

EB-2010-0XXX

IN THE MATTER OF the Ontario Energy Board Act, 1998,
being Schedule B to the Energy Competition Act, 1998, S.O. 1998,
c.15;

AND IN THE MATTER OF an Application by the Niagara West
Transformation Corporation to the Ontario Energy Board for an
Order or Orders pursuant to section 78 of the Ontario Energy
Board Act, 1998 for 2011 electricity rates for transmission
transformation connection service.

NIAGARA WEST TRANSFORMATION CORPORATION

APPLICATION FOR APPROVAL OF 2011 ELECTRICITY TRANSMISSION

TRANSFORMATION CONNECTION RATES

Filed: November 9, 2010

Niagara West Transformation Corporation
231 Roberts Rd., Grimsby ON
L3M 5N2

**APPLICATION FOR APPROVAL OF 2011 ELECTRICITY TRANSMISSION
TRANSFORMATION CONNECTION RATES**

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1 transformation connection service in Ontario, NWTC does not anticipate the provincial
2 Uniform Transmission Transformation Connection Rate will be impacted.

3
4 6. NWTC requests the recovery of the requested base revenue requirement be made
5 effective as of March 1, 2011.

6
7 7. This Application is supported by written evidence. The written evidence will be pre-filed
8 and may be amended from time to time, prior to the Board's final decision on this
9 Application

10
11 8. The persons affected by this Application are the ratepayers of NWTC's transmission
12 transformation connection rate which include Grimsby Power Incorporated and Niagara
13 Peninsula Energy Inc. Since NWTC expects the provincial Uniform Transmission
14 Transformation Connection Rate will not change no other ratepayers should be impacted.

15
16 9. NWTC requests that a copy of all documents filed with the Board in this proceeding be
17 served on the Applicant as follows:

18
19 The Applicant:

20 Niagara West Transformation Corporation
21 231 Roberts Rd.,
22 Grimsby ON L3M 5N2
23 Attention: Karen Bubish
24 Vice President Administration

25
26 905-563-6452 after November 15, 2010 727-559-1696
27 Karen.bubish@live.com
28

29 DATED at Grimsby, Ontario, this 9th day of November, 2010.

30
31 NIAGARA WEST TRANSFORMATION CORPORATION

32
33
34 _____
35 Karen Bubish
Vice President Administration

Summary of the Application

This transmission transformation connection rate application filed by NWTC is based on a 2011 test year. For the 2011 test year, NWTC is requesting for the first time that the proposed based revenue requirement of \$838,672 be included in the calculation of the Provincial Uniform Transmission Transformation Connection Rate effective March 1, 2011. As shown in the Rate Design section of this application, the approval of NWTCs revenue requirement will have no impact on the Provincial Uniform Transmission Transformation Connection Rate. From using the calculation outlined in the application by Great Lakes Power Transmission LP for 2011 and 2012 Transmission Rates (EB-2010-0291), the proposed Provincial Uