends preceding or following their vacation period.

(ii) Every employee will normally be required to work a maximum of five (5) weeks on the maintenance schedule. If an outage is cancelled with more than two (2) weeks notice the normal hours of work shall be resumed. If an outage is cancelled with less then (2) weeks notice, then the outage shall count as one of the five (5) required outages. The affected employees shall be given the option to work as scheduled or revert to the normal hours of work.

(iii) Each employee on the outage schedule will be scheduled to receive forty (40) hours of pensionable time per week so as to average approximately two thousand and eighty (2,080) pensionable hours per year.

(iv) Consecutive days off shall be scheduled during the normal work week (Monday to Friday) for each employee on the shift schedule.

(v) At the Company's request, employees who voluntarily work on time off scheduled in Article 8.1 (d) (iv) shall be paid at straight time-overtime, for the normal working hours (as defined in Article 8.1). Employees required to work due to a forced outage shall be paid at rates specified in Article 8.2.

(vi)The shift cycle may consist of shifts of eight (8) hours over five (5) consecutive days, ten (10) hours over four (4) consecutive days, or twelve (12) hours per day so as to average forty (40) hours per week, at the discretion of the Company in consultation with the affected employees.

**(e)** **<u>Other Employees (Day Workers)</u>**

<u>Normal Hours of Work</u>

To work eight (8) hours per day, five (5) days per week, Monday through Friday, so as to work forty (40) hours per week, 0800 hours to 1630 hours with one-half (1/2) hour allowance for lunch between 1200 hours and 1300 hours, but can be adjusted through department consensus and Company approval. When an adjustment is in effect, the Company reserves the right to return to normal hours, providing they give seven (7) calendar days notice. Failure to give the appropriate notice to the employee's will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

**<u>PART 2 – TRANSMISSION EMPLOYEES</u>**

**(a)** <u>Normal Hours of Work</u>

To work eight (8) hours per day, five (5) days per week, Monday through Friday, so as to work forty (40) hours per week, 0800 to 1630 hours, with one-half (1/2) hour for lunch between 1200 hours and 1300 hours but can be adjusted through department consensus with Company approval. When an adjustment is in effect, the Company reserves the right to return to normal hours, providing they give seven (7) calendar days notice. Failure to give the appropriate notice to the employee's will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

**(b) Exceptions to Normal Hours of Work**

1. Equipment Mechanics

To work eight (8) hours per day, five (5) days per week, from Monday to Saturday, so as to work forty (40) hours per week, between the hours of 0700 hours and 1530 hours with one-half (1/2) hour for lunch but, can be adjusted through department consensus with superintendent approval.

One person shift – Tuesday through Friday – 1300 to 2130 and, Saturday – 0700 to 1530 so as to work forty (40) hours per week, based on seniority.

2. Optional Hours of Work

To work ten (10) hours per day, four (4) consecutive days per week, Monday through Friday, with one-half (1/2) hour for lunch between 1200 hours and 1300 hours. Hours of work will be scheduled between the hours of 0700 to 1730 hours or 0800 to 1830 hours, so as to work on average forty (40) hours per week. These optional hours may be implemented when mutually agreed by impacted staff and the supervisor. Optional hours will be implemented when there is a supporting business case and no negative customer impact.

**(c) System Control Employees**

**(i) 7 day week**

The Company requires certain employees to work rotating shifts on a seven (7) day per week schedule in its system control operations. The Company will provide seven (7) days notice to affected employees when it is required to transfer the employee from/to the seven (7) day operation shift schedule or any change to the existing shift schedule. Rotational opportunities, such as training and project work, will be identified on the shift schedule and can be established outside the current schedule. Failure to give the appropriate notice to the employee will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

A twelve (12) month schedule will be posted thirty (30) days prior to its starting date. The schedule will average forty (40) hours per week and will indicate the days, hours of work (shift) and position for each employee. The regular schedule will be prepared so that each employee's time is balanced to zero plus or minus eight (8) hours.

Rotational opportunities may exist within the department and assignments will be considered on a voluntary basis. The employee will be compensated at the appropriate rate. These rotational opportunities will be limited to ninety (90) days and not intended to fill a vacancy.

Normal Hours of Work

To work eight (8) hours per day so as to work forty (40) hours per week with, where possible, two (2) consecutive days off after completion of forty (40) hours but, can be adjusted through department consensus and Company approval.

The shift shall normally be:

| | | |
|---|---|---|
| Day Shift | - | 0800 hours to 1600 hours |
| Afternoon Shift | - | 1600 hours to 2400 hours |
| Midnight Shift | - | 2400 hours to 0800 hours |

Current Schedule (Senior Operators/Second Operator Performing Outage Coordinator Duties)

To work ten (10) hours per day on a seven (7) day shift schedule so as to work on average forty (40) hours per week.

| | | |
|---|---|---|
| Day Shift | - | 0700 hours to 1700 hours |

Current Schedule (First and Second Operators)

To work twelve (12) hours per day on a seven (7) day shift schedule so as to work on average forty (40) hours per week.

| | | |
|---|---|---|
| Day Shift | - | 0800 hours to 2000 hours |
| Night Shift | - | 2000 hours to 0800 hours |

**(ii) Other Employees (Day Workers)**

Normal Hours of Work

To work eight (8) hours per day, five (5) days per week, Monday through Friday, so as to work (40) hours per week, 0800 hours to 1630 hours with one-half (1/2) hour allowance for lunch between 1200 hours and 1300 hours, but can be adjusted through department consensus and Company approval. When an adjustment is in effect, the Company reserves the right to return to normal hours, providing they give seven (7) calendar days notice. Failure to give the appropriate notice to the employee's will require applicable premium rate to be paid for all regular hours worked until such seven (7) days has elapsed after the original notice has been given.

**8.1.1** Employees will be entitled to two (2) fifteen (15) minute paid breaks per day.

**8.2** Overtime

All time worked continuous with and in excess of the current schedule shall be at the rate of time and three quarters - except between the hours of 1800 hours and 0700 hours, when double time will apply. Double time rates will apply for all hours worked on an employee's regularly scheduled second and subsequent days off.

Effective January 1, 2011, all time worked continuous with and in excess of the current schedule shall be at the rate of double time.

Overtime will be offered to Regular Employee's of their respective Company before temporary employees or contract workers unless the work is a continuation of the original assignment and the regular employees are qualified to do the work.

**8.2.1** Rest Time

Employees should come to work adequately rested so they can perform their duties effectively and safely.

Effective May 18, 2007 - Day workers who work more than four (4) hours during the period between 2200 and the next regular scheduled shift shall be allowed a rest period of five (5) hours with compensation at the basic hourly rate. Double time rates will apply until a rest period is taken.

Employees may use vacation, banked time or unpaid leave for the remainder of the regular scheduled shift subject to supervisory approval.

**8.3** On Call

**8.3.1** Each employee when requested shall be available for "On Call" duty. These employees shall share this duty on a rotation basis. When "on call", the employee shall make himself/herself available within telephone or radio communication whether at his/her home or in the immediate proximity to his/her work centre in order that he/she may proceed, upon instruction, and without delay, to work as directed.

**8.3.2** "On Call" duty for a regular work day shall commence at the normal quitting time on the day scheduled for "on call" duty and shall extend until normal starting time on the following day.

**8.3.3** "On Call" duty for a weekend shall commence at normal quitting time on the last regular working day of each week and terminate at normal starting time on the first regular working day of the week next following.

**8.3.4** "On Call" duty shall also include any holiday occurring on a Tuesday, Wednesday or Thursday and shall commence at normal quitting time on the day prior and extend until normal starting time on the day following that holiday.

**8.3.5** An "On Call" schedule will be reviewed with the employees concerned and posted.

**8.3.6** In addition to regular overtime pay, for any time worked and holiday pay, where applicable, an employee shall receive for all scheduled "on call" hours:

Effective January 1, 2010 - $ 1.95 per hour
Effective January 1, 2011 - $ 2.00 per hour
Effective January 1, 2012 - $ 2.05 per hour

**8.3.7** Every effort will be made to so arrange a schedule that employees leaving or returning from vacation shall not be required to be "on call".

**8.3.8** When the Company requests changes to the posted "on call" schedule the employee required to take additional on call periods will be paid double the "on call" rate for the additional coverage.

**8.3.9** Generation, Sault Ste. Marie Maintenance employees scheduled for "on call" on a statutory holiday, will be permitted to work at regular hourly rate and take an alternate day off at a mutually agreed upon time by the employee and the supervisor.

**8.4** Minimum Call-Out

Employees called out to work other than their normal hours shall be paid at the applicable premium rate with a minimum of four (4) hours' pay.

**8.5** Shift Differential

When employees are required to work shifts, they shall receive a shift bonus as follows:

(a) Eight (8) Hour Shifts

Effective January 1, 2010 – one dollar and six cents ($1.06) per hour on evening shift, one dollar and eighteen cents ($1.18) per hour on night shift, presently established as 2400 hours to 0800 hours.

Effective January 1, 2011 – one dollar and sixteen cents ($1.16) per hour on evening shift, and one dollar and twenty-eight cents ($1.28) per hour on night shift, presently established as 2400 hours to 0800 hours.

Effective January 1, 2012 – one dollar and twenty-six cents ($1.26) per hour on evening shift, and one dollar and thirty-eight cents ($1.38) per hours on night shift, presently established as 2400 hours to 0800 hours.

(b) Twelve (12) Hour Shifts

Employees who are scheduled to work extended hours and who work midnights from 1900 hours to 0700 hours will receive a shift bonus as follows:

Effective January 1, 2010 one dollar and forty cents ($1.40) per schedule hour.

Effective January 1, 2011 one dollar and fifty cents ($1.50) per schedule hour.

Effective January 1, 2012 one dollar and sixty cents ($1.60) per schedule hour.

**8.6** Temporary Group Leaders

**8.6.1** When an employee is requested and agrees to be a temporary Group Leader or performs contract monitoring for a period of one (1) or more working days he/she will be paid at a Group Leader job class A, B, C, or minimum job class 17. The rate paid depends on the employee's experience and/or size and complexity of the project, as determined by the Company. In the event no one agrees, the Company will appoint an employee. Temporary Group Leader positions will be posted for projects exceeding four (4) weeks in duration with the appropriate wage rate identified. For clarity, contract monitoring may be completed by bargaining unit or non-bargaining unit employees. If intended to be filled by bargaining unit employees such contract monitoring projects exceeding four (4) weeks in duration will be posted with the appropriate wage rate identified.

**8.6.2** A roster will be posted each year where employees will be given the opportunity to apply for temporary Group Leader positions of a duration of four (4) weeks or less. The Company will draw from this list to fill these positions as they arise.

**8.7** Relief Supervisor

**8.7.1** When an employee acts as a Relief Supervisor, he/she shall be paid a differential of five per cent (5%) of his/her normal rate converted to cents per hour in addition to his/her normal rate. It is understood that the appointment of a Relief Supervisor from the Union membership will be avoided whenever possible if it adversely affects the "on call" schedule or availability of personnel.

## Article 9 RECOGNIZED HOLIDAYS

**9.1** Statutory holidays for temporary employees and employees serving a probationary period will be prorated based on regular hours worked in the four (4) weeks proceeding the statutory holiday. After the completion of a three (3) months' probationary period employees will be paid for the following holidays, or if the day falls on a Sunday, for the day observed as the holiday, unless off on an approved leave of absence: New Year's Day, Good Friday, Victoria Day, Canada Day, Civic Holiday, Labour Day, Thanksgiving Day, Remembrance Day, Christmas Day, Boxing Day and Easter Monday and effective January 1, 2011, Family Day.

**9.2** All time worked on any of the above named holidays will be paid at the rate of double-time in addition to the normal day's pay for all employees.

**9.3** The Company reserves the right to determine the size of crew necessary for any or all of these holidays. Forty-eight (48) hours' notice will be given to the necessary crew except in the case of an emergency breakdown.

**Article 10** **VACATIONS**

**10.1**

(a) All employees will receive vacation with pay on the following schedule;

| | |
|---|---|
| After one (1) years' employment | - 2 weeks |
| After three (3) years' employment | - 3 weeks |
| After ten (10) years' employment | - 4 weeks |
| After fifteen (15) years' employment | - 5 weeks |
| After twenty (20) years' employment | - 6 weeks |
| After twenty-six (26) years' employment | - 6 weeks plus one day |
| After twenty-seven (27) years' employment | - 6 weeks plus two days |
| After twenty-eight (28) years' employment | - 6 weeks plus three days |
| After twenty-nine (29) years' employment | - 6 weeks plus four days |
| After thirty (30) years' employment | - 7 weeks |

(b) With the mutual consent of the employee and his/her supervisor, employees will be allowed forty (40) hours leave of absence annually at their request for additional time off. It is understood that such requests for leave of absence will normally be granted. Such time off will be without pay and may be used at the employee's discretion with a minimum of one-half (1/2) of a shift off.

(c) Banked Time provisions will apply to all employees of the Company.

Employees who work overtime shall have the option of the following to a maximum of eighty (80) hours of banked time. Normally this eighty (80) hours will not be in addition to the forty (40) hours leave of absence in Article 10.1(b).

Being paid the overtime hours at the appropriate premium rates or banking the overtime at the appropriate premium rates to be taken as paid time off taken at a mutually agreeable time.

**10.2** Vacations are not to be taken in periods of more than two (2) weeks at one time unless special arrangements are made.

**10.3** Employees will have the month of January in each year to submit suggested vacations. Within two (2) weeks, the Company will post a vacation schedule for those employees covered by this agreement. Every effort will be made to allow employees to have at least two (2) weeks' vacation between June 1st and September 1st. The Company will attempt to grant preference of remaining vacation time as requested by the employees but the final decision regarding vacation schedules rests with the Company.

**10.4** It is recognized that employees will not carry over vacations from one calendar year to the next. However, employees who are entitled to three (3) or more weeks' vacation, may be allowed to carry over one or two weeks' vacation respectively, when a special excursion is planned and approved by the Company. This privilege will not be extended to any employee more frequently than once every five (5) years.

**Article 11** **SICK LEAVE**

**11.1** The Company agrees to pay eighty-five per cent (85%) of an employee's normal earnings for the first three (3) days of sick leave providing, if requested by his/her immediate supervisor, the employee submits with his/her application for sick benefit a certificate of a qualified doctor certifying to his/her illness. After three (3) days of sick leave an employee will receive eighty per cent (80%) of normal weekly earnings rounded up to the nearest one dollar ($1.00) provided he/she has satisfied Great-West Life requirements for the short term weekly benefits insurance.

**11.2** If an employee is absent and requires a Doctor's certificate the Company will reimburse the employee for the cost of the Doctor's certificate upon proof of payment.

**Article 12** **PENSION AND INSURANCE**

**12.1** The existing pension plan (GLPL Pension Registration No. 0338053 and GLPT Pension Registration No. 1212844), revised in accordance with changes negotiated for this agreement, shall continue in effect. Regular employees hired after January 1, 1991 shall become a member of the appplicable Plan after three (3) months of continuous service. Credited service for pension purposes shall commence at that date.

**12.2** The existing Group Insurance benefits as set out in the GLPL Group Plan 321032 and in the GLPT Group Plan 162565 with the Great-West Life Assurance Company and in the GLPL Group Plan 0087887-001 and in the GLPT Group Plan 0048956-001 with RBC Insurance Company revised in accordance with changes negotiated for this agreement, shall continue in effect.

**12.2.1** Under the above noted insurance plan or similar plan (equivalent or better), the following basic benefits will be provided:

(1) Life Insurance

(2) Weekly Indemnity

(3) Long Term Disability

(4) Vision Care

(5) Dental Plan

(6) Extended Health Care and Drug Plan

LTD eligibility is as defined in the Group Plan with the RBC Insurance Company.

**12.3** The Company agrees to pay one hundred per cent (100%) of the premium costs of the benefits plans listed in 12.2.1 above and one hundred per cent (100%) of the Employer Health Tax, with the exception of the orthodontics plan and major restorative plan where the Company will pay fifty per cent (50%) of the cost up to one thousand five hundred dollars ($1,500) in each plan in each year. If the insurance carrier is changed from Great West Life the new plan will be equal to or better.

**12.4** Benefits For Retirees

Eligible members participate in the applicable Group Benefit Plan for Retirees 321032A (GLPL) or 162565 (GLPT) with Great West Life based on the following:

Eligibility criteria for retiree benefits for existing bargaining unit employees employed as of January 1, 2010 is any member who on the date of retirement is represented by the union and who have a minimum age 55 years and a minimum of two (2) years of continuous service.

Eligibility criteria for retiree benefits for bargaining unit employees hired on or after January 1, 2010 is any member who on the date of retirement is represented by the union and who have a minimum age of 55 years and a minimum of fourteen (14) years of continuous service.

Members who have retired according to the provisions of this Agreement will be eligible to participate in the applicable Group Benefit Plan for GLPL Retirees 321032A or Group Benefit Plan for GLPT Retirees 162565 with Great-West Life based on the terms and conditions specified in the plans:

- i) Life Insurance three thousand dollars ($3,000) (basic only);
- ii) Pay-direct Drug Insurance;
- iii) Health Insurance.

Further, they will be eligible for re-imbursement directly from the applicable Company as follows:

- i) Basic Dental Services;
- ii) One set of dentures;
- iii) Vision Care Expense up to a maximum of four hundred dollars ($400.00) effective January 1, 2009 for two (2) consecutive calendar years.

**12.5** The deductions from each employee will be calculated for single and married employees as separate groups, but will include a proportion of Union pensioners' premium pro rated over all active Union members.

**12.6** Changes in the amount deducted will only be made periodically when changes in premiums or benefits warrant such changes, and will only be made following discussions with Union representatives. The employer will share information on experienced rated decrease in premiums incurred with employee group.

**12.7** With the exception of (i) of this clause, after thirty-six (36) months on long term disability, if the employee is unable to return to work he/she shall lose seniority and be removed from the payroll. At this time, continuation of healthguard coverage shall be made available at the Company's expense.

(i) If the employee has fourteen (14) years' service when the thirty-six (36) months on long term disability is reached, the employee may either stay on LTD until age fifty-five (55) and then retire under the disability retirement option of the retirement plan or stay on LTD and be removed from the payroll.

**12.8** It is acknowledged and agreed that additional benefits granted by the Company in this agreement satisfy the requirements of the refund provisions of the rebate section of the Employment Insurance Premium Reduction Program.

## Article 13 JOB POSTING AND SELECTION

**13.1** In making reductions, additions, or replacements to the work force, or in making promotions or demotions, seniority, ability and proficiency will be the governing factors, but where ability and proficiency are relatively equal, seniority with the Company from the last date of hire will govern. All such vacancies or additions, except for vacation relief, casual or emergency work, shall be posted on the bulletin boards within ten (10) working days of becoming vacant for at least seven (7) calendar days, with such vacancies being posted in all areas on the same day. No applications for the positions posted will be accepted after the seventh day posting. Group Leader positions will be posted and selected within the Business Unit. If there are no successful applicants within the Business Unit the posting and selection provisions shall be extended to the Company.

An employee may decline promotion at any time without affecting his/her seniority or promotional rights.

**13.1.1** Subject to all the provisions of this article, any employee who will be absent for more than seven (7) calendar days on an approved leave of absence of thirty (30) days or less may lodge in writing with his/her immediate Company supervisor a request to be considered for specified vacancies that arise during his/her period of absence. This request will constitute sufficient reason for him/her to be considered as any other applicant.

**13.1.2** The names of the successful applicants shall be posted on the bulletin board for at least five (5) calendar days within ten (10) working days following the last day of posting on the bulletin board.

**13.2** An employee established in the bargaining unit who is promoted or transferred outside the bargaining unit for a period of more than one (1) year, but remains in the employ of the Company, may be reassigned to the bargaining unit, and shall retain overall seniority for vacation, pension, and benefit purposes but shall be deemed to be a new employee on the Union seniority list.

**13.3** An employee established in the bargaining unit who is promoted or transferred outside the bargaining unit for a period of less than one (1) year, but remains in the employ of the Company, may be reassigned to the bargaining unit and shall retain his/her seniority from the date of his/her employment.

**13.4** The Company shall notify the Union of all persons so promoted or transferred.

**13.5** Where an applicant does not receive a position applied for, he/she shall, upon request to his/her supervisor, be counselled as to what steps should be taken to be more likely to succeed in future applications.

## <u>Article 14</u> <u>LAYOFF AND RECALL</u>

**14.1** In the event of a layoff, employees in the bargaining unit shall be laid off in the reverse order of their seniority, provided the Company can retain a staff qualified to perform the work available. Employees shall be recalled on the basis of their seniority, provided they are qualified to do the work available.

**14.2** <u>Notice Period</u>

The Company will notify the Union at least sixty (60) days prior to the effective date of layoff of designated employees. The Company and the Union will meet and discuss alternatives.

The Company will give the employees who are to be laid off as much advance notice as possible and in no case less than six (6) weeks.

## <u>Article 15</u> <u>LEAVE OF ABSENCE</u>

**15.1** <u>General</u>

**15.1.1** All employees are required to give as much notice as possible to their immediate supervisor when, due to illness or otherwise, they are unable to report for work. Any employee absenting himself/herself from work without providing reasonable cause shall be subject to disciplinary action.

Any employee absenting himself/herself from work without providing reasonable cause, for more than two (2) consecutive work days, may be subject to dismissal.

**15.1.2** If the Union requires a Union representative to be released from their normal duties to perform Union business, the Union will compensate the Company in the following manner:

(i) absences less than or equal to five (5) days - the employee's normal rate of pay;

(ii) all absences after five (5) days - normal rate of pay plus benefits totalling forty-two per cent (42%) will be reimbursed.

On giving sixteen (16) days notice to the Company such absences will be accommodated insofar as the regular operation of the department in which he/she is employed will permit.

Normally absences for the Principal Steward will not exceed twenty (20) days per year and ten (10) days per year to the Stewards.

Where delegates have incurred expenses in order to attend a Union Convention and, because of a Company emergency, are unable to attend the Convention, the Company shall reimburse the two (2) delegates for non-recoverable expenses.

**15.1.3** An employee of the Company who is elected or selected for a position with the Union or any body with which the Union is affiliated or who is elected to public office, must make application for a leave of absence in writing at least three (3) weeks in advance of such leave. Approval will not be unjustly withheld; however, only one employee at any one time will be granted a leave of absence under this paragraph.

**15.1.4** A personal leave of absence without pay in addition to leave provided under 10.1 (b) may be granted by the Company. The employee shall direct his/her written request for such leave to his/her immediate supervisor. A written reply shall be given.

**15.1.5** In the case of any leave of absence without pay which exceeds thirty (30) days, the employee's seniority will be frozen for the duration of the leave of absence at the level attained prior to the leave of absence. In this case, all costs (employee and Company) of the normal indemnities will be payable by the employee. Any vacation credits will be pro rated on the time actually worked.

**15.1.6** Employees called to Her Majesty's service or enlisting during a period when Canada is at war, shall be reinstated upon their return with all privileges and seniority ratings they had when leaving the service of the Company.

**15.1.7** When in the Company's judgement the circumstances warrant such action a leave of absence with pay will be granted to a maximum of three (3) days per calendar year.

This leave is based upon reasons of personal emergency, such as severe illness in the immediate family which would necessitate remaining away from work until adequate arrangements could be made for outside help or in cases where an employee is faced with the effects of a severe storm, fire or flood.

**15.2** <u>Bereavement Leave</u>

**15.2.1** Effective *upon ratification*, whenever a death occurs to a member of the immediate family of an employee, the Company will compensate the employee for any time lost from work up to a maximum of four (4) consecutive work days which include the day of the funeral. The Company agrees to consider the granting of up to two (2) additional days with pay for traveling time, provided cause is shown for the need of this time. Compensation shall be at the regular hourly rate of the employee for a normal work day. The term "immediate family", for the purpose of this paragraph, to be considered to include only the following:

(i) the spouse, parents, sister, brother, child, grandchildren, mother-in-law or father-in-law, or grandparents of the employee.

(ii) a relative or foster children residing in the household of the employee.

**15.2.2** Whenever a death occurs to a member of the family who is not considered as immediate family, the Company will compensate the employee for one (1) day of lost time in order to attend the funeral. For purposes of this clause, family other than immediate shall be interpreted to mean: brother-in-law, sister-in-law, spouses' grandparents, aunt or uncle, son-in-law, daughter-in-law, niece or nephew.

**15.3** Jury and/or Witness Duty

The difference in wages between an employee's straight time wage, excluding premium pay, and the fee allowed will be paid by the Company to any employee required to serve on a jury or to be a court witness in the District of Algoma. Exceptions to this case shall be taken to the Company for consideration.

## Article 16 ALLOWANCES

**16.1** Travel

**16.1.1** The Company will supply transportation, at its own discretion either in Company vehicles or by public transportation, for employees carrying out their normal duties when travelling between work centres. Time spent in travelling will be paid for at the applicable rate when an employee is required to travel between work centres. Employees will travel from their work centres to and from the job on the Company's time. The words "work centre" shall, for the purpose of this clause, be where the employee is normally reporting for work.

**16.1.2** Employees working away from their regular work centre during the week will be allowed to return to that centre on Company time for the weekend, unless they are required for weekend work.

**16.1.3** Except in the case of an emergency, when employees are required to be away from home overnight, every effort will be made to give at least forty-eight (48) hours' notice of such requirement.

**16.1.4** Any employee covered by this agreement whose work requires him/her to be away overnight from where he/she normally resides, will be provided with room and board with a maximum of two (2) to a room when in permanent crew quarters.

**16.1.5** Separate quarters shall be made available for all Operating and Maintenance crews when required to work at outlying stations, except in the case of an emergency.

The Company will provide recreational facilities (to be agreed upon by the Company and representatives of the Union) at permanent quarters established for work crews working outside the Sault area where space in these quarters is available.

**16.1.6** Compensation for travel outside of normal working hours to receive training shall be paid as follows:

(i) Travel to training that is required by legislation or deemed mandatory by the Company is paid at applicable rates.

(ii) Travel to courses held within the Algoma District which have been identified by the supervisor and employee as developmental will be paid at straight time, up to a maximum of four (4) return trips per year and at applicable rates after four (4) trips per year.

(iii) Travel to courses held outside of the District of Algoma which have been identified by the supervisor and employee as developmental shall not be paid.

In all cases the employer pays for the course, course materials, meals and accommodations.

Developmental training is defined as all training with the exception of that which is legislated or deemed mandatory by the Company.

**16.2** Tools and Clothing

**16.2.1** The Company will supply regulation rubber gloves for all employees who are required to work on or near live lines or apparatus.

**16.2.2** All employees will supply the personal tools of their trade. When equivalent conversion tools (metric, etc.) are required on Company work, they will be supplied by the Company. The Company will supply all other appropriate tools and equipment, also overalls and work gloves when, in the opinion of the Company, such are needed. Worn out or broken personal tools will be replaced by the Company at no cost to the employee when the broken or worn out tools are turned in for replacement.

Notwithstanding the above paragraph, employees hired after January 1, 1994 will supply the personal tools of the trade, both metric and standard sizes.

**16.2.3** The Company will reimburse the employee for one hundred per cent (100%) of the cost of a pair of an approved electric shock resistant safety boots or shoes per year upon presentation of proof of purchase. The type of boot or shoe purchased must be appropriate for the nature of the work in which the employee is involved. Additional pairs may be purchased and will be equally subsidized upon demonstration of need and proof of purchase.

**16.3** Employees forced to transfer within the Company will be reimbursed for their moving expenses to a maximum of five thousand dollars ($5,000).

**16.4** Where an employee covered by this agreement is required to work/live under extreme conditions which include; no running water, lack of proper toilet facilities, limited road access and no electricity he/she will be paid a weekly allowance of one and one-half (1-1/2) hours pay per day (Job Class 17). The Company will endeavour to minimize the number of times employees are required to work under such conditions.

**16.5** If mutually agreeable in lieu of actual meal expenses associated with an overnight stay, away from their normal work centre, an employee may elect a board allowance of sixty dollars ($60.00) per day effective May 18, 2007, seventy dollars ($70.00) per day effective January 1, 2008. The sixty dollars ($60.00) value is based on a breakfast allowance of ten dollars ($10.00) a lunch allowance of twenty dollars ($20.00) and a dinner allowance of thirty dollars ($30.00). The seventy dollars ($70.00) value is based on a breakfast allowance of fifteen dollars ($15.00) a lunch allowance of twenty dollars ($20.00) and a dinner allowance of thirty-five dollars ($35.00). On the first day away from their normal work center the meal expense will be prorated to include lunch and dinner and on the day the employee returns home to include breakfast and lunch unless the employee works past 1800 hours then the dinner allowance would apply.

**16.6** If mutually agreeable in lieu of a hotel an employee may elect a room allowance of $50.00 per day.

## <u>Article 17</u> <u>WORKING RELATIONS COMMITTEES</u>

The Company and the Power Workers' Union – CUPE Local 1000 have agreed to work together to improve relationships and organizational effectiveness through co-operation and a commitment to excellence. In this way employees can influence the decision making process in matters concerning our future. In working together we will demonstrate fair and equitable treatment to all employees.

We will adhere to the following Guiding Principles:

- Foster an open, honest forum of information exchange
- Encourage and respect differing opinions
- Actively promote decisions formed by consensus

- Respect rights and privileges of all parties

- Focus on decisions that are good for people and good for business

- Focus on our future rather than our past

**17.1** Stewards: The Company will recognize eight (8) stewards.

**17.2** Grievance Committee: The Company will recognize a Committee of not more than four (4) employees.

**17.3** Negotiating Committee: The Company will recognize a Negotiating Committee of not more than five (5) employees as well as a representative(s) of the Power Workers' Union and an executive member of the Union.

The five (5) employees on the Negotiating Committee will be paid their regular hourly rate for time spent in negotiating a collective agreement during normal working hours up to a maximum of forty (40) hours per employee.

It is understood that negotiation means time up to but not including conciliation and mediation.

**17.4** The Working Relation Committee shall be kept informed of the names and addresses of all officers, stewards and committee members of the Union. The Company will advise the Principal Steward of the Union of the names of the Company personnel to be notified with reference to the grievance procedure.

**17.5** Senior Company representatives (2) and utility representatives (2) will constitute a working group which will meet regularly so that issues that do occur are resolved quickly and a positive relationship is established to minimize future issues. The working group will act as a sounding board for Company policies which might affect Union members. This will not circumvent the normal supervisory role in solving day-to-day issues.

## Article 18 SAFETY RELATED CLAUSES

The parties are committed to the health and safety of all employees as demonstrated in the Company Joint Health and Safety Policies and Safety Work Management Systems.

**18.1** Time will be scheduled during regular working hours for all employees to maintain their Company mandated safety training. Those employees not on duty will be paid applicable premium rates when instructed by the Company to attend such training sessions.

**18.2** The Union and the Company agree to observe the provincial health and safety regulations and the safety regulations prescribed and published by the Company from time-to-time. The Union will co-operate with the Company in encouraging employees to observe the safety regulations, and to work in a safe manner. The Company agrees to discuss and review safety concerns as they occur with the union safety representatives. The union safety representatives shall assist, make recommendations to and co-operate with the Company to ensure the Safety Procedures and Programs are implemented. The Company will involve union health and safety representatives and/or other union members as required in System Safety Accident Investigations.

**18.3** The Company will consult with the Union and supply safety clothing when, in the opinion of the Company, such is needed.

## Article 19 CONTRACTING OUT

**19.1** The Company will endeavour to provide involved staff with information on available work packages which have been bid by contractors and will consider crew ideas on cost savings, safety and customer services as well as staff interest before deciding to contract out or do internally. The following four (4) items will be discussed:

1. Estimated value of the work
2. Scope of the work
3. Location of the work
4. Estimated date of Commencement and Duration of the work

The Company will regularly inform the Principal Steward about these discussions.

**19.2** The Company agrees that during the term of the current agreement with Power Workers' Union-CUPE Local 1000 no regular employee of the Company shall be laid off or demoted as a result of the contracting out of work by the Company.

**Article 20 GENERAL**

**20.1** Inclement Weather

When, in the opinion of the person in charge, weather conditions are such that, except in the case of an emergency, outside work should not be performed, employees reporting for work at their normal starting time at their work centres, will be paid their normal wages for the first day, and one-half (1/2) of their normal wages for any additional days for time not worked.

**20.2** Where the Company requests an employee to acquire and/or retain a driver's licence for which a medical examination or driving test is a requirement, the Company shall pay for the cost of the examination and any travel time involved for such testing.

**Article 21 WAGES AND CLASSIFICATIONS**

**21.1** Wage rates shall be paid as they appear in the following sections of the agreement and shall be for pay purposes only.

**21.2** EMPLOYEE CLASSIFICATIONS

Senior Operator ........................................ 26

System Control First Operator
- Class A ........................................ 24
- Class B (training/orientation) ........................................ 21

System Control Second Operator
- Class A ........................................ 20
- Class B - Fourth Year ........................................ 18
- Class C - Third Year ........................................ 14
- Class D - Second Year ........................................ 10
- Class E - First Year ........................................ 4

Group Leader
- Class A (Year 3) ………………………………… 5 steps above the highest rate supervised
- Class B (Year 2)………………………………… 3 steps above the highest rate supervised
- Class C (Year 1) ………………………………… 2 steps above the highest rate supervised

The minimum job class for a Group Leader will be job class 17.

Trades Technicians

Class A1 .......... 18
Class A2 .......... 17
Class A3 .......... 16
Class B - Fourth Year .......... 13
Class C - Third Year .......... 12
Class D - Second Year .......... 9
Class E - First Year .......... 3

Electronic Technologist / P&C Technologist
Class A .......... 20
Class B - Fourth Year .......... 16
Class C - Third Year .......... 13
Class D - Second Year .......... 10
Class E - First Year .......... 9

Planner .......... 19

Customer Service Representative, Tool Repair Person, Forester
Class A .......... 14
Class B - Fourth Year .......... 12
Class C - Third Year .......... 10
Class D - Second Year .......... 7
Class E - First Year .......... 6

Forester Designate A3 .......... 16

Stores Clerk
Class A .......... 10
Class B - Fourth Year .......... 7
Class C - Third Year .......... 5
Class D - Second Year .......... 4
Class E - First Year .......... 3

Station Maintainer
Class A .......... 11
Class B - Fourth Year .......... 7
Class C - Third Year .......... 5
Class D - Second Year .......... 4
Class E - First Year .......... 3

Meter Data Clerk
Class A .......... 11
Class B .......... 6
Class C .......... 3

Meter Service Provider Technical Assistant .......... 14

Civil Maintainer
Class A .......... 6
Class B - Second Year .......... 4
Class C - First Year .......... 2

Labourer .......... 2

**21.3** Job Classes

| Job Class | 2010 | 2011 | 2012 |
|---|---|---|---|
| 1 | 20.31 | 20.82 | 21.34 |
| 2 | 21.24 | 21.77 | 22.31 |
| 3 | 22.30 | 22.86 | 23.43 |
| 4 | 23.23 | 23.81 | 24.41 |
| 5 | 24.22 | 24.83 | 25.45 |
| 6 | 25.13 | 25.76 | 26.40 |
| 7 | 26.16 | 26.81 | 27.48 |
| 8 | 26.66 | 27.33 | 28.01 |
| 9 | 27.11 | 27.79 | 28.48 |
| 10 | 28.12 | 28.82 | 29.54 |
| 11 | 28.59 | 29.30 | 30.03 |
| 12 | 29.08 | 29.81 | 30.56 |
| 13 | 30.00 | 30.75 | 31.52 |
| 14 | 31.01 | 31.79 | 32.58 |
| 15 | 31.89 | 32.69 | 33.51 |
| 16 | 32.73 | 33.55 | 34.39 |
| 17 | 33.49 | 34.33 | 35.19 |
| 18 | 34.20 | 35.06 | 35.94 |
| 19 | 34.99 | 35.86 | 36.76 |
| 20 | 35.77 | 36.66 | 37.58 |
| 21 | 36.49 | 37.40 | 38.34 |
| 22 | 36.86 | 37.78 | 38.72 |
| 23 | 37.25 | 38.18 | 39.13 |
| 24 | 37.98 | 38.93 | 39.90 |
| 25 | 38.68 | 39.65 | 40.64 |
| 26 | 39.41 | 40.40 | 41.41 |
| Student 1 | 16.74 | 17.16 | 17.59 |
| Student 2 | 17.18 | 17.61 | 18.05 |

**21.4** Cost of Living Adjustment

If the average monthly CPI for Ontario for the twelve (12) months ending December 31, 2011 is greater than the average monthly CPI for Ontario for the twelve (12) months ending December 31, 2010, a one time lump sum payment will be made prior to March 31, 2012 based on the following table:

| PERCENTAGE CHANGE IN CPI | PAYMENT AS A PER CENT OF GROSS EARNINGS |
|---|---|
| <3.00 | 0.00 |
| >=3.00<3.50 | 0.50 |
| >=3.50<4.00 | 1.00 |
| >=4.00<4.50 | 1.50 |
| >=4.50 | 2.00 |

Similarly, if the average monthly CPI for Ontario for the twelve (12) months ending December 31, 2012 is greater than the average monthly CPI for Ontario for the twelve (12) months ending December 31, 2011, a one time lump sum payment will be made prior to March 31, 2013 based on the following table:

| PERCENTAGE CHANGE IN CPI | PAYMENT AS A PER CENT OF GROSS EARNINGS |
|---|---|
| <3.00 | 0.00 |
| >=3.00<3.50 | 0.50 |
| >=3.50<4.00 | 1.00 |
| >=4.00<4.50 | 1.50 |
| >=4.50 | 2.00 |

**21.5** All employees covered by this agreement will be paid every second Thursday by 1500 hours by direct deposit to a bank account, but in the event the Thursday on which payday falls is a holiday, employees shall receive their pay the previous day. Cheque stubs will be forwarded to the employee's Work Centre.

**21.6** When major changes are proposed to be made in any classification, or new classifications are requested by the Company, during the term of this agreement, wage rates and hours of work for the change shall be subject to negotiation.

## Article 22 CLASSIFICATION CHANGES AND PROGRESSIONS

**22.1** The wage rates, progression schedules, classifications and categories of employees covered by this agreement shall be those shown in Article 21.

**22.1.1** All employees moving through an annual progression grid will have their performance monitored on an ongoing basis and documented at least annually by the employee's supervisor. Where an employee's performance is not satisfactory he/she shall be informed of the areas of work that are deficient. Progressions will be based on the recommendation of the employee's supervisor. When progression is withheld, the Company shall meet with the employee, who may request the presence of his/her steward, or another Union representative, and shall give the employee the reason for withholding progression. Two (2) months thereafter his/her general performance will be reviewed and if found satisfactory, the employee shall be granted the progression.

**22.1.2** If his/her progress and general performance are still unsatisfactory, the employee shall:

(1) in the case of a new employee in the first training classification, be terminated;

(2) in the case of an employee above the starting classification in any category, remain in such class for at least one (1) year and then may again request a reclassification and recommendation from his/her supervisor;

(3) in the case of an employee who was previously transferred from another category, revert to his/her former job if it is available. If it is not available, he/she may be transferred to other available work, providing he/she is qualified. Failing this, his/her employment may be terminated.

## Article 23 DURATION OF AGREEMENT

**23.1** This agreement shall remain in effect from January 1, 2010 to December 31, 2012 and from year to year thereafter unless either party gives notice in writing to the other party not more than ninety (90) days and not less than thirty (30) days prior to December 31st in any year of their desire to alter same.

**23.2** Working conditions during the term of this Agreement shall be outlined in this Agreement and any Mid-Term Agreement.

A Mid-Term is a modification of the Collective Agreement executed by the parties in the following format during the term of the Collective Agreement.

Mid-Term Agreement

Title ____________________

Number ____________________

Date ____________________

It is jointly agreed that the following Mid-Term shall form part of the Collective Agreement between the parties.

SIGNED ON BEHALF OF:

GREAT LAKES POWER TRANSMISSION LP

______________________________
Vice President & General Manager

GREAT LAKES POWER LIMITED

______________________________
General Manager

POWER WORKERS' UNION
CUPE LOCAL 1000

______________________________
Principal Steward

______________________________
Steward

______________________________
Steward

______________________________
Steward

______________________________
Steward

______________________________
Steward

______________________________
Vice-President, Power Workers' Union

Exhibit 4, Tab 2, Schedule 3

Shared Services & Corporate Cost Allocation

# SHARED SERVICES & CORPORATE COST ALLOCATION

## 1.0 Current Shared Services

The services and assets that will be shared by GLPT with GLPL in the 2011 and 2012 test years are the following:

- The office complex;
- System Control and Data Acquisition ("SCADA") equipment;
- Fibre optic systems; and
- Radio systems

The cost sharing mechanisms for each of these shared assets and services are the same as those approved in EB-2009-0408.

The proportional cost of these shared assets and services that is borne by GLPT is broken out in *Table 4-2-3 A* below. A discussion of how these services will be shared in the 2011 and 2012 test years follows. Attached at Appendix 'A' to this schedule are the Board's Shared Services tables for 2010, 2011 and 2012.

*Table 4-2-3 A – Current Shared Services*

| ($000's) | | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|---|
| *Office Complex* | | | | | | | | |
| Rent | | $0.0 | $0.0 | $84.9 | $171.5 | $171.5 | $175.8 | $180.2 |
| Operations & Maintenance | | - | - | 333.4 | 361.9 | 361.9 | 370.9 | 380.2 |
| *SCADA equipment licence* | ** | - | - | 140.3 | 293.8 | 280.6 | 280.6 | 280.6 |
| *Fibre Optic System licence* | ** | | | | | | | |
| Depreciation | | - | - | 31.6 | 63.2 | 63.2 | 63.2 | 63.2 |
| Operations & Maintenance | | - | - | 51.6 | - | 82.4 | 84.5 | 86.6 |
| *Radio System costs* | ** | - | - | 12.5 | 6.5 | 28.3 | 29.0 | 29.7 |
| **Total Shared** | | **$0.0** | **$0.0** | **$654.3** | **$896.9** | **$987.9** | **$1,004.0** | **$1,020.5** |

## 2.0 Office Complex

The annual rent that GLPT pays GLPL is in the middle of the range of fair market rentals for triple net leases as assessed by an independent appraiser. GLPT's net rental cost of the building and property is forecast to be $175,800 for 2011 and $180,200 for 2012. If GLPT's share of the estimated net book value of the property were included in GLPT's rate base, the estimated overall cost to rate payers would be over $260,000[1] in each of 2011 and 2012. Accordingly, the lease structure that GLPT utilizes in the 2011 and 2012 test year is consistent with prudent planning and has resulted in demonstrable avoided costs.

GLPT estimates its share of operations and maintenance costs of the building to be $370,900 and $380,200 for the 2011 and 2012 test years, respectively.

## 3.0 SCADA Equipment

Pursuant to an agreement dated June 30, 2009, GLPT licences SCADA equipment from GLPL for a three year term, at a cost of 50% of the total depreciation cost of the existing equipment, with no return on capital investment. The depreciation cost charged to GLPT

[1] The net book value of the building and property that would be attributed to GLPT is approximately $2.6M. With annual depreciation of 2.5%, the depreciation pass-through would be approximately $65,000, and a blended cost of capital rate of 8.00% would yield an additional cost of $203,000. This analysis does not include the impacts on income taxes that would also arise from the building being owned and included in rate base.

is approximately $23,400 per month, or $280,600 annually. The assets are depreciated based on useful lives ranging from 5 years to 40 years, depending on the nature of the asset. However, the majority of the assets are depreciated at a rate that is 10 years or less. GLPT is fully responsible for maintenance costs of the SCADA equipment, as if it were the owner.

## 4.0 Fibre Optic System

Pursuant to an agreement dated June 30, 2009, GLPT has obtained a licence from GLPL for use of a fibre optic system for a three year term, which term is automatically renewable for subsequent one year terms unless GLPT at its option terminates. The annual cost charged to GLPT is approximately $5,300 per month, or $63,200 annually, representing approximately 41% of the depreciation cost of the system. In addition to the depreciation cost, GLPT is responsible for 41% of the operating and maintenance costs associated with the fibre optic system. The costs are managed by GLPL and billed to GLPT. On an annual basis, this cost is estimated to be approximately $290,000, of which $120,000 is billed to GLPT.

Pursuant to an Agreement for Licensed Attachment dated July 1, 2009, GLPT granted GLPL access to its poles and other equipment, and permission to affix and maintain attachments to such poles and other equipment, in a manner and for an annual rental consistent with Board Decision No. RP-2003-0249. The annual revenue that GLPT will receive for this pole rental in the test years is estimated to be $35,200 for each of 2011 and 2012. Because this represents a fibre optic cost for GLPL, 41% of the $35,200 is billed back from GLPL to GLPT in accordance with the fibre optic agreement. Therefore, GLPT's annual net benefit is reduced by 41%, leaving a total of $20,800. This net benefit is captured as net rent from electric property in Exhibit 3, Tab 1, Schedule 1 of this Application. The term of the Licensed Attachment Agreement expires on June 30, 2012.

## 5.0 Radio Systems

Pursuant to an agreement dated June 30, 2009, GLPT is licensing radio system assets to GLPL for a three year term. The system is situated in a remote area and is used by both GLPT and GLPL in the normal course of each company's business communications. Due to the remoteness of location, it would not make economic sense for either company to duplicate the existing radio system.

GLPL pays GLPT a licence fee which is cost based and based on the percentage of radios in use on the overall system. The total annual depreciation cost for the radio system is approximately $6,000, of which approximately half is passed on to GLPL. In addition, approximately $50,000 in operating and maintenance costs are incurred at radio tower sites, of which half again is passed on to GLPL.

## 6.0 Corporate Cost Allocation

Corporate costs are costs associated with senior executive support, tax filing preparation, as well as treasury, accounting and finance and are incremental to the functions carried out by the members of GLPT's executive team.

In 2011 and 2012, GLPT's parent will continue to provide the corporate services noted above. For the 2011 and 2012 test years GLPT is seeking to recover a portion of the costs associated with these corporate services ($50,000 and $100,000 respectively). In GLPT's 2010 rate application, GLPT included $298,571 in corporate cost allocation. These costs are expected to continue for 2011 and 2012. However, GLPT is not seeking full recovery of the cost of corporate services because of its commitment to not seek a total OM&A increase in excess of 2.5% per year for each of 2011 and 2012 as per the Board Approved Settlement Agreement.

GLPT's cost for these shared services and functions are determined based on the time spent by the relevant executives and the relevant staff in the finance, accounting, treasury and taxation departments of the parent company. The costs associated with these individuals are then multiplied by the relative portion of the working year that these individuals dedicate to providing support to GLPT.

With respect to finance, accounting and treasury services, which include such functions as quarterly meetings, board meetings, regulatory support, budget support and financing, $65,000 of the parent company's total costs for the relevant employees is allocated to GLPT.

With respect to executive services, which include quarterly meetings, board meetings and budget matters, $209,400 of the parent company's total costs for the relevant executives is allocated to GLPT.

With respect to taxation, which includes the preparation of GLPT tax returns, regulatory support, tax support to GLPT Inc. and GLPTLP, as well as liaising with GLPT's auditors, $24,200 of the parent company's total costs for the relevant employees is allocated to GLPT.

**<u>APPENDIX "A"</u>**

**Shared Services Tables**

**Appendix 2-L of Filing Requirements**

**Shared Services - 2010**

| Entity Incurring Cost | Service Offered | Pricing Methodology | Allocation Driver | Total Cost Incurred ($000's) | GLPT Allocation ($000's) | % Allocation |
|---|---|---|---|---|---|---|
| GLPT | Office Complex | | | | | |
| | Rent | Market-Based | Sq. Footage | $310.7 | $171.5 | 55.2% |
| | O&M | Cost-Based | Sq. Footage | $655.6 | $361.9 | 55.2% |
| GLPL | SCADA Equipment licence | Cost-Based | 50% Depr. | $561.2 | $280.6 | 50.0% |
| GLPL | Fibre Optic System | | | | | |
| | Licence | Cost-Based | 41% Depr. | $154.1 | $63.2 | 41.0% |
| | O&M | Cost-Based | 41% OM&A | $201.1 | $82.4 | 41.0% |
| GLPT | Radio System costs | Cost-Based | 50% of Costs | $56.6 | $28.3 | 50.0% |

**Shared Services - 2011**

| Entity Incurring Cost | Service Offered | Pricing Methodology | Allocation Driver | Total Cost Incurred ($000's) | GLPT Allocation ($000's) | % Allocation |
|---|---|---|---|---|---|---|
| GLPT | Office Complex | | | | | |
| | Rent | Market-Based | Sq. Footage | $318.4 | $175.8 | 55.2% |
| | O&M | Cost-Based | Sq. Footage | $672.0 | $370.9 | 55.2% |
| GLPL | SCADA Equipment licence | Cost-Based | 50% Depr. | $561.2 | $280.6 | 50.0% |
| GLPL | Fibre Optic System | | | | | |
| | Licence | Cost-Based | 41% Depr. | $154.1 | $63.2 | 41.0% |
| | O&M | Cost-Based | 41% OM&A | $206.1 | $84.5 | 41.0% |
| GLPT | Radio System costs | Cost-Based | 50% of Costs | $58.0 | $29.0 | 50.0% |

**Shared Services - 2012**

| Entity Incurring Cost | Service Offered | Pricing Methodology | Allocation Driver | Total Cost Incurred ($000's) | GLPT Allocation ($000's) | % Allocation |
|---|---|---|---|---|---|---|
| GLPT | Office Complex | | | | | |
| | Rent | Market-Based | Sq. Footage | $326.4 | $180.2 | 55.2% |
| | O&M | Cost-Based | Sq. Footage | $688.8 | $380.2 | 55.2% |
| GLPL | SCADA Equipment licence | Cost-Based | 50% Depr. | $561.2 | $280.6 | 50.0% |
| GLPL | Fibre Optic System | | | | | |
| | Depreciation | Cost-Based | 41% Depr. | $154.1 | $63.2 | 41.0% |
| | O&M | Cost-Based | 41% OM&A | $211.2 | $86.6 | 41.0% |
| GLPT | Radio System | Cost-Based | 50% of Costs | $59.5 | $29.7 | 50.0% |

Exhibit 4, Tab 2, Schedule 4

Purchase of Non-Affiliate Services

# PURCHASE OF NON-AFFILIATE SERVICES

## 1.0 Overview

In the course of operating its transmission business, GLPT relies on the purchase of services from non-affiliated companies. The actual aggregate dollar amounts for each of 2007 through 2009, and the forecasted amount for 2010 are as follows:

- 2007: $2,061,300,
- 2008: $1,837,800,
- 2009: $2,263,100,
- 2010: $3,112,600

Of the non-affiliated companies that transact with GLPT, six companies have been close to or over GLPT's materiality threshold[1] for at least one year between 2007 and 2010. A summary of the transactions with these three companies is provided in Table 4-2-4 A below.

*Table 4-2-4 A – Non-Affiliate Purchases Over GLPT's Materiality Threshold*

| Identity of Company | Nature of Activity | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Forecast |
|---|---|---|---|---|---|
| ABB Inc. | Transmission Equipment Work | $195,114 | $10,482 | $6,880 | $0 |
| Deloitte & Touche LLP | Audit | 196,055 | 192,399 | 170,085 | 180,000 |
| Golder Associates Ltd. | Environmental Activities | 473,489 | - | 109,414 | - |
| Wilderness Vegetation Management | Forestry | 515,331 | 656,516 | 577,570 | 637,931 |
| | | **$1,379,989** | **$859,397** | **$863,950** | **$817,931** |

**Purchases of legal services have not been included in the table as they are privileged

[1] GLPT's materiality threshold is $182,239 for 2011 and $191,843 for 2012, as defined in Exhibit 1, Tab 4, Schedule 1.

## 2.0 Methodology

In determining vendors for purchasing services, GLPT considers a number of different factors. The first and most important factor is pre-qualification, which is discussed in further detail below. The other key measure used is Request for Proposals ("RFPs"), which assess cost, scope of work and availability of potential vendors.

## 2.1 Contractor Pre-Qualification

Depending upon the nature of the services to be provided, GLPT may carry out a contractor pre-qualification process. A safe and healthy workplace is an important part of GLPT's work environment. As such, GLPT takes a number of steps to ensure that contractors, particularly those carrying out physical work on behalf of the company, demonstrate a level of dedication to health and safety that is consistent with GLPT's own commitment to health and safety. This process, which GLPT refers to as its contractor pre-qualification process, is described in detail below:

1. Interested contractors are sent an application form,

2. The contractor completes the application form and returns it to GLPT along with any additional information requested. Information requested includes business history, safe work performance, health and safety policies and information, and environmental policies and information.

3. GLPT evaluates the information supplied and requests additional information as required. GLPT determines whether the contractor is qualified to work for GLPT, depending on the level of risk that is associated with the work sought by the contractor.

4. Annually, contractors are requested to update certain information in the application form. Some examples of information requiring updates include Workplace Safety & Insurance Board experience ratings, training completed, and Ministry of Labour orders.

## 2.2 Requests for Proposals

Subject to pre-qualification of contractors on safety and environmental standards, and where practicable, GLPT will seek the optimal service provider through an RFP process. An RFP is sent to each of the pre-qualified contractors in the relevant field. The responses to the RFP are assessed and evaluated by GLPT on the basis of considerations such as price, health and safety, environment, value added, past experience and reliability. A successful contractor is asked to provide an itemized estimate of the costs to conduct the work. Based upon the estimate, efforts are made to negotiate the price and terms on a fixed price contract basis.

Exhibit 4, Tab 2, Schedule 5

Depreciation and Amortization

# DEPRECIATION AND AMORTIZATION

GLPT uses straight-line depreciation calculations based on the depreciable gross book value of each asset class. The rates utilized by GLPT, shown in the table below, are the same as those approved in EB-2009-0408. GLPT has made no changes to assumptions in calculating depreciation expense since that application.

*Table 4-2-5 A – Depreciation Rates*

| USofA | Description | Depr. Rate |
|---|---|---|
| 1705 | Land | 0.00% |
| 1715 | Station Equipment | 2.50% |
| 1720 | Towers and Fixtures | 2.50% |
| 1725 | Poles and Fixtures | 2.50% |
| 1730 | Overhead Conductors & Devices | 2.50% |
| 1740 | Underground Conductors & Devices | 4.00% |
| 1745 | Road and Trails | 2.50% |
| 1908 | Buildings and Fixtures | 4.00% |
| 1915 | Office Furniture & Equipment | 10.00% |
| 1920 | Computer Equipment - Hardware | 20.00% |
| 1925 | Computer Software | 20.00% |
| 1930 | Transportation Equipment | 20.00% |
| 1940 | Tools, Shop and Garage Equipment | 10.00% |
| 1955 | Communication Equipment | 10.00% |
| 1960 | Miscellaneous Equipment | 10.00% |
| 1990 | Other Tangible Property | 2.50% |

*Table 4-2-5 B* below outlines GLPT's depreciation expense by asset class.

*Table 4-2-5 C* demonstrates continuity for depreciation amounts for each of the years 2007 through the 2011 and 2012 test years.

Also attached as Appendix “A” to this schedule is a depreciation breakdown for each year (2007 - 2012) based on the template provided in Appendix 2-L of the Board’s June 28, 2010 Filing Requirements. Variances exist in the calculations provided in this format as a result of in-service timing and as a result of asset class subaccounts.

With respect to timing, the calculation in Appendix “A” assumes the half-year rule, where GLPT begins depreciating assets as of the month they come into service. This typically results in the detailed calculation yielding lower depreciation amounts.

With respect to asset subaccounts, GLPT has a subclass within account 1715 for substation control equipment consistent with the Accounting Procedures Handbook definitions. However, GLPT has historically depreciated this according to the system supervisory equipment rate of 6.67% instead of the 2.5% that is attributed to account 1715. As a result, when the 2.5% rate is applied to the class in its entirety, it yields a depreciation expense that is lower than GLPT’s detailed depreciation expense calculation. This subclass of account 1715 was also described and approved in EB-2009-0408.

*Table 4-2-5 B – Depreciation Expense by Asset Class*

| ($000's) USofA | Description | Depr. Rate | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | 0.00% | - | - | - | - | - | - | - |
| 1715 | Station Equipment | 2.50% | $2,966.4 | $3,387.8 | $3,614.5 | $3,766.8 | $3,785.5 | $4,109.3 | $4,510.6 |
| 1720 | Towers and Fixtures | 2.50% | 592.1 | 592.1 | 590.7 | 589.2 | 589.2 | 589.2 | 589.2 |
| 1725 | Poles and Fixtures | 2.50% | 1,404.2 | 1,450.0 | 1,464.3 | 1,456.2 | 1,467.1 | 1,460.6 | 1,460.3 |
| 1730 | Overhead Conductors & Devices | 2.50% | 1,060.1 | 1,046.7 | 1,046.2 | 1,047.0 | 1,042.8 | 1,038.1 | 1,040.2 |
| 1740 | Underground Conductors & Devices | 4.00% | 3.2 | - | - | - | - | - | - |
| 1745 | Road and Trails | 2.50% | 9.8 | 9.8 | 8.8 | 15.5 | 18.3 | 20.2 | 20.2 |
| 1908 | Buildings and Fixtures | 4.00% | 1.3 | 1.3 | 1.3 | 19.2 | 12.2 | 33.9 | 47.4 |
| 1915 | Office Furniture & Equipment | 10.00% | - | - | 11.6 | 19.8 | 20.4 | 20.4 | 20.4 |
| 1920 | Computer Equipment - Hardware | 20.00% | - | 0.1 | 125.1 | 235.7 | 223.1 | 215.2 | 213.7 |
| 1925 | Computer Software | 20.00% | 3.7 | 2.0 | 25.7 | 159.1 | 195.0 | 333.0 | 495.9 |
| 1930 | Transportation Equipment | 20.00% | - | - | 58.5 | 117.0 | 122.9 | 145.5 | 177.8 |
| 1940 | Tools, Shop and Garage Equipment | 10.00% | - | - | 0.8 | 1.5 | 1.5 | 1.5 | 1.5 |
| 1955 | Communication Equipment | 10.00% | 80.0 | 57.2 | 24.3 | 15.3 | 18.3 | 43.6 | 74.1 |
| 1960 | Miscellaneous Equipment | 10.00% | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| 1990 | Other Tangible Property | 2.50% | - | - | - | - | - | - | - |
| | Less: Disallowed 2005 Addition | | (37.1) | (37.1) | (37.1) | (37.1) | (37.1) | (37.1) | (37.1) |
| | **Total Annual Depreciation:** | | **$6,085.3** | **$6,511.6** | **$6,936.4** | **$7,406.9** | **$7,460.7** | **$7,975.1** | **$8,615.9** |

*Table 4-2-5 C – Continuity of Accumulated Depreciation*

| ($000's) USofA | Description | 2007 Opening Accumulated Depreciation | 2007 Annual Depreciation | 2007 Disposals | 2008 Opening Accumulated Depreciation | 2008 Annual Depreciation | 2008 Disposals | 2008 Closing Accumulated Depreciation | 2009 Annual Depreciation | 2009 Disposals & Adjustments | 2009 Closing Accumulated Depreciation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | - | - | - | - | - | - | - | - | - | - |
| 1715 | Station Equipment | $28,780.6 | $2,966.4 | ($34.1) | $31,713.0 | $3,387.8 | $179.3 | $34,921.5 | $3,614.5 | $0.0 | $38,536.0 |
| 1720 | Towers and Fixtures | 7,017.1 | 592.1 | - | 7,609.2 | 592.1 | - | 8,201.3 | 590.7 | - | 8,792.0 |
| 1725 | Poles and Fixtures | 8,839.8 | 1,404.2 | - | 10,243.9 | 1,450.0 | - | 11,694.0 | 1,464.3 | - | 13,158.3 |
| 1730 | Overhead Conductors & Devices | 6,580.6 | 1,060.1 | - | 7,640.7 | 1,046.7 | - | 8,687.4 | 1,046.2 | - | 9,733.6 |
| 1740 | Underground Conductors & Devices | 157.2 | 3.2 | - | 160.4 | - | - | 160.4 | - | - | 160.4 |
| 1745 | Road and Trails | 393.2 | 9.8 | - | 403.0 | 9.8 | - | 412.8 | 8.8 | - | 421.6 |
| 1908 | Buildings and Fixtures | 4.5 | 1.3 | - | 5.9 | 1.3 | - | 7.2 | 1.3 | - | 8.5 |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | - | 11.6 | - | 11.6 |
| 1920 | Computer Equipment - Hardware | 19.1 | - | - | 19.1 | 0.1 | - | 19.2 | 125.1 | (1,037.6) | 1,181.9 |
| 1925 | Computer Software | 25.5 | 3.7 | - | 29.2 | 2.0 | - | 31.2 | 25.7 | (717.4) | 774.4 |
| 1930 | Transportation Equipment | - | - | - | - | - | - | - | 58.5 | (475.6) | 534.1 |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | - | 0.8 | (7.5) | 8.3 |
| 1955 | Communication Equipment | 1,236.4 | 80.0 | - | 1,316.4 | 57.2 | - | 1,373.6 | 24.3 | - | 1,397.9 |
| 1960 | Miscellaneous Equipment | 5.5 | 1.7 | - | 7.2 | 1.7 | - | 8.9 | 1.7 | - | 10.6 |
| 1990 | Other Tangible Property | 757.0 | - | - | 757.0 | - | - | 757.0 | - | - | 757.0 |
| | Less: Disallowed 2005 Addition | (55.7) | (37.1) | - | (92.8) | (37.1) | - | (130.0) | (37.1) | - | (167.1) |
| | **Totals** | **$53,760.9** | **$6,085.3** | **($34.1)** | **$59,812.1** | **$6,511.6** | **$179.3** | **$66,144.4** | **$6,936.4** | **($2,238.1)** | **$75,318.8** |

*Table 4-2-5 C – Continuity of Accumulated Depreciation (cont'd)*

| ($000's) USofA | Description | 2010 Opening Accumulated Depreciation | Forecasted 2010 Annual Depreciation | Forecasted 2010 Disposals | 2010 Closing Accumulated Depreciation | Forecasted 2011 Annual Depreciation | Forecasted 2011 Disposals | 2011 Closing Accumulated Depreciation | Forecasted 2012 Annual Depreciation | Forecasted 2012 Disposals | 2012 Closing Accumulated Depreciation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | - | - | - | - | - | - | - | - | - | - |
| 1715 | Station Equipment | 38,536.0 | 3,785.5 | $0.0 | $42,321.5 | 4,109.3 | $993.4 | $45,437.4 | $4,510.6 | $0.0 | $49,948.1 |
| 1720 | Towers and Fixtures | 8,792.0 | 589.2 | - | 9,381.2 | 589.2 | - | 9,970.5 | 589.2 | - | 10,559.7 |
| 1725 | Poles and Fixtures | 13,158.3 | 1,467.1 | - | 14,625.4 | 1,460.6 | 3.5 | 16,082.5 | 1,460.3 | - | 17,542.8 |
| 1730 | Overhead Conductors & Devices | 9,733.6 | 1,042.8 | - | 10,776.3 | 1,038.1 | 1.1 | 11,813.3 | 1,040.2 | - | 12,853.6 |
| 1740 | Underground Conductors & Devices | 160.4 | - | - | 160.4 | - | - | 160.4 | - | - | 160.4 |
| 1745 | Road and Trails | 421.6 | 18.3 | - | 439.9 | 20.2 | - | 460.0 | 20.2 | - | 480.2 |
| 1908 | Buildings and Fixtures | 8.5 | 12.2 | - | 20.7 | 33.9 | - | 54.6 | 47.4 | - | 102.0 |
| 1915 | Office Furniture & Equipment | 11.6 | 20.4 | - | 32.0 | 20.4 | - | 52.3 | 20.4 | - | 72.7 |
| 1920 | Computer Equipment - Hardware | 1,181.9 | 223.1 | - | 1,404.9 | 215.2 | - | 1,620.1 | 213.7 | - | 1,833.8 |
| 1925 | Computer Software | 774.4 | 195.0 | - | 969.3 | 333.0 | - | 1,302.3 | 495.9 | - | 1,798.3 |
| 1930 | Transportation Equipment | 534.1 | 122.9 | - | 656.9 | 145.5 | - | 802.4 | 177.8 | - | 980.2 |
| 1940 | Tools, Shop and Garage Equipment | 8.3 | 1.5 | - | 9.8 | 1.5 | - | 11.3 | 1.5 | - | 12.8 |
| 1955 | Communication Equipment | 1,397.9 | 18.3 | - | 1,416.2 | 43.6 | - | 1,459.8 | 74.1 | - | 1,533.9 |
| 1960 | Miscellaneous Equipment | 10.6 | 1.7 | - | 12.2 | 1.7 | - | 13.9 | 1.7 | - | 15.6 |
| 1990 | Other Tangible Property | 757.0 | - | - | 757.0 | - | - | 757.0 | - | - | 757.0 |
| | Less: Disallowed 2005 Addition | (167.1) | (37.1) | - | (204.3) | (37.1) | - | (241.4) | (37.1) | - | (278.5) |
| | **Totals** | **$75,318.8** | **$7,460.7** | **$0.0** | **$82,779.5** | **$7,975.1** | **$998.0** | **$89,756.6** | **$8,615.9** | **$0.0** | **$98,372.4** |

# APPENDIX "A"

## Depreciation and Amortization Expense

## Appendix 2-M of Filing Requirements

| 2007 ($000's) USofA | Description | (a) Opening Balance | (b) Less Fully Depr. | (c) Fully Depr. Current Year | (d)=(a)-(b)+0.5*(c) Net for Depr. | (e) Additions | (f)=(d)+.5*(e) Total for Depr. | (g) Service Life (years) | (i) Depr. Rate | (i)=(f)*(h) Depr. Expense | Per Detailed Calculation | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | $544,437 | $0 | $0 | $544,437 | $0 | $544,437 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 119,985,941 | 3,503,973 | 548,007 | 116,755,972 | 15,724,905 | 124,618,425 | 40 | 2.50% | 3,115,461 | 2,966,411 | **149,049** |
| 1720 | Towers and Fixtures | 23,683,888 | - | - | 23,683,888 | - | 23,683,888 | 40 | 2.50% | 592,097 | 592,097 | **-** |
| 1725 | Poles and Fixtures | 56,618,640 | 838,850 | 120,667 | 55,840,124 | 2,025,031 | 56,852,639 | 40 | 2.50% | 1,421,316 | 1,404,150 | **17,166** |
| 1730 | Overhead Conductors & Devices | 43,810,863 | 1,339,419 | 26,867 | 42,484,877 | (580,268) | 42,194,743 | 40 | 2.50% | 1,054,869 | 1,060,060 | **(5,191)** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | 160,387 | 80,193 | - | 80,193 | 25 | 4.00% | 3,208 | 3,208 | **-** |
| 1745 | Road and Trails | 497,389 | 107,147 | - | 390,242 | - | 390,242 | 40 | 2.50% | 9,756 | 9,756 | **-** |
| 1908 | Buildings and Fixtures | 35,677 | 2,294 | - | 33,383 | - | 33,383 | 25 | 4.00% | 1,335 | 1,335 | **-** |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | 10 | 10.00% | - | - | **-** |
| 1920 | Computer Equipment - Hardware | 19,094 | 19,094 | - | - | - | - | 5 | 20.00% | - | - | **-** |
| 1925 | Computer Software | 28,367 | 28,367 | - | - | 4,967 | 2,483 | 5 | 20.00% | 497 | 3,665 | **(3,168)** |
| 1930 | Transportation Equipment | - | - | - | - | - | - | 5 | 20.00% | - | - | **-** |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | 10 | 10.00% | - | - | **-** |
| 1955 | Communication Equipment | 1,420,249 | 620,225 | - | 800,024 | 222 | 800,135 | 10 | 10.00% | 80,014 | 80,025 | **(11)** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **-** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$246,093,317** | **$7,376,796** | **$855,928** | **$239,144,485** | **$17,174,858** | **$247,731,914** | | | **$6,243,106** | **$6,085,261** | **$157,845** |

| 2008 ($000's) USofA | Description | (a) Opening Balance | (b) Less Fully Depr. | (c) Fully Depr. Current Year | (d)=(a)-(b)+0.5*(c) Net for Depr. | (e) Additions | (f)=(d)+.5*(e) Total for Depr. | (g) Service Life (years) | (i) Depr. Rate | (i)=(f)*(h) Depr. Expense | Per Detailed Calculation | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | $544,437 | $0 | $0 | $544,437 | $0 | $544,437 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 135,568,654 | 3,345,496 | - | 132,223,158 | 10,303,062 | 137,374,689 | 40 | 2.50% | 3,434,367 | 3,387,848 | **46,519** |
| 1720 | Towers and Fixtures | 23,683,888 | - | - | 23,683,888 | - | 23,683,888 | 40 | 2.50% | 592,097 | 592,097 | **-** |
| 1725 | Poles and Fixtures | 58,643,672 | 841,850 | 3,000 | 57,803,321 | 717,522 | 58,162,082 | 40 | 2.50% | 1,454,052 | 1,450,006 | **4,046** |
| 1730 | Overhead Conductors & Devices | 43,230,595 | 1,385,460 | 46,041 | 41,868,156 | - | 41,868,156 | 40 | 2.50% | 1,046,704 | 1,046,704 | **-** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | - | - | - | - | 25 | 4.00% | - | - | **-** |
| 1745 | Road and Trails | 497,389 | 107,147 | - | 390,242 | 24,653 | 402,569 | 40 | 2.50% | 10,064 | 9,807 | **257** |
| 1908 | Buildings and Fixtures | 35,677 | 2,294 | - | 33,383 | - | 33,383 | 25 | 4.00% | 1,335 | 1,335 | **-** |
| 1915 | Office Furniture & Equipment | - | - | - | - | - | - | 10 | 10.00% | - | - | **-** |
| 1920 | Computer Equipment - Hardware | 19,094 | 19,094 | - | - | 5,075 | 2,538 | 5 | 20.00% | 508 | 85 | **423** |
| 1925 | Computer Software | 33,334 | 28,367 | - | 4,967 | 8,337 | 9,135 | 5 | 20.00% | 1,827 | 2,035 | **(208)** |
| 1930 | Transportation Equipment | - | - | - | - | - | - | 5 | 20.00% | - | - | **-** |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | - | - | 10 | 10.00% | - | - | **-** |
| 1955 | Communication Equipment | 1,420,471 | 1,077,595 | 457,370 | 571,561 | - | 571,561 | 10 | 10.00% | 57,156 | 57,156 | **-** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **-** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$263,125,981** | **$7,724,730** | **$506,411** | **$255,654,457** | **$11,058,649** | **$261,183,782** | | | **$6,562,665** | **$6,511,628** | **$51,037** |

| **2009** ($000's) | | (a) | (b) | (c) | (d)=(a)-(b)+0.5*(c) | (e) | (f)=(d)+.5*(e) | (g) | (i) | (i)=(f)*(h) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **USofA** | **Description** | **Opening Balance** | **Less Fully Depr.** | **Fully Depr. Current Year** | **Net for Depr.** | **Additions** | **Total for Depr.** | **Service Life (years)** | **Depr. Rate** | **Depr. Expense** | **Per Detailed Calculation** | **Variance** |
| 1705 | Land | $544,437 | $0 | $0 | $544,437 | $384,611 | $736,743 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 145,606,824 | 3,832,694 | 487,198 | 142,017,730 | 4,902,523 | 144,468,991 | 40 | 2.50% | 3,611,725 | 3,614,520 | **(2,796)** |
| 1720 | Towers and Fixtures | 23,683,888 | 114,003 | 114,003 | 23,626,886 | - | 23,626,886 | 40 | 2.50% | 590,672 | 590,672 | **(0)** |
| 1725 | Poles and Fixtures | 59,361,193 | 873,315 | 31,465 | 58,503,611 | 416,102 | 58,711,661 | 40 | 2.50% | 1,467,792 | 1,464,323 | **3,469** |
| 1730 | Overhead Conductors & Devices | 43,230,595 | 1,460,075 | 74,615 | 41,807,828 | 209,795 | 41,912,725 | 40 | 2.50% | 1,047,818 | 1,046,203 | **1,615** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | - | - | - | - | 25 | 4.00% | - | - | **-** |
| 1745 | Road and Trails | 522,042 | 309,141 | 201,994 | 313,898 | 444,873 | 536,335 | 40 | 2.50% | 13,408 | 8,774 | **4,634** |
| 1908 | Buildings and Fixtures | 35,677 | 2,294 | - | 33,383 | - | 33,383 | 25 | 4.00% | 1,335 | 1,335 | **(0)** |
| 1915 | Office Furniture & Equipment | - | - | - | - | 203,609 | 101,804 | 10 | 10.00% | 10,180 | 11,611 | **(1,430)** |
| 1920 | Computer Equipment - Hardware | 24,169 | 488,995 | 469,902 | (229,875) | 1,642,895 | 591,572 | 5 | 20.00% | 118,314 | 125,073 | **(6,759)** |
| 1925 | Computer Software | 41,671 | 698,067 | 669,700 | (321,546) | 1,408,832 | 382,870 | 5 | 20.00% | 76,574 | 25,722 | **50,852** |
| 1930 | Transportation Equipment | - | 267,638 | 267,638 | (133,819) | 856,327 | 294,345 | 5 | 20.00% | 58,869 | 58,478 | **391** |
| 1940 | Tools, Shop and Garage Equipment | - | - | - | - | 15,012 | 7,506 | 10 | 10.00% | 751 | 751 | **-** |
| 1955 | Communication Equipment | 1,420,471 | 1,346,391 | 268,796 | 208,478 | 59,798 | 238,377 | 10 | 10.00% | 23,838 | 24,336 | **(498)** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **(0)** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$273,919,739** | **$10,310,040** | **$2,585,310** | **$264,902,354** | **$10,544,377** | **$270,174,543** | | | **$6,985,831** | **$6,936,354** | **$49,477** |

| 2010 ($000's) | | (a) | (b) | (c) | (d)=(a)-(b)+0.5*(c) | (e) | (f)=(d)+.5*(e) | (g) | (i) | (i)=(f)*(h) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USofA | Description | Opening Balance | Less Fully Depr. | Fully Depr. Current Year | Net for Depr. | Additions | Total for Depr. | Service Life (years) | Depr. Rate | Depr. Expense | Per Detailed Calculation | Variance |
| 1705 | Land | $929,048 | $0 | $0 | $929,048 | $0 | $929,048 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 150,509,347 | 5,561,122 | 1,728,428 | 145,812,439 | 4,542,929 | 148,083,904 | 40 | 2.50% | 3,702,098 | 3,785,503 | **(83,405)** |
| 1720 | Towers and Fixtures | 23,683,888 | 114,003 | - | 23,569,885 | - | 23,569,885 | 40 | 2.50% | 589,247 | 589,247 | **(0)** |
| 1725 | Poles and Fixtures | 59,777,295 | 1,468,026 | 594,711 | 58,606,624 | 84,700 | 58,648,974 | 40 | 2.50% | 1,466,224 | 1,467,089 | **(865)** |
| 1730 | Overhead Conductors & Devices | 43,440,390 | 1,999,822 | 539,748 | 41,710,441 | - | 41,710,441 | 40 | 2.50% | 1,042,761 | 1,042,761 | **(0)** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | - | - | - | - | 25 | 4.00% | - | - | **-** |
| 1745 | Road and Trails | 966,915 | 309,141 | - | 657,774 | 148,500 | 732,024 | 40 | 2.50% | 18,301 | 18,301 | **(0)** |
| 1908 | Buildings and Fixtures | 35,677 | 2,294 | - | 33,383 | 541,200 | 303,983 | 25 | 4.00% | 12,159 | 12,159 | **(0)** |
| 1915 | Office Furniture & Equipment | 203,609 | - | - | 203,609 | - | 203,609 | 10 | 10.00% | 20,361 | 20,361 | **(0)** |
| 1920 | Computer Equipment - Hardware | 1,664,656 | 857,120 | 368,125 | 991,598 | 247,500 | 1,115,348 | 5 | 20.00% | 223,070 | 223,070 | **-** |
| 1925 | Computer Software | 1,450,503 | 698,067 | - | 752,436 | 444,700 | 974,786 | 5 | 20.00% | 194,957 | 194,957 | **-** |
| 1930 | Transportation Equipment | 856,327 | 346,358 | 78,720 | 549,330 | 130,000 | 614,330 | 5 | 20.00% | 122,866 | 122,866 | **0** |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | - | - | 15,012 | - | 15,012 | 10 | 10.00% | 1,501 | 1,501 | **-** |
| 1955 | Communication Equipment | 1,480,268 | 1,348,356 | 1,966 | 132,895 | 100,100 | 182,945 | 10 | 10.00% | 18,294 | 18,294 | **-** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **(0)** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$284,461,708** | **$13,621,737** | **$3,311,698** | **$272,495,819** | **$6,239,629** | **$275,615,634** | | | **$7,376,394** | **$7,460,664** | **($84,270)** |

| 2011 ($000's) | | (a) | (b) | (c) | (d)=(a)-(b)+0.5*(c) | (e) | (f)=(d)+.5*(e) | (g) | (i) | (i)=(f)*(h) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USofA | Description | Opening Balance | Less Fully Depr. | Fully Depr. Current Year | Net for Depr. | Additions | Total for Depr. | Service Life (years) | Depr. Rate | Depr. Expense | Per Detailed Calculation | Variance |
| 1705 | Land | $929,048 | $0 | $0 | $929,048 | $0 | $929,048 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 155,052,276 | 6,760,213 | 1,199,091 | 148,891,609 | 23,790,340 | 160,786,779 | 40 | 2.50% | 4,019,669 | 4,109,329 | **(89,660)** |
| 1720 | Towers and Fixtures | 23,683,888 | 114,003 | - | 23,569,885 | - | 23,569,885 | 40 | 2.50% | 589,247 | 589,247 | **(0)** |
| 1725 | Poles and Fixtures | 59,861,995 | 1,476,437 | 8,411 | 58,389,764 | - | 58,389,764 | 40 | 2.50% | 1,459,744 | 1,460,609 | **(865)** |
| 1730 | Overhead Conductors & Devices | 43,440,390 | 1,981,922 | (17,900) | 41,449,517 | 152,460 | 41,525,747 | 40 | 2.50% | 1,038,144 | 1,038,144 | **0** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | - | - | - | - | 25 | 4.00% | - | - | **-** |
| 1745 | Road and Trails | 1,115,415 | 309,141 | - | 806,274 | - | 806,274 | 40 | 2.50% | 20,157 | 20,157 | **(0)** |
| 1908 | Buildings and Fixtures | 576,877 | 2,294 | - | 574,583 | 546,025 | 847,596 | 25 | 4.00% | 33,904 | 33,904 | **(0)** |
| 1915 | Office Furniture & Equipment | 203,609 | - | - | 203,609 | - | 203,609 | 10 | 10.00% | 20,361 | 20,361 | **(0)** |
| 1920 | Computer Equipment - Hardware | 1,912,156 | 1,062,169 | 205,049 | 952,511 | 247,000 | 1,076,011 | 5 | 20.00% | 215,202 | 215,202 | **-** |
| 1925 | Computer Software | 1,895,203 | 698,067 | - | 1,197,136 | 935,988 | 1,665,130 | 5 | 20.00% | 333,026 | 333,026 | **-** |
| 1930 | Transportation Equipment | 986,327 | 448,571 | 102,213 | 588,863 | 277,000 | 727,363 | 5 | 20.00% | 145,473 | 145,473 | **(0)** |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | - | - | 15,012 | - | 15,012 | 10 | 10.00% | 1,501 | 1,501 | **-** |
| 1955 | Communication Equipment | 1,580,368 | 1,386,107 | 37,751 | 213,136 | 444,840 | 435,556 | 10 | 10.00% | 43,556 | 43,556 | **0** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **(0)** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$290,701,337** | **$15,156,352** | **$1,534,615** | **$276,312,292** | **$26,393,653** | **$289,509,118** | | | **$7,884,538** | **$7,975,063** | **($90,525)** |

| **2012** ($000's) USofA | Description | (a) Opening Balance | (b) Less Fully Depr. | (c) Fully Depr. Current Year | (d)=(a)-(b)+0.5*(c) Net for Depr. | (e) Additions | (f)=(d)+.5*(e) Total for Depr. | (g) Service Life (years) | (i) Depr. Rate | (i)=(f)*(h) Depr. Expense | Per Detailed Calculation | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1705 | Land | $929,048 | $0 | $0 | $929,048 | $0 | $929,048 | n/a | | $0 | $0 | |
| 1715 | Station Equipment | 176,944,558 | 7,123,583 | 363,370 | 170,002,660 | 7,399,200 | 173,702,260 | 40 | 2.50% | 4,342,556 | 4,510,623 | **(168,066)** |
| 1720 | Towers and Fixtures | 23,683,888 | 114,003 | - | 23,569,885 | - | 23,569,885 | 40 | 2.50% | 589,247 | 589,247 | **(0)** |
| 1725 | Poles and Fixtures | 59,854,095 | 1,476,437 | - | 58,377,658 | - | 58,377,658 | 40 | 2.50% | 1,459,441 | 1,460,306 | **(865)** |
| 1730 | Overhead Conductors & Devices | 43,590,254 | 1,981,922 | - | 41,608,331 | - | 41,608,331 | 40 | 2.50% | 1,040,208 | 1,040,208 | **(0)** |
| 1740 | Underground Conductors & Devices | 160,387 | 160,387 | - | - | - | - | 25 | 4.00% | - | - | **-** |
| 1745 | Road and Trails | 1,115,415 | 309,141 | - | 806,274 | - | 806,274 | 40 | 2.50% | 20,157 | 20,157 | **(0)** |
| 1908 | Buildings and Fixtures | 1,122,902 | 2,294 | - | 1,120,608 | 127,600 | 1,184,408 | 25 | 4.00% | 47,376 | 47,376 | **(0)** |
| 1915 | Office Furniture & Equipment | 203,609 | - | - | 203,609 | - | 203,609 | 10 | 10.00% | 20,361 | 20,361 | **(0)** |
| 1920 | Computer Equipment - Hardware | 2,159,156 | 1,359,985 | 297,816 | 948,078 | 241,000 | 1,068,578 | 5 | 20.00% | 213,716 | 213,716 | **-** |
| 1925 | Computer Software | 2,831,191 | 740,214 | 42,147 | 2,112,051 | 735,140 | 2,479,621 | 5 | 20.00% | 495,924 | 495,924 | **0** |
| 1930 | Transportation Equipment | 1,263,327 | 562,167 | 113,596 | 757,958 | 262,000 | 888,958 | 5 | 20.00% | 177,792 | 177,792 | **(0)** |
| 1940 | Tools, Shop and Garage Equipment | 15,012 | - | - | 15,012 | - | 15,012 | 10 | 10.00% | 1,501 | 1,501 | **-** |
| 1955 | Communication Equipment | 2,025,208 | 1,386,249 | 142 | 639,030 | 204,490 | 741,275 | 10 | 10.00% | 74,128 | 74,128 | **0** |
| 1960 | Miscellaneous Equipment | 16,944 | - | - | 16,944 | - | 16,944 | 10 | 10.00% | 1,694 | 1,694 | **(0)** |
| 1990 | Other Tangible Property | 757,041 | 757,041 | - | - | - | - | 40 | 2.50% | - | - | **-** |
| | Less: Disallowed 2005 Addition | (1,485,600) | - | - | (1,485,600) | - | (1,485,600) | 40 | 2.50% | (37,140) | (37,140) | **-** |
| | **Total Annual Depreciation:** | **$315,186,435** | **$15,973,423** | **$817,071** | **$299,621,548** | **$8,969,430** | **$304,106,263** | | | **$8,446,962** | **$8,615,893** | **($168,931)** |

Exhibit 4, Tab 3, Schedule 1

Tax Overview

# TAX OVERVIEW

Income tax for regulatory purposes for the period of 2007 actual to the 2011 and 2012 test years, inclusive, is discussed in Exhibit 4, Tab 3, Schedule 2 and summarized in *Table 4-3-1 A*, below.

Capital tax expenses for regulatory purposes for the period of 2007 actual to the 2011 and 2012 test years, inclusive, are discussed in Exhibit 4, Tab 3, Schedule 3 and summarized in *Table 4-3-1 A*, below.

Property tax expenses for the period of 2007 actual to the 2011 and 2012 test years, inclusive, are discussed in Exhibit 4, Tab 3, Schedule 4 and summarized in *Table 4-3-1 A*, below.

*Table 4-3-1 A – Summary of Income, Capital and Property Taxes*

| **($000's)** | **2007 Actual** | **2008 Actual** | **2009 Actual** | **2010 Approved** | **2010 Forecast** | **2011 Test Year** | **2012 Test Year** |
|---|---|---|---|---|---|---|---|
| Income Tax | $4,590.8 | $3,384.6 | $1,187.5 | $1,729.8 | $1,443.6 | $1,457.6 | $1,521.9 |
| Capital Tax | 423.7 | 436.5 | 436.2 | 145.5 | 145.6 | - | - |
| Property Tax | 202.4 | 195.5 | 221.8 | 258.2 | 258.2 | 264.7 | 271.3 |
| **Total Tax** | **$5,216.9** | **$4,016.6** | **$1,845.4** | **$2,133.5** | **$1,847.4** | **$1,722.2** | **$1,793.2** |

Exhibit 4, Tab 3, Schedule 2

Income Tax

# INCOME TAX

## 1.0 Introduction

Income tax for regulatory purposes for the period of 2007 actual to the 2011 and 2012 test years, inclusive, is as calculated in *Table 4-3-2 E* below, and summarized in *Table 4-3-2 A* below.

*Table 4-3-2 A - Summary of Income Tax Expense*[1]

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Federal Corporate Tax | $2,811.4 | $1,970.1 | $683.7 | $1,004.4 | $838.2 | $851.3 | $869.7 |
| Provincial Corporate Tax | 1,779.4 | 1,414.4 | 503.8 | 725.4 | 605.4 | 606.2 | 652.2 |
| **Total Income Tax** | **$4,590.8** | **$3,384.6** | **$1,187.5** | **$1,729.8** | **$1,443.6** | **$1,457.6** | **$1,521.9** |

The facts and assumptions underlying the calculation of income tax are,

(a) The income tax calculation reflects only current taxes payable

(b) Applicable income tax rates are set out in *Table 4-3-2 B* below;

(c) Tax expense is calculated using the "stand alone" principle; and

(d) Capital cost allowance for regulatory purposes is calculated based on the assumption that the maximum capital cost allowance is taken to reduce income tax payable.

Each of these facts and assumptions is discussed below.

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[1] As part of the Board Approved Settlement Agreement in EB-2009-0408, GLPT agreed to change the calculation of its Capital Cost Allowance for income tax recovery purposes. As a result, the "Actual 2008" income taxes reflected in this Application do not match those found in the evidence of EB-2009-0408.

## 2.0 Current Taxes

No provision is made for future income taxes that result from timing differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, the taxes payable method will result in the income tax payable being different from the amount that would have been recorded, had the combined Canadian Federal and Ontario statutory income tax rate been applied to the regulatory net income before tax. For regulatory purposes, future taxes have been excluded from revenue requirement. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Board and recovered from customers at that time.

## 3.0 Tax Rates

GLPT has used the relevant tax rates described in *Table 4-3-2 B* to calculate income tax for the purposes of this application.

*Table 4-3-2 B - Summary of Income Tax Rates*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Federal Corporate Tax * | 22.12% | 19.50% | 19.00% | 18.00% | 18.00% | 16.50% | 15.00% |
| Provincial Corporate Tax * | 14.00% | 14.00% | 14.00% | 13.00% | 13.00% | 11.75% | 11.25% |
| **Total Income Tax** | **36.12%** | **33.50%** | **33.00%** | **31.00%** | **31.00%** | **28.25%** | **26.25%** |

* Federal and Ontario corporate tax rate for the test years reflect planned changes in tax rate.

## 4.0 Stand Alone Principle

As per the Board's decision in EB-2009-0408, GLPT, while a limited partnership, has calculated income tax for purposes of this rate application on a stand alone basis as though GLPT was a stand alone corporate entity operating in Canada within the Province of Ontario.

## 5.0 Capital Cost Allowance

Capital Cost Allowance ("CCA") used for calculating income tax for regulatory purposes is set out in Exhibit 4, Tab 3, Schedule 6 and can be summarized as follows:

*Table 4-3-2 C - Summary of Annual CCA Claims*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Capital Cost Allowance (CCA) | $8,714.9 | $11,345.6 | $11,732.0 | $11,667.3 | $11,856.8 | $12,482.4 | $13,520.9 |

As noted above, the 2008 actual CCA claim has been adjusted to reflect the impact of the Board Approved Settlement Agreement reached in EB-2009-0408.

## 6.0 Financing Fees

Financing fees incurred by GLPT in 2007 and 2008 are deductible for tax purposes over a five-year period.  This deduction is reflected in the calculation of income taxes payable, and is equal to $638,600 for 2011 and $606,200 for 2012.

## 7.0 Interest

*Table 4-3-2 D* below outlines the total interest expense deducted in GLPT's tax calculation. For additional details on the interest expense used, please refer to Exhibit 4, Tab 3, Schedule 5.

*Table 4-3-2 D – Interest Expense*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| **Deemed Interest Expense** | **$7,186.7** | **$7,467.0** | **$7,581.6** | **$7,859.2** | **$7,866.1** | **$8,702.9** | **$9,247.1** |

## 8.0 Income Tax Calculation

GLPT's income taxes are calculated in *Table 4-3-2 E* below.

*Table 4-3-2 E – Income Tax Calculation*

| ($000's) | Reference (Ex-Tab-Sch) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year Current | 2011 Test Year Proposed | 2012 Test Year Current | 2012 Test Year Proposed |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | | $35,567.6 | $35,073.4 | $31,888.0 | $35,148.8 | $35,172.2 | $35,172.4 | $36,447.7 | $35,172.7 | $38,368.6 |
| Less: | | | | | | | | | | |
| Operation, mtce and admin | 4-2-1 | 6,184.6 | 7,201.9 | 7,679.4 | 9,000.0 | 9,750.0 | 9,225.0 | 9,225.0 | 9,455.6 | 9,455.6 |
| Capital Taxes | 4-3-3 | 536.8 | 436.5 | 436.2 | 145.5 | 145.6 | - | - | - | - |
| Property Taxes | 4-3-4 | 202.4 | 195.5 | 221.8 | 258.2 | 258.2 | 264.7 | 264.7 | 271.3 | 271.3 |
| Sub-Total | | 28,643.8 | 27,239.4 | 23,550.6 | 25,745.1 | 25,018.3 | 25,682.8 | 26,958.0 | 25,445.8 | 28,641.7 |
| Deduct: | | | | | | | | | | |
| Interest | 4-3-5 | 7,186.7 | 7,467.0 | 7,581.6 | 7,859.2 | 7,866.1 | 8,694.5 | 8,694.5 | 9,088.2 | 9,088.2 |
| Financing fees | | 32.4 | 633.7 | 638.6 | 638.6 | 638.6 | 638.6 | 638.6 | 606.2 | 606.2 |
| Capital cost allowance | 4-3-6 | 8,714.9 | 9,035.5 | 11,732.0 | 11,667.3 | 11,856.8 | 12,465.5 | 12,465.5 | 13,149.5 | 13,149.5 |
| Taxable Income | | 12,709.8 | 10,103.2 | 3,598.4 | 5,580.0 | 4,656.8 | 3,884.2 | 5,159.5 | 2,601.8 | 5,797.7 |
| Federal Corporate Tax | | 2,811.4 | 1,970.1 | 683.7 | 1,004.4 | 838.2 | 640.9 | 851.3 | 390.3 | 869.7 |
| Provincial Corporate Tax | | 1,779.4 | 1,414.4 | 503.8 | 725.4 | 605.4 | 456.4 | 606.2 | 292.7 | 652.2 |
| **Total Income Tax** | | **$4,590.8** | **$3,384.6** | **$1,187.5** | **$1,729.8** | **$1,443.6** | **$1,097.3** | **$1,457.6** | **$683.0** | **$1,521.9** |
| **Statutory rates** | | **36.12%** | **33.50%** | **33.00%** | **31.00%** | **31.00%** | **28.25%** | **28.25%** | **26.25%** | **26.25%** |

Exhibit 4, Tab 3, Schedule 3

Capital Tax

# CAPITAL TAX

Effective July 1, 2010, Ontario capital tax is eliminated.  Therefore, GLPT is not seeking recovery of any Ontario capital tax expenses in the 2011 or 2012 test years.

Exhibit 4, Tab 3, Schedule 4

Property Tax

# PROPERTY TAX

## 1.0 Overview

GLPT is forecasting total property taxes for the 2011 test year to be $264,700 and 2012 test year to be $271,300. Property taxes are driven by two distinct cost drivers:

1. Payments in Lieu of Taxes to First Nations, and
2. Payments for other municipal taxes.

*Table 4-3-4 A* below outlines the total property taxes from 2007 actual through to the 2011 and 2012 test years.

*Table 4-3-4 A – Payments in Lieu of Taxes & Property Taxes*

| ($000's) | 2007 Actual | 2008 Actual | 2009 Actual | 2010 Approved | 2010 Forecast | 2011 Test Year | 2012 Test Year |
|---|---|---|---|---|---|---|---|
| Payments to First Nations | $133.2 | $129.1 | $128.8 | $133.2 | $133.2 | $136.5 | $139.9 |
| Other Municipal Taxes | 69.2 | 66.4 | 93.0 | 125.0 | 125.0 | 128.1 | 131.3 |
| **Total Property Taxes** | **$202.4** | **$195.5** | **$221.8** | **$258.2** | **$258.2** | **$264.7** | **$271.3** |

## 2.0 Payments in Lieu of Taxes to First Nations

GLPT utilizes property located on two different First Nations properties. The aggregate amount of payments to First Nations in lieu of taxes is forecasted to be $136,500 in 2011 and $139,900 in 2012.

In the Board's decision on EB-2009-0408, it approved a variance account to track any variances between the approved payments in lieu of taxes and any new payments to First Nations in lieu of taxes that may be negotiated before GLPT's next rate application. GLPT is still negotiating with at least one First Nation group regarding payments in lieu of taxes; and, as such GLPT is requesting to maintain the variance account as discussed in Exhibit 9, Tab 1, Schedule 2**.**

## 3.0 Payments for Other Municipal Taxes

GLPT property is subject to municipal taxes. The municipal taxes for 2011 are forecast to be $128,100 and $131,300 for 2012.

Exhibit 4, Tab 3, Schedule 5

Interest Expense

# INTEREST EXPENSE

As noted in Exhibit 5, Tab 1, Schedule 1, GLPT has adopted the capital structure and the methodology outlined in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (EB-2009-0084). As such, GLPT's deemed capital structure for rate making purposes is 60% debt and 40% common equity. The 60% debt component is comprised of 4% deemed short term debt and 56% long term debt.

In *Table 4-3-5 A* below, GLPT calculates the total weighted average interest rate to be used in calculating the total deemed interest expense to be deducted from income in calculating income tax payable**.**

*Table 4-3-5 A – Interest Expense Calculation*

| **($000's)** | **2007 Actual** | **2008 Actual** | **2009 Actual** | **2010 Approved** | **2010 Forecast** | **2011 Test Year** | **2012 Test Year** |
|---|---|---|---|---|---|---|---|
| Rate Base | $197,980.6 | $205,702.3 | $208,860.3 | $208,999.2 | $209,183.5 | $217,297.0 | $226,120.5 |
| Portion Deemed as Debt | 55.0% | 55.0% | 55.0% | 57.5% | 57.5% | 60.0% | 60.0% |
| Deemed Debt | 108,889.3 | 113,136.3 | 114,873.2 | 120,174.5 | 120,280.5 | 130,378.2 | 135,672.3 |
| Long Term Debt Component | 55.0% | 55.0% | 55.0% | 53.5% | 53.5% | 56.0% | 56.0% |
| Deemed Long Term Debt | 108,889.3 | 113,136.3 | 114,873.2 | 111,814.6 | 111,913.2 | 121,686.3 | 126,627.5 |
| Long Term Debt Rate | 6.60% | 6.60% | 6.60% | 6.87% | 6.87% | 6.86% | 6.82% |
| Short Term Debt Component | 0.0% | 0.0% | 0.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Deemed Short Term Debt | - | - | - | 8,360.0 | 8,367.3 | 8,691.9 | 9,044.8 |
| Short Term Debt Rate | 0.00% | 0.00% | 0.00% | 2.07% | 2.07% | 3.99% | 5.00% |
| **Deemed Interest Expense (Sch 5-1-1)** | **$7,186.7** | **$7,467.0** | **$7,581.6** | **$7,859.2** | **$7,866.1** | **$8,694.5** | **$9,088.2** |

GLPT assumes that the deemed long and short term debt rates for each test year will be updated in accordance with the December 11, 2009 Cost of Capital Report, upon the final decision in this case.

Exhibit 4, Tab 3, Schedule 6

CCA Calculation

# <u>CAPITAL COST ALLOWANCE ("CCA")</u>

*Table 4-3-6 A – CCA – 2007*

| | | U.C.C. DEC 31, 2006 | ADDITIONS 2007 | DISPOSALS 2007 | INTEREST CAPITALIZED 2007 | 2007 ADDITIONS NET | C.C.A. On Opening | C.C.A. On Additions | TOTAL C.C.A. CLAIMED | U.C.C. DEC 31, 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 64,764,249 | - | (108,142) | - | (108,142) | 2,590,570 | (2,163) | 2,588,407 | 62,067,700 |
| CLASS 8 | 20% | 190,637 | 5,189 | - | - | 5,189 | 38,127 | 519 | 38,646 | 157,179 |
| CLASS 10 | 30% | 2,728 | - | - | - | - | 818 | - | 818 | 1,909 |
| CLASS 47 | 8% | 67,652,823 | 17,169,669 | - | (300,581) | 16,869,088 | 5,412,226 | 674,764 | 6,086,989 | 78,434,921 |
| | | **132,610,436** | **17,174,858** | **(108,142)** | **(300,581)** | **16,766,135** | **8,041,741** | **673,120** | **8,714,861** | **140,661,709** |

*Table 4-3-6 B – CCA – 2008*

| | | U.C.C. March 12, 2008 | Additions 2008 | Disposals 2008 | Interest Capitalized 2008 | 2008 Additions Net | C.C.A. On Opening | C.C.A. On Additions | Total C.C.A. Claimed | U.C.C. December 31, 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 105,535,694 | - | (6,696) | - | (6,696) | 4,221,428 | (134) | 4,221,294 | 101,307,704 |
| CLASS 8 | 20% | 281,876 | 13,412 | - | - | 13,412 | 56,375 | 1,341 | 57,716 | 237,572 |
| CLASS 10 | 30% | - | - | - | - | - | - | - | - | - |
| CLASS 47 | 8% | 82,592,830 | 11,479,408 | - | - | 11,479,408 | 6,607,426 | 459,176 | 7,066,603 | 87,005,635 |
| | | **188,410,400** | **11,492,820** | **(6,696)** | **-** | **11,486,124** | **10,885,229** | **460,384** | **11,345,613** | **188,550,911** |

*Table 4-3-6 C – CCA – 2009*

| | | U.C.C. December 31, 2008 | Additions 2009 | Disposals 2009 | Interest Capitalized 2009 | 2009 Additions Net | C.C.A. On Opening | C.C.A. On Additions | Total C.C.A. Claimed | U.C.C. December 31, 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 101,307,704 | - | - | - | - | 4,052,308 | - | 4,052,308 | 97,255,396 |
| CLASS 8 | 20% | 237,572 | 270,912 | - | - | 270,912 | 47,514 | 27,091 | 74,606 | 433,878 |
| CLASS 10 | 30% | - | 380,681 | - | - | 380,681 | - | 57,102 | 57,102 | 323,579 |
| CLASS 47 | 8% | 87,005,635 | 5,973,293 | - | (184,186) | 5,789,107 | 6,960,451 | 231,564 | 7,192,015 | 85,602,727 |
| CLASS 50 | 55% | - | 1,296,448 | (2,048) | - | 1,294,400 | - | 355,960 | 355,960 | 938,440 |
| | | **188,550,911** | **7,921,334** | **(2,048)** | **(184,186)** | **7,735,100** | **11,060,273** | **671,718** | **11,731,991** | **184,554,020** |

1 *Table 4-3-6 D – CCA – 2010 Forecast*

| | | U.C.C. December 31, 2009 | Forecast Additions 2010 | Forecast Disposals 2010 | Forecast Interest Capitalized 2010 | Total 2010 Additions Net | Forecast C.C.A. On Opening | Forecast C.C.A. On Additions | Total C.C.A. Claimed | Forecast U.C.C. December 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 97,255,396 | - | - | - | - | 3,890,216 | - | 3,890,216 | 93,365,180 |
| CLASS 8 | 20% | 433,878 | 100,100 | - | - | 100,100 | 86,776 | 10,010 | 96,786 | 437,192 |
| CLASS 10 | 30% | 323,579 | 130,000 | - | - | 130,000 | 97,074 | 19,500 | 116,574 | 337,005 |
| CLASS 47 | 8% | 85,602,727 | 5,317,329 | - | (353,400) | 4,963,929 | 6,848,218 | 198,557 | 7,046,775 | 83,519,881 |
| CLASS 50 | 55% | 938,440 | 692,200 | - | - | 692,200 | 516,142 | 190,355 | 706,497 | 924,143 |
| | | **184,554,020** | **6,239,629** | **-** | **(353,400)** | **5,886,229** | **11,438,425** | **418,422** | **11,856,847** | **178,583,402** |

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*Table 4-3-6 E – CCA – 2011 Forecast*

| | | Forecast U.C.C. December 31, 2010 | Forecast Additions 2011 | Forecast Disposals 2011 | Forecast Interest Capitalized 2011 | Total 2011 Additions Net | Forecast C.C.A. On Opening | Forecast C.C.A. On Additions | Total C.C.A. Claimed | Forecast U.C.C. December 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 93,365,180 | - | (686,580) | - | (686,580) | 3,734,607 | (13,732) | 3,720,876 | 88,957,725 |
| CLASS 8 | 20% | 437,192 | 444,840 | - | - | 444,840 | 87,438 | 44,484 | 131,922 | 750,110 |
| CLASS 10 | 30% | 337,005 | 277,000 | - | - | 277,000 | 101,102 | 41,550 | 142,652 | 471,354 |
| CLASS 47 | 8% | 83,519,881 | 24,488,825 | (223,954) | (393,700) | 23,871,171 | 6,681,590 | 954,847 | 7,636,437 | 99,754,615 |
| CLASS 50 | 55% | 924,143 | 1,182,988 | - | - | 1,182,988 | 508,279 | 325,322 | 833,600 | 1,273,531 |
| | | **178,583,402** | **26,393,653** | **(910,534)** | **(393,700)** | **25,089,419** | **11,113,016** | **1,352,471** | **12,465,487** | **191,207,333** |

*Table 4-3-6 F – CCA – 2012 Forecast*

| | | Forecast U.C.C. December 31, 2011 | Forecast Additions 2012 | Forecast Disposals 2012 | Forecast Interest Capitalized 2012 | Total 2012 Additions Net | Forecast C.C.A. On Opening | Forecast C.C.A. On Additions | Total C.C.A. Claimed | Forecast U.C.C. December 31, 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| CLASS 1 | 4% | 88,957,725 | - | - | - | - | 3,558,309 | - | 3,558,309 | 85,399,416 |
| CLASS 8 | 20% | 750,110 | 204,490 | - | - | 204,490 | 150,022 | 20,449 | 170,471 | 784,129 |
| CLASS 10 | 30% | 471,354 | 262,000 | - | - | 262,000 | 141,406 | 39,300 | 180,706 | 552,648 |
| CLASS 47 | 8% | 99,754,615 | 7,526,800 | - | (256,600) | 7,270,200 | 7,980,369 | 290,808 | 8,271,177 | 98,753,637 |
| CLASS 50 | 55% | 1,273,531 | 976,140 | - | - | 976,140 | 700,442 | 268,439 | 968,880 | 1,280,790 |
| | | **191,207,333** | **8,969,430** | **-** | **(256,600)** | **8,712,830** | **12,530,548** | **618,996** | **13,149,544** | **186,770,620** |

# EXHIBIT 5 - COST OF CAPITAL AND CAPITAL STRUCTURE

Exhibit 5, Tab 1, Schedule 1

Cost of Capital

# COST OF CAPITAL AND RATE OF RETURN

## 1.0 Cost of Capital

The purpose of this evidence is to summarize the method and cost of financing GLPT's capital requirements for the 2011 and 2012 test years. GLPT has adopted the capital structure and the methodology outlined in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (EB-2009-0084) and the applicable return on equity ("ROE") and short term interest rate provided in Hydro One's 2011/2012 Transmission rate application (EB-2010-0002).

## 2.0 Capital Structure

GLPT's deemed capital structure for rate making purposes is 60% debt and 40% common equity. This capital structure is the same as established in the Board Approved Settlement Agreement in EB-2009-0408. The 60% debt component is comprised of 4% deemed short term debt and 56% long term debt

## 3.0 Cost of Equity

GLPT's currently approved ROE is 9.85%[1].

GLPT's evidence reflects an ROE of 10.16% for the 2011 test year and 10.41% for the 2012 test year. These figures are consistent with Hydro One's proposed ROE figures for 2011 and 2012, which are based on the Board's formulaic approach in the Report of the Board (EB-2009-0084), using the Long Canada Bond Forecast for 2011 and 2012, based

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[1] Per Approved Settlement Agreement in EB-2009-0408, and per the Board's Cost of Capital Parameter Update letter dated February 24, 2010

on the September Consensus Forecast and Bank of Canada data which was available in October 2009 and the change in the spread of A-rated Utility Bond Yield. Prior to implementing a 2011 or 2012 revenue requirement, GLPT will update the ROE for each test year with the Board-approved figure, in accordance with the December 11, 2009 Cost of Capital Report. For rates effective January 1, 2011, the Board would determine the ROE for GLPT based on the September 2010 Consensus Forecasts and Bank of Canada data which would be available in October 2010 and the change in the spread of the A-rated Utility Bond Yield which is available on Bloomberg. For rates effective January 1, 2012, the Board would determine the ROE based upon the September 2011 Consensus Forecasts and Bank of Canada data which would be available in October 2011 and the change in the spread of the A-rated Utility Bond Yield which is available on Bloomberg.

**4.0 Cost of Short Term Debt**

The Board has determined that the deemed amount of short-term debt that should be factored into rate setting be fixed at 4% of rate base. The Board has indicated in Appendix D of the December 11, 2009 Cost of Capital Report, once a year, in January, Board staff will obtain real market quotes from major banks, for issuing spreads over Bankers Acceptance rates to calculate an average spread. The short term rate will be calculated as the average Bankers' Acceptance for the 3 months in advance of the effective date for the rates, plus the average spread calculated above. Variable rate debt which pays interest based on the bankers' acceptance rate, has been included as part of the deemed short term debt amount of 4%. For GLPT the deemed short-term rate is

3.99% for 2011 using the November 2009 Global Insight Forecast plus a spread of 150 bps, which is an estimate of the spread that would be charged to GLPT to obtain a short-term loan in the bank market. The deemed short term rate is 5.00% for 2012 using the November 2009 Global Insight forecast plus a spread of 150 bps, which is an estimate of the spread that would be charged to GLPT to obtain a short term loan in the bank market.

GLPT assumes that the deemed short term debt rate for each test year will be updated in accordance with the December 11, 2009 Cost of Capital Report, upon the final decision in this case. Specifically, for rates effective January 1, 2011, the Board would determine the deemed short term debt rate for GLPT based on the September 2010 Bank of Canada data which would be available in October 2010 plus the average spread. For rates effective January 1, 2012, the Board would determine the deemed short term debt rate based upon the September 2011 Bank of Canada data which would be available in October 2011 plus the average spread calculated in 2011.

## 5.0 Cost of Long Term Debt

The Board has determined that the deemed amount of long-term debt that should be factored into rate setting be fixed at 56% of rate base. GLPT's long term debt rate is calculated to be 6.86% for 2011 and 6.82% for 2012. The long term debt rate is calculated as the weighted average rate on embedded debt, new debt and forecast debt planned to be issued in 2010, 2011 and 2012.

### 5.1 Embedded Debt

GLPT currently holds $120 million in long term debt in the form of third party, Series 1 bonds, with interest payable at a rate of 6.60%. Interest is paid semi-annually on June 16th and December 16th of each year. Principal will be reimbursed on maturity in June 2023.

The Board has determined in its December 11, 2009 Cost of Capital Report that for embedded debt, the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt. The rate on embedded debt was approved by the Board as part of EB-2009-0408 at 6.874%.

### 5.2 New / Forecasted Debt

GLPT will require additional funding in the test years to finance the proposed capital program and day to day operations. GLPT will raise the additional funds by means of a capital investment from its Partners.[2] Interest on the new affiliate debt will be paid at the Board's deemed Long Term Debt rate.

### 5.3 Calculation of Weighted Average Rate

GLPT calculates the weighted average rate for long term debt in the test year based first on the level of actual embedded debt, with the remaining deemed debt drawing the Board's deemed rate. To the extent the deemed long-term debt (56% of rate base) is greater than the actual third party debt of $120,000,000, GLPT has applied the Board's

[2] GLPT's two partners are Great Lakes Power Transmission Inc. and Brookfield Infrastructure Holdings (Canada) Inc.. Additional information on GLPT's corporate structure can be found at Exhibit 1, Tab 1, Schedule 12

deemed long term debt rate to the incremental amount. GLPT's evidence reflects a deemed interest rate of 5.87%**,** which is based on the Board's formulaic approach in the Report of the Board (EB-2009-0084). GLPT assumes that the deemed debt rate will be updated in accordance with the December 11, 2009 Cost of Capital Report, upon the final decision in this case. For rates effective January 1, 2011 and 2012, the Board would determine the deemed debt rate for GLPT based on the long Government of Canada bond yield plus the average spread between A-rated Canadian utility bond yield and 30-year Government of Canada bond yield to determine the updated deemed long-term debt rate.

The calculation of the weighted average rate on long term debt is set out in *Table 5-1-1 A* below.

*Table 5-1-1 A – Weighted Average Rate of Long-Term Debt*

**2011:**

| Debt Description | Coupon Rate | Maturity Date | Principal Amount | Effective Rate | 2011 Deemed Long Term Debt | 2011 Carrying Cost | Weighted Average Rate |
|---|---|---|---|---|---|---|---|
| Embedded Debt | 6.60% | June 2023 | 120,000,000 | 6.87% | 120,000,000 | 8,248,800 | |
| Deemed Debt | 5.87% | Jan 2013 | 1,686,314 | 5.87% | 1,686,314 | 98,987 | |
| | | | **Total** | | **121,686,314** | **8,347,787** | **6.86%** |

**2012:**

| Debt Description | Coupon Rate | Maturity Date | Principal Amount | Effective Rate | 2012 Deemed Long Term Debt | 2012 Carrying Cost | Weighted Average Rate |
|---|---|---|---|---|---|---|---|
| Embedded Debt | 6.60% | June 2023 | 120,000,000 | 6.87% | 120,000,000 | 8,248,800 | |
| Deemed Debt | 5.87% | Jan 2013 | 6,627,453 | 5.87% | 6,627,453 | 389,031 | |
| | | | **Total** | | **126,627,453** | **8,637,831** | **6.82%** |

**Cost of Capital Summary**

GLPT's 2011 and 2012 cost of capital is summarized in the table below.

*Table 5-1-1 B – Cost of Capital – 2011*

| **2011 Test Year** | Capital Component ($000's) | Capital Component (%) | Deemed Rates (%) | Return Component (%) | Return Component ($000's) |
|---|---|---|---|---|---|
| Deemed Debt | $ 130,378.2 | 60.00% | | | |
| Long Term | $ 121,686.3 | 56.00% | 6.86% | 3.84% | $ 8,347.7 |
| Short Term | $ 8,691.9 | 4.00% | 3.99% | 0.16% | $ 346.8 |
| Deemed Equity | $ 86,918.8 | 40.00% | 10.16% | 4.06% | $ 8,830.9 |
| Rate Base: | $ 217,297.0 | 100.00% | | 8.07% | $ 17,525.4 |

*Table 5-1-1 C – Cost of Capital - 2012*

| **2012 Test Year** | Capital Component ($000's) | Capital Component (%) | Deemed Rates (%) | Return Component (%) | Return Component ($000's) |
|---|---|---|---|---|---|
| Deemed Debt | $ 135,672.3 | 60.00% | | | |
| Long Term | $ 126,627.5 | 56.00% | 6.82% | 3.82% | $ 8,636.0 |
| Short Term | $ 9,044.8 | 4.00% | 5.00% | 0.20% | $ 452.2 |
| Deemed Equity | $ 90,448.2 | 40.00% | 10.41% | 4.16% | $ 9,415.7 |
| Rate Base: | $ 226,120.5 | 100.00% | | 8.18% | $ 18,503.9 |

# EXHIBIT 6 - CALCULATION OF REVENUE DEFICIENCY

Exhibit 6, Tab 1, Schedule 1

Calculation of Revenue Deficiency

1 # CALCULATION OF REVENUE DEFICIENCY

2 *Table 6-1-1 A – Schedule of Overall Revenue Deficiency*

| ($000's) | | 2010 Approved | 2010 Forecast | 2011 Test Year - Current | 2011 Test Year - Proposed | 2012 Test Year - Current | 2012 Test Year - Proposed |
|---|---|---|---|---|---|---|---|
| Operating Revenue * | | $35,148.8 | $35,172.2 | $35,172.4 | $36,447.7 | $35,172.7 | $38,368.6 |
| Operation, Maintenance & Admin. | | 9,000.0 | 9,750.0 | 9,225.0 | 9,225.0 | 9,455.6 | 9,455.6 |
| Depreciation & Amortization | | 7,406.9 | 7,460.7 | 7,975.1 | 7,975.1 | 8,615.9 | 8,615.9 |
| Retirement of Readily Identifiable Assets | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property Taxes | | 125.0 | 125.0 | 128.1 | 128.1 | 131.3 | 131.3 |
| Payments in Lieu of Taxes to First Nations | | 133.2 | 133.2 | 136.5 | 136.5 | 139.9 | 139.9 |
| Provincial Capital Tax | | 145.5 | 145.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Costs & Expenses | | 16,810.6 | 17,614.5 | 17,464.7 | 17,464.7 | 18,342.8 | 18,342.8 |
| Utility Income Before Taxes | | 18,338.2 | 17,557.7 | 17,707.7 | 18,983.0 | 16,829.9 | 20,025.8 |
| Income Taxes | | 1,729.8 | 1,443.6 | 1,097.3 | 1,457.6 | 683.0 | 1,521.9 |
| Utility Income | **[A]** | 16,608.4 | 16,114.1 | 16,610.4 | 17,525.4 | 16,146.9 | 18,503.9 |
| Utility Rate Base | **[B]** | 208,999.2 | 209,183.5 | 217,297.0 | 217,297.0 | 226,120.5 | 226,120.5 |
| Indicated Rate of Return | **[C]** = [A] / [B] | 7.95% | 7.70% | 7.64% | 8.07% | 7.14% | 8.18% |
| Approved/Requested Rate of Return | **[D]** | 7.95% | 7.95% | 8.07% | 8.07% | 8.18% | 8.18% |
| (Deficiency)/Sufficiency in Return | **[E]** = [C] - [D] | 0.00% | -0.24% | -0.42% | 0.00% | -1.04% | 0.00% |
| Revenue (Deficiency)/Sufficiency | **[F]** = [B] * [E] | 0.0 | (509.0) | (915.0) | (0.0) | (2,357.0) | 0.0 |
| Provision for Income Taxes | | 0.0 | (228.7) | (360.3) | (0.0) | (838.9) | 0.0 |
| Gross Revenue (Deficiency)/Sufficiency | | 0.0 | (737.7) | (1,275.3) | (0.0) | (3,195.9) | 0.0 |
| **Service Revenue Requirement:** | | **35,148.8** | **35,909.8** | **36,447.7** | **36,447.7** | **38,368.6** | **38,368.6** |
| Less: Revenue from Other Sources | | 7.2 | 30.6 | 30.8 | 30.8 | 31.1 | 31.1 |
| **Base Revenue Requirement:** | | **$35,141.6** | **$35,879.3** | **$36,416.9** | **$36,416.9** | **$38,337.5** | **$38,337.5** |

3 * For 2011/2012, Operating Revenue includes Transmission Services Revenue and Other Income

*Table 6-1-1 B – Numerical Description of Revenue Deficiency - 2011*

| **Cost of Capital** | **($000's)** | **($000's)** |
|---|---|---|
| 2011 Rate Base | $217,297.0 | |
| Requested Rate of Return | 8.07% | $17,525.4 |
| **Cost of Service** | | |
| Operations, Maintenance & Admin | 9,225.0 | |
| Depreciation & Amortization | 7,975.1 | |
| Property Taxes | 264.7 | |
| Capital Taxes | 0.0 | |
| Income Taxes | 1,097.3 | 18,562.0 |
| **Operating Revenue** | | |
| Transmission Services Revenue | | (35,172.4) |
| Gross (Deficiency)/Sufficiency | | (915.0) |
| Income Taxes on (Deficiency)/Sufficiency | | (360.3) |
| Gross Revenue (Deficiency)/Sufficiency - 2011 | | **($1,275.3)** |

*Table 6-1-1 C – Numerical Description of Revenue Deficiency - 2012*

| **Cost of Capital** | **($000's)** | **($000's)** |
|---|---|---|
| 2012 Rate Base | $226,120.5 | |
| Requested Rate of Return | 8.18% | $18,503.9 |
| **Cost of Service** | | |
| Operations, Maintenance & Admin | 9,455.6 | |
| Depreciation & Amortization | 8,615.9 | |
| Property Taxes | 271.3 | |
| Capital Taxes | 0.0 | |
| Income Taxes | 683.0 | 19,025.8 |
| **Operating Revenue** | | |
| Transmission Services Revenue | | (35,172.7) |
| Gross (Deficiency)/Sufficiency | | (2,357.0) |
| Income Taxes on (Deficiency)/Sufficiency | | (838.9) |
| Gross Revenue (Deficiency)/Sufficiency - 2012 | | **($3,195.9)** |

# EXHIBIT 7 - COST ALLOCATION

Exhibit 7, Tab 1, Schedule 1

Cost Allocation to Rate Pools

# COST ALLOCATION TO RATE POOLS

## 1.0 Cost Allocation

Hydro One Networks Inc. ("HONI") filed an application[1] with the Board on September 30, 2008 for approval of a revenue requirement and load forecast for 2009 and 2010 Test Years. As a part of that application, HONI provided an update to the allocation of costs among the Uniform Transmission Rate pools. As a result of the approved cost allocation, effective January 1, 2010, GLPT's approved revenue requirement was allocated as follows:

*Table 7-1-1 A – EB-2008-0272 Approved Figures*[2]

| EB-2008-0272 Approved Figures | Network | Line Connection | Transformation Connection | Total |
|---|---|---|---|---|
| Revenue Requirement | $20,239,894 | $4,797,224 | $9,748,304 | $34,785,422 |

## 2.0 Test Year Revenue Requirement Allocation

As described in Exhibit 9, Tab 3, Schedule 1, GLPT is requesting disbursal of several deferral and variance accounts. The collective impact of this disbursal is expected to decrease GLPT's revenue requirement by $1,188,900 per year over the next three year

[1] EB-2008-0272
[2] Because GLPT's approved revenue requirement from EB-2009-0408 has not yet been incorporated into Uniform Transmission Rates, GLPT has used the most recently approved Uniform Transmission Rates which reflect GLPT's Board-Approved revenue requirement from 2006

period.[3] As a result, GLPT's revenue required from Uniform Transmission Rates in 2011 and 2012 is the total base revenue requirement for each year less $1,188,900, as demonstrated in *Table 7-1-1 B* below. As a result, GLPT has allocated these amounts to the Uniform Transmission Rate pools for 2011 and 2012.

*Table 7-1-1 B – Calculation of Revenue Requirement for Uniform Transmission Rates*

| | 2011 Test Year | 2012 Test Year |
|---|---|---|
| Base Revenue Requirement | $36,416,897 | $38,337,491 |
| Less: Annual Regulatory Liability Repayment | (1,188,890) | (1,188,890) |
| **Revenue Requirement for Uniform Transmission Rates** | **$35,228,007** | **$37,148,601** |

As in EB-2001-0034 and in EB-2005-0241, GLPT has allocated its incremental revenue requirement to the transmission cost pools by applying the same proportions as was determined by the Board in EB-2008-0272. The resulting allocation of revenue requirement to each of the pools is summarized below.

*Table 7-1-1 C – 2011 Revenue Requirement by Transmission Pool*

| 2011 Test Year | Network | Line Connection | Transformation Connection | Total |
|---|---|---|---|---|
| Revenue Requirement | $20,497,412 | $4,858,260 | $9,872,334 | $35,228,007 |

[3] Subsequent to that three year period, GLPT expects to reduce revenue requirement by $617,100 for an additional two years

*Table 7-1-1 D – 2012 Revenue Requirement by Transmission Pool*

| 2012 Test Year | Network | Line Connection | Transformation Connection | Total |
|---|---|---|---|---|
| Revenue Requirement | $21,614,909 | $5,123,128 | $10,410,564 | $37,148,601 |

GLPT recognizes that HONI currently has an application for 2011 and 2012 rates in front of the Board. GLPT will update its allocation of revenue requirement to remain consistent with HONI's allocation of revenue requirement for each of the 2011 and 2012 test years.

# EXHIBIT 8 - RATE DESIGN

Exhibit 8, Tab 1, Schedule 1

Charge Determinant Forecast

# CHARGE DETERMINANT FORECAST

## 1.0 Methodology

GLPT has developed a methodology for developing a charge determinant forecast for directly connected customers. As shown in Exhibit 8, Tab 2, Schedule 1, this forecasting methodology is combined with the approved charge determinant for Ontario's other three electricity transmitters in order to derive the Uniform Transmission Rates in Ontario.

## 1.1 Communication with Direct Customers

As a licensed transmitter in Ontario, GLPT has seven customers who are directly connected to its system that have peak demands that can be considered material. Because there are only seven customers, GLPT determined that the most effective method for developing a forward-looking forecast would be through direct communication with those customers. Statistical modeling or forecasting techniques used without direct communication with customers (where that communication is readily available) could produce inaccurate results if there are foreseeable changes known to the customer, but not factored into consumer loads in the test year. Therefore, GLPT utilized both direct communication and historical information to develop its load forecast for 2010.

In preparation for this application, GLPT has engaged in communication with the seven directly connected customers referred to above in order to gather information on forward-looking load expectations. Information has also been gathered through stakeholder sessions, customer impact assessments and direct discussions. No information has been presented to GLPT to suggest that peak loads will vary significantly, from recent history, in 2011 and 2012. Therefore, GLPT's load forecast should not anticipate any significant variations from the status quo.

### 1.2 Regression Analysis

In GLPT's 2010 rate application (EB-2009-0408), Board staff requested that GLPT perform a regression analysis on its historical load data to compare the results to the historical average method proposed in the application. GLPT engaged a consultant to perform this analysis and found that the results were not significantly different from the results produced by GLPT in the pre-filed evidence. Any variations would have virtually no impact on the calculation of the Uniform Transmission Rates. The analysis performed can be found at **Appendix 'A'** to this schedule.

The data set used to calculate historical averages in this application is not significantly different from the data used in EB-2009-0408, and as a result GLPT has elected not to engage a consultant to perform the same regression analysis on the data.

### 1.3 Use of Historical Information

As a result of the status quo input received from directly connected customers, GLPT uses an historical average methodology. The results of applying the methodology are used as a forecast of charge determinants. The forecasted charge determinants are used in calculating the Uniform Transmission Rates. The historical average methodology is reasonable given the input from customers, as the customers anticipate no significant variance from the recent past. The historical information used to develop this forecast is published by the IESO for Ontario's transmitters, and is described below.

Each month, the IESO makes available a number of reports that provide information on loads and peaks for each of the transmitters in Ontario. One particular report named the *Transmitter Reconciliation Final Data File* is created on a monthly basis, and details the monthly peaks and the total revenue generated by asset pool.[1] GLPT has analyzed this report for each of the months in the period July 2005 to June 2010, extracted the monthly peaks by asset pool, and developed a forward-looking forecast based on the historical information. The results are as follows:

<u>Network Pool:</u>

For over five years, the peak loads in GLPT's Network pool have been very consistent. Therefore, GLPT estimated a charge determinant using the average annual peak loads for the five year period of July 1, 2005 to June 30, 2010. This calculation produces an estimated value for a charge determinant for the Network pool which is similar to the approved figure from EB-2009-0408.

<u>Line Connection Pool:</u>

The peak loads in the Line Connection pool have also been very consistent for over five years. Therefore, GLPT estimated a charge determinant using the average annual peak loads for the same five year period of July 1, 2005 to June 30, 2010. This calculation

[1] The three asset pools are Network, Line Connection, and Transformation Connection.

produces an estimated value for a charge determinant for the Line Connection pool which is also similar to the approved figure from EB-2009-0408.

<u>Transformation Connection Pool:</u>

In the fourth quarter of 2006, GLPT entered into a transaction with one of its largest directly connected transmission customers and sold to that customer the transformers and associated equipment.[2] As a result of this transaction, beginning in December 2006, the peak demands in the Transformation Connection pool have decreased significantly. Therefore, in order to incorporate this reduction, GLPT estimated a charge determinant using the average annual peak loads for the three year period of July 1, 2007 to June 30, 2010.

## 2.0 Proposed Charge Determinants

GLPT has utilized the information from both the forward-looking customer input, as well as the historical trends to forecast the charge determinants in the table below. The table outlines GLPT's currently approved charge determinants and compares them to the GLPT charge determinants proposed in this Application.

[2] Approved in EB-2006-0151.

*Table 8-1-1 A – Charge Determinants – Approved vs. Proposed*

| | **Annual Charge Determinants (MW)** | | |
|---|---|---|---|
| | **Network** | **Line Connection** | **Transformation Connection** |
| **Approved GLPT per EB-2009-0408** | 4,019.797 | 2,939.425 | 1,057.605 |
| **GLPT proposal** | 3,954.620 | 2,937.438 | 985,415 |
| **Variance** | (65,177) | (1,987) | (72,190) |

# APPENDIX "A"

## Regression Analysis Findings from EB-2009-0408

**<u>Findings:</u>**
Network demand had a relatively small but statistically significant negative linear trend component. Both line connection demand and transformation connection demand had very small and statistically insignificant linear trend components. In all three cases, non-linear trend components were found to be statistically insignificant. Note that the trend components were analyzed after the demands had been deseasonalized as all three demand series exhibited seasonality, particularly the network and transformation connection demand series. Using the linear trend model for network demand and averages for the line connection and transformation connection demands along with their respective seasonal components, the recommended forecasts are as follows:

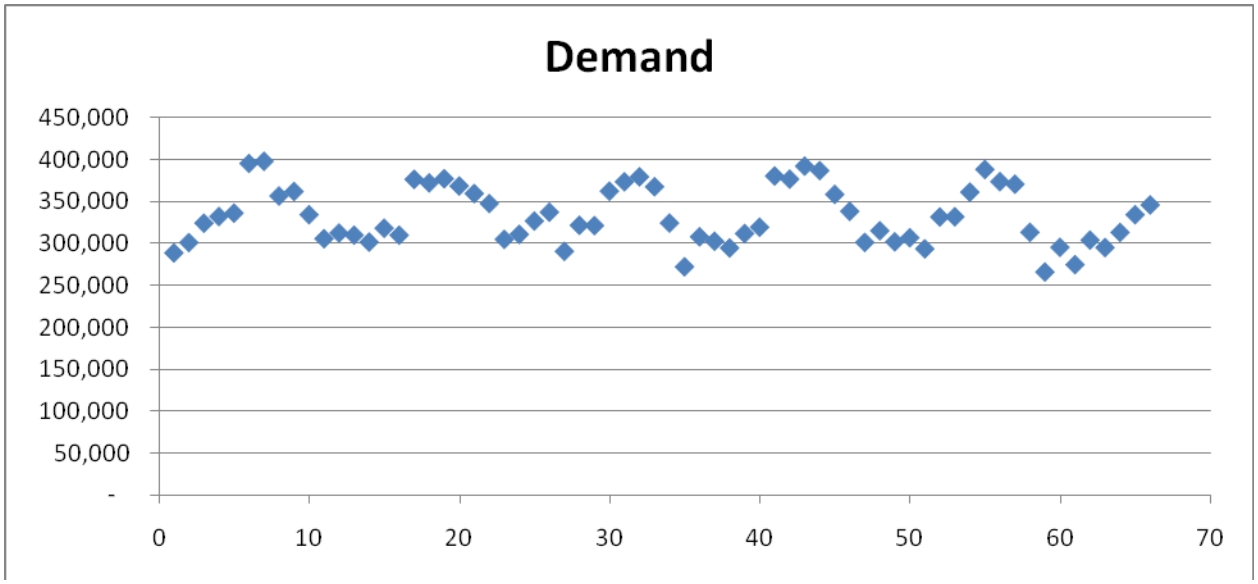
| Year | Network Demand (kw) | Line Connection Demand (kw) | Transformation Connection Demand (kw) |
|---:|---:|---:|---:|
| 2010 | 3,870,613 | 2,950,531 | 1,033,728 |
| 2011 | 3,826,668 | 2,950,531 | 1,033,728 |
| 2012 | 3,782,723 | 2,950,531 | 1,033,728 |
| 2013 | 3,738,778 | 2,950,531 | 1,033,728 |
| 2104 | 3,694,833 | 2,950,531 | 1,033,728 |

It should be noted that projecting trend components into the future is riskier the farther into the future one goes and the forecasts are less reliable.

**<u>Details:</u>**

**Network:**

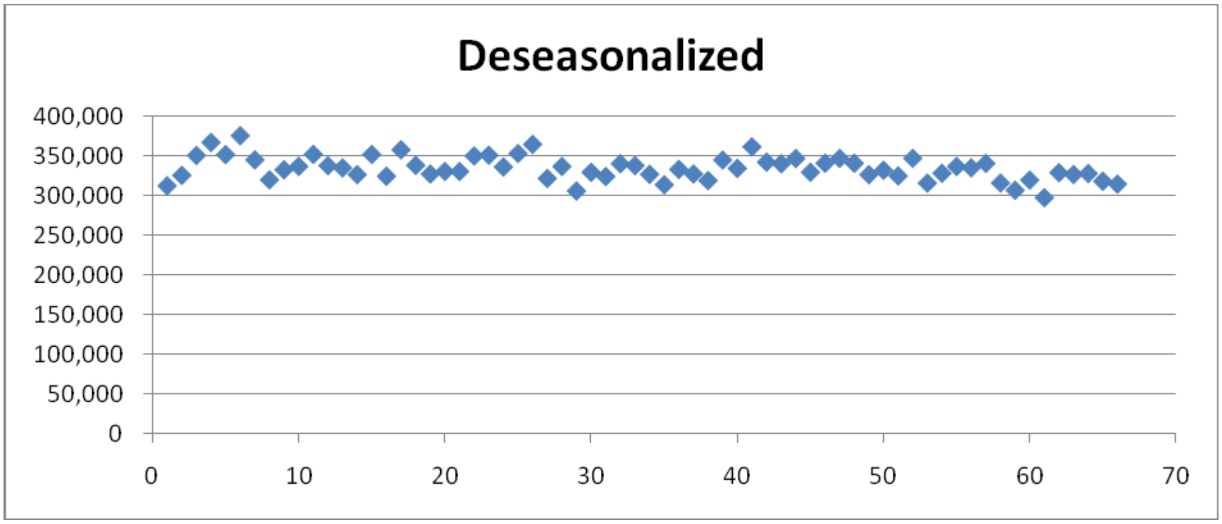
A plot of the demand data showed significant seasonality.




The data were deseasonalized following a standard procedure. A centered 13-month moving average was calculated (with the 1st and 13th months counted half) for each month and the monthly demand was divided by its centered moving average. An average monthly ratio was then computed for each of the 12 months and these ratios were scaled to average one. These scaled ratios formed the following monthly indices.

| Month | Index |
|---|---|
| 1 | 1.151595 |
| 2 | 1.114340 |
| 3 | 1.087368 |
| 4 | 0.992366 |
| 5 | 0.868731 |
| 6 | 0.925185 |
| 7 | 0.925394 |
| 8 | 0.924495 |
| 9 | 0.904323 |
| 10 | 0.955399 |
| 11 | 1.051079 |
| 12 | 1.099726 |

Each month's demand was then divided by its monthly index to deseasonalize the data. The resulting demand more clearly shows a trend, although it is small.




A linear regression identified the trend component as - 305.17 kw per month (the intercept representing the deseasonalized monthly demand prior to the first of the 66 months in the data set was 344,647 kw). The r-squared was .1480 and the p-value for testing whether the linear trend component was significantly different from 0 was .0014 (below .05 is significant and below .01 is highly significant). This model (along with the monthly indices) was used to make the forecasts reported in the findings section.

Note that if the average were used with no trend component, the forecast would be 4,013,078 kw each year.

Although there is no visible curvature to the trend (the trend itself is just barely visible) two non-linear models were tried - one with a squared term in addition to the linear term and one with a square root term in addition to the linear term. The demand data are numbered (from 1 to 66 in this case) and the linear trend was evaluated by regressing the demand data against their numbers. Squared term refers to including the number squared as an independent variable (and square root term refers to including the square root of the number as an independent variable). The results are shown below for the model using the squared term:

| | |
|---|---|
| R-squared | .1663 |
| p-value for linear trend coefficient | .751 |
| p-value for non-linear trend coefficient | .243 |

Using non-linear trend components to extrapolate into the future is risky and is seriously recommended against when the coefficients are statistically insignificant as they are here. For completeness, however, if this model were used, the forecasts would be:

| Year | Network Demand (kw) |
|---|---|
| 2010 | 3,782,458 |
| 2011 | 3,656,845 |
| 2012 | 3,509,406 |
| 2013 | 3,340,142 |
| 2104 | 3,149,053 |

The corresponding results and forecasts for the model using the square root term (again, it is recommended against using these) are as follows:

| | |
|---|---|
| R-squared | .1678 |
| p-value for linear trend coefficient | .071 |
| p-value for non-linear trend coefficient | .226 |

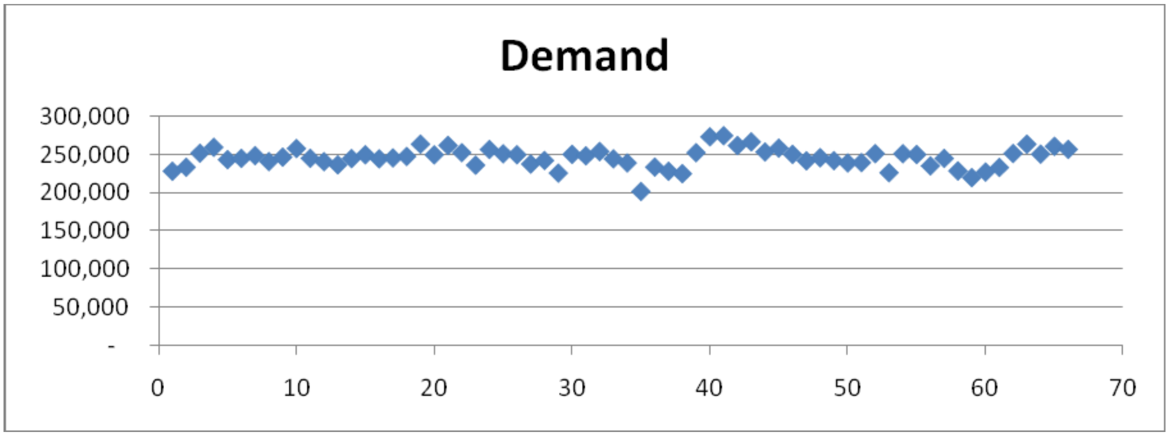
| Year | Network Demand (kw) |
|---|---|
| 2010 | 3,817,231 |
| 2011 | 3,738,227 |
| 2012 | 3,655,825 |
| 2013 | 3,570,646 |
| 2104 | 3,483,142 |

Although there are an infinite number of non-linear models possible, the data do not exhibit any clear non-linear patterns (other than seasonality) and it is not believed that further examination of non-linear models would be fruitful.

Full Details of the regressions and monthly forecasts are included in the Appendix.

**Line Connection:**

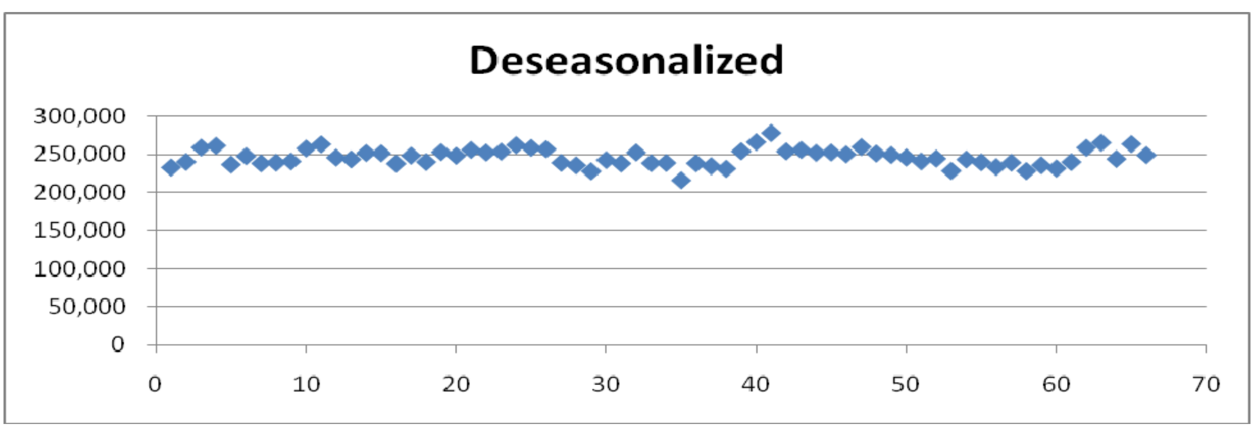
A plot of the demand data showed some seasonality, but not as much as for the network demand.




The data were deseasonalized as before. The monthly indices are as follows.

| Month | Index |
|---|---|
| 1 | 1.043454 |
| 2 | 1.007007 |
| 3 | 1.024668 |
| 4 | 1.001207 |
| 5 | 0.931662 |
| 6 | 0.979808 |
| 7 | 0.971713 |
| 8 | 0.972589 |
| 9 | 0.994251 |
| 10 | 1.028238 |
| 11 | 1.043454 |
| 12 | 1.007007 |

Each month's demand was then divided by its monthly index to deseasonalize the data. The resulting demand shows no visible trend:



Not surprisingly, the trend regressions were insignificant for the linear as well as the non-linear models. For completeness, the results are shown below:

The following results are for the model with only the linear term:

| | |
|---|---|
| R-squared | .0018 |
| p-value for linear trend coefficient | .738 |

Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 2,939,035 |
| 2011 | 2,935,498 |
| 2012 | 2,931,960 |
| 2013 | 2,928,422 |
| 2104 | 2,924,884 |

The following results are for the non-linear model with the squared term:

| | |
|---|---|
| R-squared | .0019 |
| p-value for linear trend coefficient | .943 |
| p-value for non-linear trend coefficient | .992 |

Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 2,938,422 |
| 2011 | 2,934,318 |
| 2012 | 2,930,062 |
| 2013 | 2,925,656 |
| 2104 | 2,921,099 |

The following results are for the non-linear model with the square root term:

| | |
|---|---|
| R-squared | .0051 |
| p-value for linear trend coefficient | .607 |
| p-value for non-linear trend coefficient | .645 |

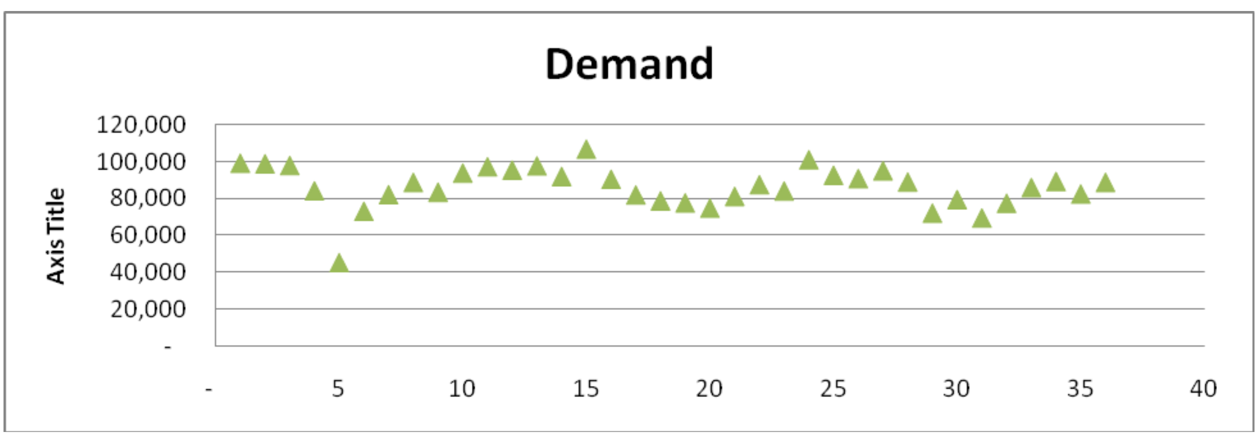
Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 2,922,671 |
| 2011 | 2,908,425 |
| 2012 | 2,893,144 |
| 2013 | 2,877,016 |
| 2104 | 2,860,180 |

Full Details of the regressions and monthly forecasts are included in the Appendix.

**Transformation Connection:**

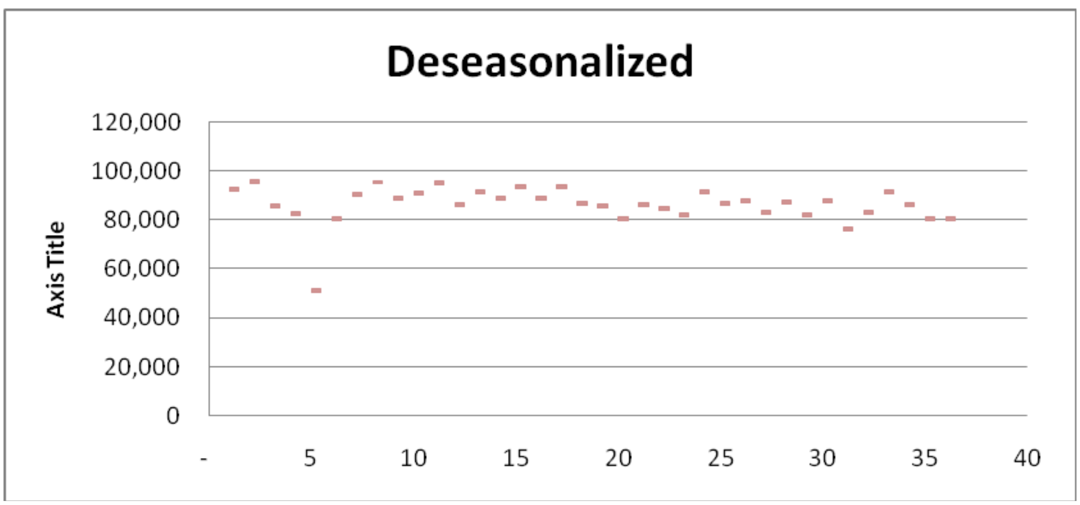
A plot of the demand data showed significant seasonality.




The data were deseasonalized as before.  The monthly indices are as follows.

| Month | Index |
|---|---|
| 1 | 1.071876 |
| 2 | 1.035377 |
| 3 | 1.144433 |
| 4 | 1.018737 |
| 5 | 0.877215 |
| 6 | 0.906422 |
| 7 | 0.906404 |
| 8 | 0.931820 |
| 9 | 0.940097 |
| 10 | 1.034768 |
| 11 | 1.026218 |
| 12 | 1.106632 |

Each month's demand was then divided by its monthly index to deseasonalize the data. The resulting demand shows no clear trend:




Not surprisingly, the trend regressions were insignificant for the linear as well as the non-linear models. For completeness, the results are shown below:

The following results are for the model with only the linear term:

| | |
|---|---|
| R-squared | .0144 |
| p-value for linear trend coefficient | .485 |

Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 1,008,605 |
| 2011 | 996,029 |
| 2012 | 983,452 |
| 2013 | 970,875 |
| 2104 | 958,299 |

The following results are for the non-linear model with the squared term:

| | |
|---|---|
| R-squared | .0498 |
| p-value for linear trend coefficient | .374 |
| p-value for non-linear trend coefficient | .276 |

Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 923,958 |
| 2011 | 784,343 |
| 2012 | 593,864 |
| 2013 | 352,520 |
| 2104 | 60,311 |

One clearly sees here the dangers of extrapolating a non-linear trend very far into the future, especially when it is not significant. If carried forward one more year, the forecasted demand would be negative.

The following results are for the non-linear model with the square root term:

| | |
|---|---|
| R-squared | .0274 |
| p-value for linear trend coefficient | .442 |
| p-value for non-linear trend coefficient | .511 |

Although not recommended, if this model were used, the forecasts would be:

| Year | Line Connection Demand (kw) |
|---|---|
| 2010 | 980,390 |
| 2011 | 938,873 |
| 2012 | 893,505 |
| 2013 | 845,305 |
| 2104 | 794,906 |

Full Details of the regressions and monthly forecasts are included in the Appendix.

## Appendix

The detailed regression outputs from the models are shown below.

## Network Demand

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.384659988 |
| R Square | 0.147963307 |
| Adjusted R Square | 0.134650233 |
| Standard Error | 14167.26097 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 2230732485 | 2230732485 | 11.11413593 | 0.001427935 |
| Residual | 64 | 12845522132 | 200711283.3 | | |
| Total | 65 | 15076254617 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 344646.5469 | 3527.752157 | 97.69579368 | 2.24588E-71 | 337599.0519 | 351694.0419 |
| Index | -305.174556 | 91.53990754 | -3.333787025 | 0.001427935 | -488.046542 | -122.3025701 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.407856454 |
| R Square | 0.166346887 |
| Adjusted R Square | 0.139881708 |
| Standard Error | 14124.37193 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 2507888018 | 1253944009 | 6.285500343 | 0.00324369 |
| Residual | 63 | 12568366599 | 199497882.5 | | |
| Total | 65 | 15076254617 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 339851.2003 | 5377.914222 | 63.19386779 | 1.06271E-58 | 329104.2964 | 350598.1042 |
| Index | 117.9442623 | 370.3987228 | 0.318425132 | 0.751215706 | -622.238515 | 858.1270396 |
| Index Squared | -6.315206244 | 5.357903742 | -1.17867109 | 0.242961805 | -17.02212241 | 4.391709919 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.409641432 |
| R Square | 0.167806102 |
| Adjusted R Square | 0.141387249 |
| Standard Error | 14112.00496 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 2529887527 | 1264943763 | 6.351755574 | 0.003069535 |
| Residual | 63 | 12546367090 | 199148684 | | |
| Total | 65 | 15076254617 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 331183.7031 | 11532.81233 | 28.71664722 | 6.69422E-38 | 308137.2169 | 354230.1893 |
| Index | -890.1696066 | 485.9331088 | -1.831876838 | 0.071697749 | -1861.229429 | 80.89021585 |
| Index Square Root | 6038.940992 | 4927.21307 | 1.22563017 | 0.224899973 | -3807.308548 | 15885.19053 |

## Line Connection Demand

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.041874998 |
| R Square | 0.001753515 |
| Adjusted R Square | -0.013844086 |
| Standard Error | 11362.1632 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 14513556.02 | 14513556.02 | 0.112422124 | 0.738499835 |
| Residual | 64 | 8262320166 | 129098752.6 | | |
| Total | 65 | 8276833722 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 247182.376 | 2829.262186 | 87.36637317 | 2.72016E-68 | 241530.2751 | 252834.4769 |
| Index | -24.61566044 | 73.41513446 | -0.335294086 | 0.738499835 | -171.2792501 | 122.0479292 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.041894226 |
| R Square | 0.001755126 |
| Adjusted R Square | -0.029935187 |
| Standard Error | 11451.97483 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 14526887.8 | 7263443.901 | 0.055383681 | 0.946168081 |
| Residual | 63 | 8262306834 | 131147727.5 | | |

| | | |
|---|---|---|
| Total | 65 | 8276833722 |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 247149.1175 | 4360.387747 | 56.68053665 | 8.95056E-56 | 238435.578 | 255862.657 |
| Index | -21.68108923 | 300.3175554 | -0.072193879 | 0.942676325 | -621.8178299 | 578.4556514 |
| Index Squared | -0.04379957 | 4.344163343 | -0.010082395 | 0.991987409 | -8.724917215 | 8.637318075 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.071643698 |
| R Square | 0.005132819 |
| Adjusted R Square | -0.026450266 |
| Standard Error | 11432.58378 |
| Observations | 66 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 42483493.43 | 21241746.72 | 0.162517989 | 0.850356006 |
| Residual | 63 | 8234350229 | 130703971.9 | | |
| Total | 65 | 8276833722 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 243065.8165 | 9343.097846 | 26.01554865 | 2.09516E-35 | 224395.1255 | 261736.5076 |
| Index | -203.4907135 | 393.6698572 | -0.516907022 | 0.607031057 | -990.1771417 | 583.1957147 |
| Index Square Root | 1846.538512 | 3991.691924 | 0.462595448 | 0.645248202 | -6130.221212 | 9823.298236 |

## Transformation Connection Demand

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.120194984 |
| R Square | 0.014446834 |
| Adjusted R Square | -0.014540024 |
| Standard Error | 7711.023849 |
| Observations | 36 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 29634366.05 | 29634366.05 | 0.498392558 | 0.485016867 |
| Residual | 34 | 2021636219 | 59459888.8 | | |
| Total | 35 | 2051270585 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 87759.75784 | 2624.842212 | 33.43429843 | 1.35065E-27 | 82425.4367 | 93094.07898 |
| Index | -87.33781226 | 123.7133408 | -0.705969233 | 0.485016867 | -338.7535683 | 164.0779438 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.22312154 |
| R Square | 0.049783222 |
| Adjusted R Square | -0.007805674 |
| Standard Error | 7685.388984 |
| Observations | 36 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 102118858.5 | 51059429.26 | 0.864458699 | 0.430600432 |
| Residual | 33 | 1949151727 | 59065203.84 | | |

| | | |
|---|---|---|
| Total | 35 | 2051270585 |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 84310.8985 | 4066.522173 | 20.73292482 | 1.69886E-20 | 76037.49697 | 92584.30002 |
| Index | 457.2189261 | 506.7994202 | 0.902169394 | 0.373504925 | -573.8722419 | 1488.310094 |
| Index Squared | -14.71774968 | 13.28570836 | -1.107788105 | 0.275962632 | -41.74772643 | 12.31222707 |

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.165623955 |
| R Square | 0.027431294 |
| Adjusted R Square | -0.031512263 |
| Standard Error | 7775.25519 |
| Observations | 36 |

ANOVA

| | *df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 2 | 56269007.42 | 28134503.71 | 0.4653824 | 0.631953034 |
| Residual | 33 | 1995001578 | 60454593.27 | | |
| Total | 35 | 2051270585 | | | |

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* |
|---|---|---|---|---|---|---|
| Intercept | 81880.02717 | 9245.210175 | 8.856480882 | 3.09062E-10 | 63070.50573 | 100689.5486 |
| Index | -540.5394487 | 694.0847513 | -0.778780182 | 0.441658163 | -1952.665486 | 871.5865886 |
| Index Square Root | 3497.996516 | 5269.999787 | 0.663756482 | 0.511457162 | -7223.898614 | 14219.89165 |

The forecasts were first made on a monthly basis. The annual forecasts were then made by summing up the monthly forecasts. The monthly forecasts are shown below.

| | | Network | | | | Line Connection | | | | Transformation Connection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Month | Year | Average | Linear Trend | Trend w/ Square Term | Trend w/ Square Rt Term | Average | Linear Trend | Trend w/ Square Term | Trend w/ Square Rt Term | Average | Linear Trend | Trend w/ Square Term | Trend w/ Square Rt Term |
| January | 2010 | 385120 | 373347 | 367825 | 369631 | 257063 | 256203 | 256168 | 255173 | 92336 | 90604 | 86907 | 89135 |
| February | 2010 | 372661 | 360929 | 355107 | 357091 | 248084 | 247229 | 247192 | 246168 | 89192 | 87428 | 83278 | 85835 |
| March | 2010 | 363641 | 351861 | 345699 | 347877 | 252435 | 251540 | 251499 | 250392 | 98586 | 96537 | 91276 | 94580 |
| April | 2010 | 331870 | 320816 | 314741 | 316959 | 246655 | 245755 | 245713 | 244565 | 87758 | 85845 | 80532 | 83925 |
| May | 2010 | 290524 | 280582 | 274858 | 277009 | 229522 | 228662 | 228620 | 227491 | 75567 | 73843 | 68700 | 72033 |
| June | 2010 | 309403 | 298533 | 291993 | 294518 | 241383 | 240455 | 240407 | 239154 | 78083 | 76222 | 70295 | 74188 |
| July | 2010 | 309473 | 298318 | 291321 | 294088 | 239389 | 238444 | 238393 | 237086 | 78081 | 76142 | 69574 | 73940 |
| August | 2010 | 309173 | 297746 | 290289 | 293305 | 239605 | 238635 | 238581 | 237207 | 80271 | 78195 | 70758 | 75756 |
| September | 2010 | 302426 | 290973 | 283210 | 286417 | 244942 | 243926 | 243867 | 242394 | 80984 | 78808 | 70585 | 76168 |
| October | 2010 | 319507 | 307116 | 298408 | 302075 | 253314 | 252239 | 252174 | 250580 | 89139 | 86654 | 76780 | 83547 |
| November | 2010 | 351505 | 337552 | 327401 | 331754 | 243862 | 242802 | 242736 | 241132 | 88403 | 85848 | 75210 | 82565 |
| December | 2010 | 367774 | 352839 | 341607 | 346507 | 254277 | 253146 | 253073 | 251329 | 95330 | 92479 | 80062 | 88718 |
| January | 2011 | 385120 | 369130 | 356713 | 362217 | 257063 | 255894 | 255816 | 253979 | 92336 | 89480 | 76508 | 85621 |
| February | 2011 | 372661 | 356848 | 344186 | 349885 | 248084 | 246931 | 246852 | 245007 | 89192 | 86343 | 72867 | 82403 |
| March | 2011 | 363641 | 347879 | 334877 | 340814 | 252435 | 251237 | 251152 | 249201 | 98586 | 95338 | 79364 | 90746 |
| April | 2011 | 331870 | 317182 | 304715 | 310486 | 246655 | 245460 | 245372 | 243394 | 87758 | 84777 | 69569 | 80477 |
| May | 2011 | 290524 | 277401 | 265949 | 271320 | 229522 | 228387 | 228302 | 226393 | 75567 | 72924 | 58950 | 69034 |
| June | 2011 | 309403 | 295145 | 282365 | 288433 | 241383 | 240165 | 240072 | 237992 | 78083 | 75272 | 59900 | 71060 |
| July | 2011 | 309473 | 294929 | 281550 | 287978 | 239389 | 238157 | 238060 | 235925 | 78081 | 75192 | 58859 | 70783 |
| August | 2011 | 309173 | 294361 | 280388 | 287178 | 239605 | 238348 | 238246 | 236037 | 80271 | 77219 | 59413 | 72483 |
| September | 2011 | 302426 | 287662 | 273388 | 280400 | 244942 | 243632 | 243523 | 241191 | 80984 | 77823 | 58807 | 72837 |
| October | 2011 | 319507 | 303617 | 287886 | 295695 | 253314 | 251935 | 251817 | 249328 | 89139 | 85569 | 63451 | 79852 |
| November | 2011 | 351505 | 333703 | 315666 | 324710 | 243862 | 242510 | 242392 | 239920 | 88403 | 84773 | 61629 | 78872 |
| December | 2011 | 367774 | 348812 | 329162 | 339110 | 254277 | 252841 | 252713 | 250057 | 95330 | 91319 | 65026 | 84705 |
| January | 2012 | 385120 | 364912 | 343507 | 354445 | 257063 | 255586 | 255452 | 252686 | 92336 | 88357 | 61565 | 81706 |
| February | 2012 | 372661 | 352767 | 331238 | 342338 | 248084 | 246634 | 246499 | 243752 | 89192 | 85258 | 58067 | 78595 |
| March | 2012 | 363641 | 343897 | 322078 | 333426 | 252435 | 250934 | 250792 | 247917 | 98586 | 94138 | 62602 | 86508 |
| April | 2012 | 331870 | 313548 | 292884 | 303721 | 246655 | 245164 | 245019 | 242132 | 87758 | 83710 | 54288 | 76680 |
| May | 2012 | 290524 | 274219 | 255460 | 265378 | 229522 | 228112 | 227972 | 225213 | 75567 | 72004 | 45482 | 65744 |
| June | 2012 | 309403 | 291757 | 271054 | 282086 | 241383 | 239876 | 239724 | 236744 | 78083 | 74322 | 45663 | 67639 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| July | 2012 | 309473 | 291540 | 270097 | 281610 | 239389 | 237870 | 237714 | 234682 | 78081 | 74242 | 44302 | 67342 |
| August | 2012 | 309173 | 290975 | 268805 | 280797 | 239605 | 238061 | 237899 | 234786 | 80271 | 76242 | 44119 | 68925 |
| September | 2012 | 302426 | 284350 | 261921 | 274140 | 244942 | 243338 | 243167 | 239906 | 80984 | 76837 | 43045 | 69228 |
| October | 2012 | 319507 | 300119 | 275626 | 289062 | 253314 | 251631 | 251448 | 247993 | 89139 | 84485 | 45736 | 75857 |
| November | 2012 | 351505 | 329854 | 302019 | 317391 | 243862 | 242217 | 242035 | 238628 | 88403 | 83697 | 43698 | 74890 |
| December | 2012 | 367774 | 344785 | 314718 | 331432 | 254277 | 252536 | 252341 | 248704 | 95330 | 90159 | 45299 | 80389 |
| January | 2013 | 385120 | 360695 | 328206 | 346382 | 257063 | 255278 | 255074 | 251312 | 92336 | 87234 | 42079 | 77505 |
| February | 2013 | 372661 | 348686 | 316263 | 334515 | 248084 | 246336 | 246133 | 242421 | 89192 | 84173 | 38879 | 74517 |
| March | 2013 | 363641 | 339915 | 307301 | 325772 | 252435 | 250632 | 250418 | 246556 | 98586 | 92939 | 40988 | 81979 |
| April | 2013 | 331870 | 309914 | 279247 | 296718 | 246655 | 244868 | 244654 | 240797 | 87758 | 82642 | 34688 | 72630 |
| May | 2013 | 290524 | 271038 | 243391 | 259232 | 229522 | 227837 | 227631 | 223965 | 75567 | 71085 | 28295 | 62241 |
| June | 2013 | 309403 | 288369 | 258061 | 275524 | 241383 | 239587 | 239364 | 235427 | 78083 | 73373 | 27583 | 64004 |
| July | 2013 | 309473 | 288151 | 256960 | 275030 | 239389 | 237583 | 237356 | 233370 | 78081 | 73292 | 25903 | 63691 |
| August | 2013 | 309173 | 287590 | 255541 | 274207 | 239605 | 237773 | 237540 | 233469 | 80271 | 75266 | 24875 | 65157 |
| September | 2013 | 302426 | 281038 | 248809 | 267679 | 244942 | 243045 | 242799 | 238554 | 80984 | 75852 | 23298 | 65410 |
| October | 2013 | 319507 | 296620 | 261629 | 282220 | 253314 | 251327 | 251066 | 246589 | 89139 | 83400 | 23635 | 71639 |
| November | 2013 | 351505 | 326004 | 286461 | 309847 | 243862 | 241925 | 241667 | 237272 | 88403 | 82622 | 21417 | 70690 |
| December | 2013 | 367774 | 340758 | 298273 | 323520 | 254277 | 252232 | 251955 | 247285 | 95330 | 88999 | 20881 | 75842 |
| January | 2014 | 385120 | 356478 | 310811 | 338079 | 257063 | 254970 | 254683 | 249872 | 92336 | 86110 | 18049 | 73085 |
| February | 2014 | 372661 | 344605 | 299262 | 326463 | 248084 | 246039 | 245755 | 241026 | 89192 | 83088 | 15302 | 70232 |
| March | 2014 | 363641 | 335933 | 290547 | 317898 | 252435 | 250329 | 250032 | 245132 | 98586 | 91739 | 14523 | 77227 |
| April | 2014 | 331870 | 306280 | 263806 | 289516 | 246655 | 244572 | 244275 | 239401 | 87758 | 81574 | 10770 | 68384 |
| May | 2014 | 290524 | 267857 | 229742 | 252914 | 229522 | 227561 | 227278 | 222661 | 75567 | 70166 | 7390 | 58573 |
| June | 2014 | 309403 | 284981 | 243384 | 268782 | 241383 | 239297 | 238992 | 234051 | 78083 | 72423 | 5662 | 60201 |
| July | 2014 | 309473 | 284763 | 242140 | 268273 | 239389 | 237296 | 236986 | 232002 | 78081 | 72342 | 3662 | 59877 |
| August | 2014 | 309173 | 284204 | 240595 | 267443 | 239605 | 237486 | 237168 | 232094 | 80271 | 74289 | 1681 | 61222 |
| September | 2014 | 302426 | 277727 | 234053 | 261049 | 244942 | 242751 | 242418 | 237144 | 80984 | 74867 | -434 | 61429 |
| October | 2014 | 319507 | 293121 | 245894 | 275202 | 253314 | 251024 | 250671 | 245127 | 89139 | 82316 | -2852 | 67243 |
| November | 2014 | 351505 | 322155 | 268991 | 302111 | 243862 | 241632 | 241285 | 235860 | 88403 | 81546 | -5214 | 66317 |
| December | 2014 | 367774 | 336730 | 279828 | 315412 | 254277 | 251927 | 251556 | 245809 | 95330 | 87839 | -8228 | 71114 |

Exhibit 8, Tab 2, Schedule 1

Calculation of Uniform Transmission Rates

# CALCULATION OF UNIFORM TRANSMISSION RATES

## 1.0 Overview

Transmission rates in Ontario have been established on a uniform basis for all transmitters in Ontario since April 30, 2002 as per RP-2001-0034/RP-2001-0035/RP-2001-0036/RP-1999-0044. The current Ontario Transmission Rate Schedules, effective January 1, 2010 and approved as part of the Board's EB-2008-0272 Decision and Order, are filed at Exhibit 8, Tab 2, Schedule 3.

Since rates are established on a uniform basis for the province, the revenue requirement of the four transmitters in the province, HONI, Canadian Niagara Power Inc., Five Nations Energy Inc., and GLPT, must be aggregated in order to calculate the total transmission revenue requirement for the province for a test year. Therefore, any change to the revenue requirement or charge determinant of any transmitter contributes to a change in the overall provincial transmission tariffs.

The overall revenue requirement must be allocated to the Uniform Transmission Rate Pools in order for uniform rates by pool to be established.[1] The revenue requirement by Rate Pool for all transmitters is based on the shares established by HONI's Cost Allocation process.[2] Once the revenue requirement by rate pool has been established, then rates need to be established by the Board by applying the appropriate provincial charge determinants for each pool to the associated total revenue requirement for each

[1] GLPT's revenue is allocated to the Rate Pools in Exhibit 7, Tab 1, Schedule 1.
[2] Approved in EB-2008-0272.

pool. The provincial charge determinants are the sum of all charge determinants for the four transmitters, by Rate Pool.

## 2.0 Calculation of Uniform Transmission Rates

*Table 8-2-1 A* below demonstrates the calculation of the proposed Uniform Transmission Rates with the inclusion of GLPT's proposed revenue requirement and provincial charge determinants for 2011. *Table 8-2-1 B* demonstrates the same for 2012. In calculating the rates in the tables, GLPT has not incorporated any changes that may be driven by other transmitters in Ontario. The changes in the 2011 and 2012 rates calculated in *Table 8-2-1 A* and *Table 8-2-1 B* respectively are driven only by GLPT's updated charge determinant forecast and revenue requirement.

1 *Table 8-2-1 A – Proposed 2011 Uniform Transmission Rates*

| Transmitter | Revenue Requirement ($) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | Total |
| FNEI | $3,012,819 | $714,093 | $1,451,088 | $5,178,000 |
| CNPI | $2,683,749 | $636,098 | $1,292,596 | $4,612,443 |
| GLPT | $20,497,412 | $4,858,260 | $9,872,334 | $35,228,007 |
| H1N | $707,878,000 | $167,780,000 | $340,941,000 | $1,216,599,000 |
| All Transmitters | $734,071,980 | $173,988,451 | $353,557,018 | $1,261,617,450 |

| Transmitter | Total Annual Charge Determinants (MW) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| FNEI | 44.915 | 44.915 | 44.915 | |
| CNPI | 583.420 | 668.600 | 668.600 | |
| GLPT | 3,954.620 | 2,937.438 | 985.415 | |
| H1N | 242,387.818 | 234,657.008 | 202,860.490 | |
| All Transmitters | 246,970.773 | 238,307.961 | 204,559.420 | |

| Transmitter | Uniform Rates and Revenue Allocators | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| **Uniform Transmission Rates ($/kW-Month)** | **2.97** | **0.73** | **1.73** | |
| | ↓ | ↓ | ↓ | |
| FNEI | 0.00410 | 0.00410 | 0.00410 | |
| CNPI | 0.00366 | 0.00366 | 0.00366 | |
| GLPT | 0.02792 | 0.02792 | 0.02792 | |
| H1N | 0.96432 | 0.96432 | 0.96432 | |
| All Transmitters | 1.00000 | 1.00000 | 1.00000 | |

2

*Table 8-2-1 B – Proposed 2012 Uniform Transmission Rates*

| Transmitter | Revenue Requirement ($) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | Total |
| FNEI | $3,012,819 | $714,093 | $1,451,088 | $5,178,000 |
| CNPI | $2,683,749 | $636,098 | $1,292,596 | $4,612,443 |
| GLPT | $21,614,909 | $5,123,128 | $10,410,564 | $37,148,601 |
| H1N | $707,878,000 | $167,780,000 | $340,941,000 | $1,216,599,000 |
| All Transmitters | $735,189,477 | $174,253,319 | $354,095,248 | $1,263,538,044 |

| Transmitter | Total Annual Charge Determinants (MW) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| FNEI | 44.915 | 44.915 | 44.915 | |
| CNPI | 583.420 | 668.600 | 668.600 | |
| GLPT | 3,954.620 | 2,937.438 | 985.415 | |
| H1N | 242,387.818 | 234,657.008 | 202,860.490 | |
| All Transmitters | 246,970.773 | 238,307.961 | 204,559.420 | |

| Transmitter | Uniform Rates and Revenue Allocators | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| **Uniform Transmission Rates ($/kW-Month)** | **2.98** | **0.73** | **1.73** | |
| | ↓ | ↓ | ↓ | |
| FNEI | 0.00410 | 0.00410 | 0.00410 | |
| CNPI | 0.00365 | 0.00365 | 0.00365 | |
| GLPT | 0.02940 | 0.02940 | 0.02940 | |
| H1N | 0.96285 | 0.96285 | 0.96285 | |
| All Transmitters | 1.00000 | 1.00000 | 1.00000 | |

GLPT has also prepared *Table 8-2-1 C* and *Table 8-2-1 D* which are replicas of *Table 8-2-1 A* and *Table 8-2-1 B,* but show only the variances created by GLPT's revenue requirement and charge determinant forecast changes. *Table 8-2-1 C* shows the increase from the currently approve rates to the 2011 proposed rates. *Table 8-2-1 D* shows the increase from the 2011 proposed rates to the 2012 proposed rates.

*Table 8-2-1 C – 2010-2011 Variance in Uniform Transmission Rates Driven By GLPT*

| **Transmitter** | **Revenue Requirement ($)** | | | |
|---|---|---|---|---|
| | **Network** | **Line Connection** | **Transformation Connection** | **Total** |
| FNEI | $0 | $0 | $0 | $0 |
| CNPI | $0 | $0 | $0 | $0 |
| GLPT | $257,518 | $61,036 | $124,030 | $442,585 |
| H1N | $0 | $0 | $0 | $0 |
| All Transmitters | $257,518 | $61,036 | $124,030 | $442,585 |

| **Transmitter** | **Total Annual Charge Determinants (MW)** | | | |
|---|---|---|---|---|
| | **Network** | **Line Connection** | **Transformation Connection** | |
| FNEI | - | - | - | |
| CNPI | - | - | - | |
| GLPT | (195.878) | 90.406 | (1,792.518) | |
| H1N | - | - | - | |
| All Transmitters | (195.878) | 90.406 | (1,792.518) | |

| **Transmitter** | **Uniform Rates and Revenue Allocators** | | | |
|---|---|---|---|---|
| | **Network** | **Line Connection** | **Transformation Connection** | |
| **Uniform Transmission Rates ($/kW-Month)** | **0.00** | **0.00** | **0.02** | |
| | ↓ | ↓ | ↓ | |
| FNEI | -0.00001 | -0.00001 | -0.00001 | |
| CNPI | 0.00000 | 0.00000 | 0.00000 | |
| GLPT | 0.00034 | 0.00034 | 0.00034 | |
| H1N | -0.00033 | -0.00033 | -0.00033 | |
| All Transmitters | 0.00000 | 0.00000 | 0.00000 | |

*Table 8-2-1 D – 2011-2012 Variance in Uniform Transmission Rates Driven By GLPT*

| Transmitter | Revenue Requirement ($) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | Total |
| FNEI | $0 | $0 | $0 | $0 |
| CNPI | $0 | $0 | $0 | $0 |
| GLPT | $1,117,498 | $264,867 | $538,229 | $1,920,594 |
| H1N | $0 | $0 | $0 | $0 |
| All Transmitters | $1,117,498 | $264,867 | $538,229 | $1,920,594 |

| Transmitter | Total Annual Charge Determinants (MW) | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| FNEI | - | - | - | |
| CNPI | - | - | - | |
| GLPT | - | - | - | |
| H1N | - | - | - | |
| All Transmitters | - | - | - | |

| Transmitter | Uniform Rates and Revenue Allocators | | | |
|---|---|---|---|---|
| | Network | Line Connection | Transformation Connection | |
| **Uniform Transmission Rates ($/kW-Month)** | **0.01** | **0.00** | **0.00** | |
| | ↓ | ↓ | ↓ | |
| FNEI | 0.00000 | 0.00000 | 0.00000 | |
| CNPI | -0.00001 | -0.00001 | -0.00001 | |
| GLPT | 0.00148 | 0.00148 | 0.00148 | |
| H1N | -0.00147 | -0.00147 | -0.00147 | |
| All Transmitters | 0.00000 | 0.00000 | 0.00000 | |

## 3.0 Rate Impacts

As demonstrated in the table, the impact of this application on Ontario rate-payers is a $0.02 increase in the rate for the Transformation Connection pool in 2011, and an additional $0.01 increase in the rate for the Network pool in 2012. Overall, GLPT's request results in a 0.04% increase in Ontario's transmission revenue requirement pool for 2011, and a 0.15% increase in Ontario's transmission revenue requirement pool for 2012.

For 2011, the rate impact on an average residential customer in Ontario is 0.002%, which on average will not result in any rate impact on a customer's bill, as calculated in *Table 8-2-1 E* below.

For 2012, the rate impact on an average residential customer in Ontario is 0.008%, or approximately $0.01 per month, as calculated in *Table 8-2-1 F* below. For the purposes of this analysis, an average residential customer is one who consumes 1,000 kWh per month. The rates in the analysis are the rates for PUC Distribution Inc., effective May 1, 2010.

*Table 8-2-1 E – Bill Impact on Average Residential Customer - 2011*

| **2011 Rate Impacts** | | **Per Unit** | **Per Month** |
|---|---|---|---|
| Monthly Consumption | 1,000 | kWh | |
| Electricity | per kWh | $0.067 | $67.00 |
| Monthly Service Charge | per month | 10.39 | 10.39 |
| Distribution Charge | per kWh | 0.0124 | 12.40 |
| ***Transmission Network Charge*** | ***per kWh*** | ***0.0055*** | ***5.50*** |
| RPP Admin (Standard Service Supply) | per month | 0.25 | 0.25 |
| Wholesale Market Services | per kWh | 0.0069 | 6.87 |
| Debt Retirement Charge | per kWh | 0.0020 | 2.00 |
| **Total Monthly Bill** | | | **$104.41** |
| Amount of Bill Related to Transmission Rates | | | $5.50 |
| Percentage Increase in Transmission Rates - 2010 to 2011 | | | 0.04% |
| **Monthly $ Increase Resulting from Transmission Rate Change** | | | **$0.00** |
| **% Bill Increase Resulting from Transmission Rate Change** | | | **0.002%** |

*Table 8-2-1 F – Bill Impact on Average Residential Customer - 2012*

| **2012 Rate Impacts** | | **Per Unit** | **Per Month** |
|---|---|---|---|
| Monthly Consumption | 1,000 | kWh | |
| Electricity | per kWh | $0.067 | $67.00 |
| Monthly Service Charge | per month | 10.39 | 10.39 |
| Distribution Charge | per kWh | 0.0124 | 12.40 |
| ***Transmission Network Charge*** | ***per kWh*** | ***0.0055*** | ***5.50*** |
| RPP Admin (Standard Service Supply) | per month | 0.25 | 0.25 |
| Wholesale Market Services | per kWh | 0.0069 | 6.87 |
| Debt Retirement Charge | per kWh | 0.0020 | 2.00 |
| **Total Monthly Bill** | | | **$104.41** |
| Amount of Bill Related to Transmission Rates | | | $5.50 |
| Percentage Increase in Transmission Rates - 2011 to 2012 | | | 0.15% |
| **Monthly $ Increase Resulting from Transmission Rate Change** | | | **$0.01** |
| **% Bill Increase Resulting from Transmission Rate Change** | | | **0.008%** |

Exhibit 8, Tab 2, Schedule 2

Uniform Transmission Rate Reconciliation

# UNIFORM TRANSMISSION RATE RECONCILIATION

*Table 8-2-2 A* and *Table 8-2-2 B* below apply the provincial charge determinant forecast to the proposed rates and then to GLPT's allocation factor to reconcile the revenue forecast for GLPT for 2011 and 2012 respectively. As anticipated, the proposed Uniform Transmission Rates and Allocation Factors will eliminate GLPT's expected deficiency in both 2011 and 2012.

*Table 8-2-2 A – 2011 Rate Proof Calculation*

| | Network | Line Connection | Transformation Connection | |
|---|---|---|---|---|
| 2010 Annual Charge Determinants (MW) | 246,970,773 | 238,307,961 | 204,559,420 | |
| 2010 Approved Uniform Rates ($kW-Month) | $2.97 | $0.73 | $1.71 | |
| 2010 GLPTLP Allocation Factor | 0.02758 | 0.02758 | 0.02758 | |
| 2010 GLPTLP Revenue Forecast | $20,222,564 | $4,798,739 | $9,663,007 | $34,684,309 |
| 2011 Test Year Service Revenue Requirement | | | | $35,228,007 |
| Gross Revenue Deficiency/(Sufficiency) | | | | $543,698 |
| 2011 Proposed Uniform Rates ($kW-Month) | $2.97 | $0.73 | $1.73 | |
| 2011 Proposed GLPT Allocation Factor | 0.02792 | 0.02792 | 0.02792 | |
| 2011 Test Year GLPT Revenue Forecast | $20,495,290 | $4,857,758 | $9,871,312 | $35,224,359 |
| 2011 Test Year Service Revenue Requirement | | | | $35,228,007 |
| Gross Revenue Deficiency/(Sufficiency) | | | | $3,648 |

*Table 8-2-2 B – 2012 Rate Proof Calculation*

| | Network | Line Connection | Transformation Connection | |
|---|---|---|---|---|
| 2010 Annual Charge Determinants (MW) | 246,970,773 | 238,307,961 | 204,559,420 | |
| 2010 Approved Uniform Rates ($kW-Month) | $2.97 | $0.73 | $1.71 | |
| 2010 GLPTLP Allocation Factor | 0.02758 | 0.02758 | 0.02758 | |
| 2010 GLPTLP Revenue Forecast | $20,222,564 | $4,798,739 | $9,663,007 | $34,684,309 |
| 2012 Test Year Service Revenue Requirement | | | | $37,148,601 |
| Gross Revenue Deficiency/(Sufficiency) | | | | $2,464,292 |
| 2012 Proposed Uniform Rates ($kW-Month) | $2.98 | $0.73 | $1.73 | |
| 2012 Proposed GLPT Allocation Factor | 0.02940 | 0.02940 | 0.02940 | |
| 2012 Test Year GLPT Revenue Forecast | $21,614,571 | $5,123,048 | $10,410,400 | $37,148,018 |
| 2012 Test Year Service Revenue Requirement | | | | $37,148,601 |
| Gross Revenue Deficiency/(Sufficiency) | | | | $583 |

Exhibit 8, Tab 2, Schedule 3

Ontario Transmission Rate Schedule

# ONTARIO TRANSMISSION RATE SCHEDULE

Attached in **Appendix "A"** is the current Transmission Rate Schedule approved under EB-2008-0272, and issued on January 5, 2010.

**APPENDIX "A"**

**Ontario Transmission Rate Schedule**

**APPENDIX B**

# ONTARIO TRANSMISSION RATE SCHEDULES

## EB-2008-0272

**January 5, 2010**

**The rate schedules contained herein shall be effective January 01, 2010**

Issued: January 21, 2010
Ontario Energy Board

# TERMS AND CONDITIONS

**(A) APPLICABILITY** The rate schedules contained herein pertain to the transmission service applicable to: •The provision of Provincial Transmission Service (PTS) to the Transmission Customers who are defined as the entities that withdraw electricity directly from the transmission system in the province of Ontario. •The provision of Export Transmission Service (ETS) to electricity market participants that export electricity to points outside Ontario utilizing the transmission system in the province of Ontario. The Rate Schedule ETS applies to the wholesale market participants who utilize the Export Service in accordance with the Market Rules of the Ontario Electricity Market, referred to hereafter as Market Rules. These rate schedules do not apply to the distribution services provided by any distributors in Ontario, nor to the purchase of energy, hourly uplift, ancillary services or any other charges that may be applicable in electricity markets administered by the Independent Electricity System Operator (IESO) of Ontario. **(B) TRANSMISSION SYSTEM CODE** The transmission service provided under these rate schedules is in accordance with the Transmission System Code (Code) issued by the Ontario Energy Board (OEB). The Code sets out the requirements, standards, terms and conditions of the transmitter's obligation to offer to connect to, and maintain the operation of, the transmission system. The Code also sets out the requirements, standards, terms and conditions under which a Transmission Customer may connect to, and remain connected to, the transmission system. The Code stipulates that a transmitter shall connect new customers, and continue to offer transmission services to existing customers, subject to a Connection Agreement between the customer and a transmitter. **(C) TRANSMISSION DELIVERY POINT** The Transmission Delivery Point is defined as the transformation station, owned by a transmission company or by the Transmission Customer, which steps down the voltage from above 50 kV to below 50 kV and which connects the customer to the transmission system. The demand registered by two or more meters at any one delivery point shall be aggregated for the purpose of assessing transmission charges at that delivery point if the corresponding distribution feeders from that delivery point, or the plants taking power from that delivery point, are owned by the same entity within the meaning of Ontario's *Business Corporations Act*. The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV. **(D) TRANSMISSION SERVICE POOLS** The transmission facilities owned by the licenced transmission companies are categorized into three functional pools. The transmission lines that are used for the common benefit of all customers are categorized as Network Lines and the corresponding terminating facilities are Network Stations. These facilities make up the Network Pool. The transformation station facilities that step down the voltage from above 50 kV to below 50 kV are categorized as the Transformation Connection Pool. Other electrical facilities (i.e. that are neither Network nor Transformation) are categorized as the Line Connection Pool. All PTS customers incur charges based on the Network Service Rate (PTS-N) of Rate Schedule PTS.

# TRANSMISSION RATE SCHEDULES

The PTS customers that utilize transformation connection assets owned by a licenced transmission company also incur charges based on the Transformation Connection Service Rate (PTS-T). The customer demand supplied from a transmission delivery point will not incur transformation connection service charges if a customer fully owns, or has fully contributed toward the costs of, all transformation connection assets associated with that transmission delivery point. The PTS customers that utilize lines owned by a licenced transmission company to connect to Network Station(s) also incur charges based on the Line Connection Service Rate (PTS-L). The customer demand supplied from a transmission delivery point will not incur line connection service charges if a customer fully owns, or has fully contributed toward the costs of, all line connection assets connecting that delivery point to a Network Station. Similarly, the customer demand will not incur line connection service charges for demand at a transmission delivery point located at a Network Station. **(E) MARKET RULES** The IESO will provide transmission service utilizing the facilities owned by the licenced transmission companies in Ontario in accordance with the Market Rules. The Market Rules and appropriate Market Manuals define the procedures and processes under which the transmission service is provided in real or operating time (on an hourly basis) as well as service billing and settlement processes for transmission service charges based on rate schedules contained herein. **(F) METERING REQUIREMENTS** In accordance with the Market Rules and the Transmission System Code, the transmission service charges payable by Transmission Customers shall be collected by the IESO. The IESO will utilize Registered Wholesale Meters and a Metering Registry in order to calculate the monthly transmission service charges payable by the Transmission Customers. Every Transmission Customer shall ensure that each metering installation in respect of which the customer has an obligation to pay transmission service charges arising from the Rate Schedule PTS shall satisfy the Wholesale Metering requirements and associated obligations specified in Chapter 6 of the Market Rules, including the appendices therein, whether or not the subject meter installation is required for settlement purposes in the IESO-administered energy market. A meter installation required for the settlement of charges in the IESO-administered energy market may be used for the settlement of transmission service charges. The Transmission Customer shall provide to the IESO data required to maintain the information for the Registered Wholesale Meters and the Metering Registry pertaining to the metering installations with respect to which the Transmission Customers have an obligation to pay transmission charges in accordance with Rate Schedule PTS. The Metering Registry for metering installations required for the calculation of transmission charges shall be maintained in accordance with Chapter 6 of the Market Rules. The Transmission Customers, or Transmission Customer Agents if designated by the Transmission Customers, associated with each Transmission Delivery Point will be identified as Metered Market Participants within the IESO's Metering Registry. The metering data recorded in the Metering Registry shall be used as the basis for the calculation of transmission charges on the settlement statement for the Transmission Customers identified as the Metered Market Participants for each Transmission Delivery Point. The Metering Registry for metering installations required for calculation of transmission charges shall also indicate whether or not the demand associated with specific Transmission Delivery Point(s) to which a Transmission Customer is connected attracts Line and/or Transformation Connection Service Charges. This information shall be consistent with the Connection Agreement between the Transmission Customer and the licenced Transmission Company that connects the customer to the IESO-Controlled Grid. **(G) EMBEDDED GENERATION** The Transmission Customers shall ensure conformance of Registered Wholesale Meters in accordance with Chapter 6 of Market Rules, including

# TRANSMISSION RATE SCHEDULES

Metering Registry obligations, with respect to metering installations for embedded generation that is located behind the metering installation that measures the net demand taken from the transmission system if (a) the required approvals for such generation are obtained after October 30, 1998; and (b) the generator unit rating is 2 MW or higher for renewable generation and 1 MW or higher for non-renewable generation; and (c) the Transmission Delivery Point through which the generator is connected to the transmission system attracts Line or Transformation Connection Service charges. The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. Accordingly, the distributors that are Transmission Customers shall ensure that connection agreements between them and the generators, load customers, and embedded distributors connected to their distribution system have provisions requiring the Transmission Customer to satisfy the requirements for Registered Wholesale Meters and Metering Registry for such embedded generation even if the subject embedded generator(s) do not participate in the IESO-administered energy markets. **(H) EMBEDDED CONNECTION POINT** In accordance with Chapter 6 of the Market Rules, the IESO may permit a Metered Market Participant, as defined in the Market Rules, to register a metering installation that is located at the embedded connection point for the purpose of recording transactions in the IESO-administered markets. (The Market Rules define an embedded connection point as a point of connection between load or generation facility and distribution system). In special situations, a metering installation at the embedded connection point that is used to settle energy market charges may also be used to settle transmission service charges, if there is no metering installation at the point of connection of a distribution feeder to the Transmission Delivery Point. In above situations: •The Transmission Customer may utilize the metering installation at the embedded connection point, including all embedded generation and load connected to that point, to satisfy the requirements described in Section (F) above provided that the same metering installation is also used to satisfy the requirement for energy transactions in the IESO-administered market. •The Transmission Customer shall provide the Metering Registry information for the metering installation at the embedded connection point, including all embedded generation and load connected to that point, in accordance with the requirements described in Section (F) above so that the IESO can calculate the monthly transmission service charges payable by the Transmission Customer.

| RATE SCHEDULE: PTS | PROVINCIAL TRANSMISSION SERVICE |
|---|---|

*APPLICABILITY:*

The Provincial Transmission Service (PTS) is applicable to all Transmission Customers in Ontario who own facilities that are directly connected to the transmission system in Ontario and that withdraw electricity from this system.

| | Monthly Rate ($ per kW) |
|---|---|
| **Network Service Rate (PTS-N):**<br>$ Per kW of Network Billing Demand[1,2] | **2.97** |
| **Line Connection Service Rate (PTS-L):**<br>$ Per kW of Line Connection Billing Demand[1,3] | **0.73** |
| **Transformation Connection Service Rate (PTS-T):**<br>$ Per kW of Transformation Connection Billing Demand[1,3,4] | **1.71** |

The rates quoted above shall be subject to adjustments with the approval of the Ontario Energy Board.

Notes:
1 The demand (MW) for the purpose of this rate schedule is measured as the energy consumed during the clock hour, on a "Per Transmission Delivery Point" basis. The billing demand supplied from the transmission system shall be adjusted for losses, as appropriate, to the Transmission Point of Settlement, which shall be the high voltage side of the transformer that steps down the voltage from above 50 kV to below 50 kV at the Transmission Delivery Point.
2. The Network Service Billing Demand is defined as the higher of (a) customer coincident peak demand (MW) in the hour of the month when the total hourly demand of all PTS customers is highest for the month, and (b) 85 % of the customer peak demand in any hour during the peak period 7 AM to 7 PM (local time) on weekdays, excluding the holidays as defined by IESO. The peak period hours will be between 0700 hours to 1900 hours Eastern Standard Time during winter
(i.e. during standard time) and 0600 hours to 1800 hours Eastern Standard Time during summer (i.e. during daylight savings time), in conformance with the meter time standard used by the IMO settlement systems.
3 The Billing Demand for Line and Transformation Connection Services is defined as the Non-Coincident Peak demand (MW) in any hour of the month. The customer demand in any hour is the sum of (a) the loss-adjusted demand supplied from the transmission system plus (b) the demand that is supplied by embedded generation for which the required government approvals are obtained after October 30, 1998 and which have installed capacity of 2MW or more for renewable generation and 1 MW or higher for non-renewable generation. The term renewable generation refers to a facility that generates electricity from the following sources: wind, solar, Biomass, Bio-oil, Bio-gas, landfill gas, or water. The demand supplied by embedded generation will not be adjusted for losses.
4 The Transformation Connection rate includes recovery for OEB approved Low Voltage Switchgear compensation for Toronto Hydro Electric System Limited and Hydro Ottawa Limited.

*TERMS AND CONDITIONS OF SERVICE:*

The attached Terms and Conditions pertaining to the Transmission Rate Schedules, the relevant provisions of the Transmission System Code, in particular the Connection Agreement as per Appendix 1 of the Transmission System Code, and the Market Rules for the Ontario Electricity Market shall apply, as contemplated therein, to services provided under this Rate Schedule.

| RATE SCHEDULE: ETS | EXPORT TRANSMISSION SERVICE |
|---|---|

*APPLICABILITY:*

The Export Transmission Service is applicable for the use of the transmission system in Ontario to deliver electrical energy to locations external to the Province of Ontario, irrespective of whether this energy is supplied from generating sources within or outside Ontario.

| | Hourly Rate |
|---|---|
| **Export Transmission Service Rate (ETS):** | $1.00 / MWh |

The ETS rate shall be applied to the export transactions in the Interchange Schedule Data as per the Market Rules for Ontario's Electricity Market. The ETS rate shall be subject to adjustments with the approval of the Ontario Energy Board.

*TERMS AND CONDITIONS OF SERVICE:*

The attached Terms and Conditions pertaining to the Transmission Rate Schedules, the relevant provisions of the Transmission System Code and the Market Rules for the Ontario Electricity Market shall apply, as contemplated therein, to service provided under this Rate Schedule.

# Appendix C

# ONTARIO UNIFORM RATE ORDER

## EB-2008-0272

**January 5, 2010**

**EB-2008-0272**
**Appendix C**

# ONTARIO UNIFORM RATE ORDER
## REVENUE ALLOCATORS
## Effective January 01, 2010

| Transmitter | Network | Line Connection | Transformation Connection |
|---|---|---|---|
| **Uniform Transmission Rates ($k/kW-Month)** | 2.97 | 0.73 | 1.71 |
| | ↓ | ↓ | ↓ |
| **Five Nations Energy Inc.** | 0.00411 | 0.00411 | 0.00411 |
| **Canadian Niagara Power Inc.** | 0.00366 | 0.00366 | 0.00366 |
| **Great Lakes Power Ltd.** | 0.02758 | 0.02758 | 0.02758 |
| **Hydro One Networks Inc.** | 0.96465 | 0.96465 | 0.96465 |
| **Total** | **1.00000** | **1.00000** | **1.00000** |

# EXHIBIT 9 - DEFERRAL AND VARIANCE ACCOUNTS

Exhibit 9, Tab 1, Schedule 1

Deferral and Variance Accounts Overview

# DEFERRAL AND VARIANCE ACCOUNTS OVERVIEW

## 1.0 Existing Deferral and Variance Accounts

GLPT is requesting approval for continuance of the following deferral/variance accounts: two sub-accounts of account 1508, as well as account 1574, of the Uniform System of Accounts. GLPT is also requesting approval to use accounts 1505 and 1595 of the Uniform System of Accounts. Based upon the Board's Decision in EB-2009-0409, GLPT will continue to maintain in the test period sub-accounts for Infrastructure Investment, Green Energy Initiatives and Preliminary Planning Costs, within account 1508. In addition, based upon the Accounting Procedures Handbook, GLPT will also continue to maintain in the test period the sub-account IFRS in account 1508, as well as account 1592 for tax variances. GLPT has provided additional details in:

- Exhibit 9, Tab 1, Schedule 2 - Account 1508;
- Exhibit 9, Tab 1, Schedule 3 - Account 1574;
- Exhibit 9, Tab 1, Schedule 5 - Account 1505; and
- Exhibit 9, Tab 3, Schedule 1 - Account 1595;

## 2.0 New Deferral and Variance Account Requests and Request for Direction

GLPT is requesting approval to establish the following new deferral/variance accounts:

- Change in Costs due to IFRS Implementation Account; and,
- IFRS Gains and Losses on Disposal.

GLPT is also requesting the Board's direction on how to treat expenditures arising from an outstanding claim by Comstock Canada Ltd. ("Comstock") in respect of a major capital project for which GLPT obtained leave to construct in EB-2003-0162.

The need for the new accounts, the background to the Comstock claim and the accounting and control process is described in further detail at Exhibit 9, Tab 2, Schedule 1.

## 3.0 Existing Disbursal of Deferral Account

The Board-Approved Settlement Agreement in EB-2009-0408 determined, the treatment of the various outstanding deferral and variance accounts. Upon implementation of a new Uniform Transmission Rates, the aggregate balance of the existing deferral accounts, less an offset related to GLPT's 2010 revenue deficiency, will be returned to ratepayers over a three-year period (the "Aggregate Regulatory Liability Balance"). In addition to this, GLPT will credit ratepayers a further amount of $3,063,900 related to costs recovered in respect of an asset retirement. This amount will be returned to ratepayers over a five-year period.

These two balances have been recorded in sub-accounts of USofA account 1595. Further details on the disbursal of these sub-accounts can be found at Exhibit 9, Tab 3, Schedule 1.

In this application, GLPT is proposing to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011, related to the Third Line

Redevelopment project.[1] These assets are currently used and useful but will be prematurely retired in 2011 as a result of the completion of the project. The total net book value of the assets to be retired will be $910,534 at December 31, 2011, which is a significant value to GLPT. GLPT proposes to recover the write-off of $910,534 by offsetting the amount against the Aggregate Regulatory Liability Balance that will be returned to customers over the three-year period referenced above.

[1] The Third Line Redevelopment project is described in detail at Exhibit 2, Tab 1, Schedule 1

Exhibit 9, Tab 1, Schedule 2

Account 1508 - Other Regulatory Assets

# ACCOUNT 1508 – OTHER REGULATORY ASSETS

## 1.0 Summary

As at June 30, 2010, GLPT has four active sub-accounts of Account 1508 – Other Regulatory Assets. The four sub-accounts are related to:

i) IFRS Transition Costs;

ii) Infrastructure Investment, Green Energy Initiatives and Preliminary Planning Costs[1];

iii) OEB Cost Assessment Variances; and

iv) Property Tax and Use and Occupation Permit Fee Variances

## 2.0 IFRS Transition Costs

As indicated in the July 28, 2009 *Report of the Board on International Financial Reporting Standards,* the Board has established a deferral account to record all incremental one-time administrative costs related to the transition to International Financial Reporting Standards ("IFRS"). The costs in this account relate primarily to incremental labour costs, pension administration costs, as well as travel and training costs. Disbursal of this account will be sought in a future application upon full implementation of IFRS. GLPT recognizes that the amounts in this account will be subject to review before disposition, with consideration of the criteria of materiality,

[1] This account was approved by the OEB in its decision on EB-2009-0409, which was an application by GLPT to establish a deferral account to record expenses related to renewable generation connection, system planning, and infrastructure investment arising from the *Green Energy and Green Economy Act, 2009*.

causation and prudence. GLPT will continue to accrue carrying charges using the Board's prescribed interest rates for deferral and variance accounts.

## 3.0 Infrastructure Investment, Green Energy Initiatives and Preliminary Planning Costs

The Board approved in EB-2009-0409 the establishment of two sub-accounts under this deferral account, one to capture OM&A expenses and one to capture capital expenses. Disbursal of this account will be sought in a future application. GLPT recognizes that the amounts in this account will be subject to review before disposition, with consideration of the criteria of materiality, causation and prudence. GLPT will continue to accrue carrying charges using the Board's prescribed interest rates for deferral and variance accounts.

## 4.0 OEB Cost Assessment Variances

As described in EB-2009-0408, GLPT will use the account to capture future amounts of OEB cost assessments that are incremental to the 2010 base OEB cost embedded in revenue requirement. The base cost included in GLPT's approved 2010 revenue requirement is $105,000.[2]

As a part of this sub-account, GLPT intends to seek recovery of the intervenor cost claims associated with the EB-2009-0408 rate proceeding, as these costs do not form a part of the $105,000 in base "cost assessment" fees. This disbursement will be sought in

[2] GLPT is seeking base costs of $107,625 and $110,315 in the 2011 and 2012 test years, respectively

a future application. GLPT recognizes that the amounts in this account will be subject to review before disposition, with consideration of the criteria of materiality, causation and prudence. GLPT will continue to accrue carrying charges using the Board's prescribed interest rates for deferral and variance accounts.

## 5.0 Property Tax and Use and Occupation Permit Fee Variances

As described in EB-2009-0408, GLPT will use the account to capture future amounts of payments in lieu of taxes paid to First Nations that are incremental to the 2010 base cost embedded in revenue requirement. The base cost included in GLPT's approved 2010 revenue requirement is $133,200.[3]

GLPT is not seeking disbursal of any balance in this proceeding. However, as noted in Exhibit 4, Tab 3, Schedule 4, GLPT is still negotiating with at least one First Nation group regarding payments in lieu of taxes; and, as such GLPT is requesting to maintain this variance account for future use as required. GLPT recognizes that the amounts in this account will be subject to review before disposition, with consideration of the criteria of materiality, causation and prudence. GLPT will continue to accrue carrying charges using the Board's prescribed interest rates for deferral and variance accounts.

[3] GLPT is seeking base costs of $136,500 and $139,900 in the 2011 and 2012 test years, respectively

Exhibit 9, Tab 1, Schedule 3

Account 1574 - Deferred Rate Impact Amounts

# ACCOUNT 1574 – DEFERRED RATE IMPACT AMOUNTS

## 1.0 Background

### 1.1 Deferred Rate Impact Amounts ("DRIA")

In the Board's Decision and Order dated August 31, 2010 in EB-2009-0408, the Board approved GLPT's proposal to partially offset its aggregate regulatory liability of $2,962,700 to recover its revenue deficiency for the period between January 1, 2010 and the date that the revised Uniform Transmission Rates reflecting GLPT's new revenue requirement are implemented (the "deficiency period"). The proposal provided a month by month methodology of adjustment to record the deficiency. This proposal was supported by all parties in the proceeding, and subsequently approved by the Board The Board's Decision and Order, including GLPT's proposal, is attached as **Appendix "B"** to Exhibit 1, Tab 1, Schedule 8.

Under the assumption that a new Uniform Transmission Rates will be implemented on January 1, 2011, GLPT has assumed that the accrual of the DRIA will occur for each of the twelve months in 2010. As a result, for the purposes of providing an accurate figure to include in the 2011 Uniform Transmission Rates calculation, GLPT has provided an estimate of what the DRIA accrual will be for 2010. The estimate is a simple estimate of GLPT's annual deficiency with no load variances, and is calculated by subtracting GLPT's revenue requirement included in rates ($34,785,422) from the approved revenue requirement effective January 1, 2010 ($35,141,618). The resulting estimate for the DRIA in 2010 is identical to GLPT's deficiency in 2010, and is equal to $356,196.

For the purposes of recording the amount to offset the aggregate regulatory liabilities in the Uniform Transmission Rates calculation, GLPT has assumed no load variances in calculating the deficiency. GLPT will record all actual load variances as they occur during the deficiency period, offsetting them against the actual balance of the account. The balance of the accounts will be reviewed in GLPT's next rate application to ensure all parties (GLPT and ratepayers) remain whole.

Further information on GLPT's proposed recovery of this balance is found at Exhibit 9, Tab 3, Schedule 1.

Exhibit 9, Tab 1, Schedule 4

Accounts 1592 - Changes in Tax Legislation

# ACCOUNT 1592 – CHANGES IN TAX LEGISLATION

## 1.0 Background

The Board has created account 1592 to deal with changes in tax legislation and tax rules with respect to PILs and taxes. GLPT will continue to use this account to track the effect of legislative or regulatory changes to the tax rates or rules on the amount of costs approved by the Board as part of its 2011 and 2012 revenue requirement.

Exhibit 9, Tab 1, Schedule 5

Account 1505 - Uncovered Plant Costs

# ACCOUNT 1505 –UNRECOVERED PLANT COSTS

## 1.0 Retirement of Readily Identifiable Assets

In this application, GLPT is proposing to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011, related to the Third Line Redevelopment project.[1] These assets are currently used and useful but will be prematurely retired in 2011 as a result of the completion of the project. The total net book value of the assets to be retired will be $910,534 at December 31, 2011, which is a significant value to GLPT. GLPT proposes to recover the $910,534 write-off by offsetting the amount against the aggregate regulatory liability balance of $2,962,700. This would effectively result in GLPT collecting this amount over a three year period beginning January 1, 2011. Any gains or recoveries realized relative to the prematurely retired plant will be credited to the benefit of ratepayers.

The Applicant is therefore seeking approval to use Account 1505 of the Uniform System of Accounts for this purpose, after which the balance will be transferred to Account 1595 for recovery as described in Exhibit 9, Tab 3, Schedule 1.

[1] The Third Line Redevelopment project is described in detail at Exhibit 2, Tab 1, Schedule 1

Exhibit 9, Tab 2, Schedule 1

Proposed Deferral and Variance Accounts and Request for Direction

# PROPOSED DEFERRAL & VARIANCE ACCOUNTS AND REQUEST FOR DIRECTION

## 1.0 Deferral and Variance Account Requests

GLPT is requesting approval to establish the following new deferral/variance accounts:

- Change in Costs due to IFRS Implementation Account; and
- IFRS Gains and Losses on Disposal

The need for these accounts and the accounting and control process is described in further detail below.

In addition, GLPT is asking the Board to provide direction on how to treat expenditures arising from an outstanding claim related to the Transmission Reinforcement Project, as described in section 4.0 below.

## 2.0 Change in Costs due to IFRS Implementation Account

The rationale for this account is to record the aggregate impact on the test year revenue requirements resulting from any changes to existing IFRS standards or changes in the interpretation of such standards. Interpretation changes include those originating with the International Accounting Standards Board or any of its branches (e.g. the International Financial Reporting Interpretations Committee or IFRIC), the professional accounting industry, including large, international accounting firms, and the Board or Board Staff with regard to the application of modified IFRS for regulatory purposes. This account would allow the Applicant to record, for future disposition, those revenue requirement impacts resulting from IFRS changes that arise before the next rate application.

## 3.0 IFRS Gains and Losses on Disposal

The rational for this account is to hold any gains and losses resulting from asset sales, and losses resulting from premature asset component retirements, recorded in the test years or before GLPT's next rate application. Under IFRS, such gains and losses cannot reasonably be forecast. The deferral account would provide a mechanism to allow net gains and losses to be included in rates and would permit capital recovery. Without a deferral account, net gains and losses will be to the shareholder's account, due to the difficulty in formulating a reasonable estimate in the calculation of the revenue requirement.

This account will not capture the premature retirement of assets related to the Third Line Redevelopment project, as described in Exhibit 9, Tab 1, Schedule 5. These costs are proposed to be captured under account 1505.

## 4.0 Request for Direction - Comstock Claim

As noted in GLPL's Section 86 application in EB-2007-0647, in GLPL's rate application EB-2005-0241**,** and in GLPT's rate application in EB-2009-0408, there is an outstanding claim by Comstock Canada Ltd. ("Comstock") in respect of the Transmission Reinforcement Project. Comstock has claimed additional costs under the Design-Build Contract with GLPL. It was noted in EB-2007-0647 that the claim would be adjudicated by the Ontario Superior Court or pursuant to alternative dispute resolution provisions agreed to by the parties. As this claim remains outstanding, GLPT is not able to comment on any details of the proceeding. However, there is uncertainty associated with this outstanding claim, including with respect to the costs and legal fees associated with the claim and uncertainty with respect to the amount of any award or settlement that may arise from the claim. GLPT therefore believes these costs are capital expenditures that form part of the project and that, once the claim is resolved, those capital costs will be added to rate base. GLPT seeks direction as to whether the Board would prefer GLPT to include these costs in Construction Work in Progress (as is currently being done), or record these costs in a designated deferral account, which the Board would consider at the time of the account's disbursal.

## 5.0 Accounting and Control Process

The deferral and variance accounts requested above will be managed in the same manner as existing GLPT deferral and variance accounts. They will be updated monthly and interest will be applied consistent with Board-approved rates. Balances will be reported to the Board as part of the quarterly reporting process. The outstanding balances, whether in debit or credit position, will be submitted for approval by the Board as part of a future filing.

Exhibit 9, Tab 3, Schedule 1

Disbursal of Existing Deferral and Variance Accounts

# DISBURSAL OF EXISTING DEFERRAL AND VARIANCE ACCOUNTS

## 1.0 Three-Year Liability Payback

### 1.1 Existing Deferral and Variance Accounts

In the Board Approved Settlement Agreement from EB-2009-0408, all parties agreed that GLPT should disburse the aggregate balance of the then existing deferral and variance accounts over a three-year period, with appropriate interest. The aggregate balance to which this applies (exclusive of the additional amount in account 1505 of $3,063,900, described below) is $2,962,700. This balance has been transferred to a sub-account of USofA account 1595, and is made up of the following balances:

*Table 9-3-1 A – Aggregate Deferral Accounts Approved in EB-2009-0408*

($000's)

| Former USofA Account | Description | Balance for Disbursal |
|---|---|---|
| 1505 | Unrecovered Plant Costs | ($71.4) |
| 1508 | Other Regulatory Assets | (105.4) |
| 1574 | Deferred Rate Impact Amounts | (2,577.7) |
| 1562 | Deferred Payments in Lieu of Taxes | 30.4 |
| 1592 | PILs and Tax Variance for 2006 and subsequent | (1,280.1) |
| 1572 | Extraordinary Event Costs | 1,041.5 |
| | **Total** | **(2,962.7)** |

### 1.2 Deferred Rate Impact Amounts ("DRIA")

As described in Exhibit 9, Tab 1, Schedule 3, GLPT further proposed to partially offset this amount to recover its revenue deficiency for the period between January 1, 2010 and the date that the revised Uniform Transmission Rates reflecting GLPT's new revenue requirement are implemented. This proposal was accepted by the Board in its Decision and Order in EB-2009-0408.

As a result, GLPT has offset the balance in this account by $356,196 related to the balance in account 1574.

### 1.3 Retirement of Readily Identifiable Assets

As described in Exhibit 9, Tab 1, Schedule 5, GLPT is proposing to recover costs resulting from a premature retirement of readily identifiable assets that will occur in 2011, related to the Third Line Redevelopment project.[1] GLPT is proposing to use account 1505 to record the costs initially, with the balance being transferred to account 1595 for recovery. The total net book value of the assets to be retired will be $910,534 at December 31, 2011, and as a result GLPT has offset the balance in this sub-account of account 1595 by this amount.

### 1.4 Three-Year Liability Payback Summary

The proposed treatments described above result in a net balance of $1,715,462 to be returned to ratepayers over three years, beginning on the date that new Uniform Transmission Rate are implemented. *Table 9-3-1 A* below summarizes the calculation of this amount. The table begins with the approved balance as at December 31, 2009, adds the two new offsets, and incorporates carrying charges for the 2010 year.

[1] The Third Line Redevelopment project is described in detail at Exhibit 2, Tab 1, Schedule 1

For the purposes of calculating an amount to be incorporated in the Uniform Transmission Rate calculation, carrying charges for 2010 were calculated using an average estimated rate of 0.7%.[2] For the Deferred Rate Impact Amounts, carrying charges were calculated on half of the balance, assuming the opening balance is $0 and accruals are made evenly throughout the year. No carrying charges were accrued on the retirement of readily identifiable assets in 2010, as they will not be retired until 2011.

*Table 9-3-1 A – Summary of Three-Year Liability Payback Sub-Account*

| ($000's) Reference | Description | Balance Dec-31-09 | Carrying Charges 2010 ** | DRIA | Asset Retirement | ($000's) Balance for Disbursal |
|---|---|---|---|---|---|---|
| S. 1.1 | Existing Accounts (From EB-2009-0408) | $2,962.7 | $20.7 | $0.0 | $0.0 | $2,983.4 |
| S. 1.2 | Deferred Rate Impact Amounts | - | (1.2) | (356.2) | - | (357.4) |
| S. 1.3 | Retirement of Readily Identifiable Assets | - | - | - | (910.5) | (910.5) |
| | **Total** | | | | | **1,715.5** |
| | **Annual Disbursal** | | | | | **$571.8** |

**Carrying charges were calculated using an average estimated rate of 0.7%. For the Deferred Rate Impact Amounts, carrying charges were calculated on half of the balance, assuming the opening is $0 and accruals are even throughout the year.

## 2.0 Five-Year Liability Payback

Account 1505 had been used by GLPT in the past to record costs associated with readily identifiable assets that were used and useful, but which were retired in 2005, as a result of the Transmission Reinforcement Project. The closing balance of this account, as at December 31, 2009, was a credit of $71,368 to the benefit of ratepayers. As part of the Board Approved Settlement Agreement, GLPT agreed to credit to ratepayers a further

[2] The Board's prescribed rates have been 0.55%, 0.55% and 0.89% for Q1, Q2 and Q3-2010, respectively. The simple average of these rates is 0.66%. GLPT has and will apply the appropriate rates for each quarter, however for the purposes of incorporating an amount in the Uniform Transmission Rate, an average rate of 0.7% has been used.

amount of $3,063,900 from this account. The latter amount will be disbursed to ratepayers over a 5-year period beginning on the date of implementation of new Uniform Transmission Rate, with interest as normally calculated. The former amount of $71,368 is included in the $2,962,700 which is being returned to ratepayers over three years, as described in Section 1.1 above. *Table 9-3-1 B* summarizes the annual disbursal of the $3,063,900 balance over five years.

For the purposes of calculating an amount to be incorporated in the Uniform Transmission Rate calculation, carrying charges for 2010 were added to the balance using an average estimated rate of 0.7%[3].

*Table 9-3-1 B – Summary of Five-Year Liability Payback Sub-Account*

| Description | Balance Dec-31-09 | Carrying Charges 2010 ** | ($000's) Balance for Disbursal |
|---|---|---|---|
| Balance per Settlement Agreement | $3,063.9 | $21.4 | $3,085.3 |
| **Annual Disbursal** | | | **$617.1** |

[3] The Board's prescribed rates have been 0.55%, 0.55% and 0.89% for Q1, Q2 and Q3-2010, respectively. The simple average of these rates is 0.66%. GLPT has and will apply the appropriate rates for each quarter, however for the purposes of incorporating an amount in the Uniform Transmission Rate, an average rate of 0.7% has been used.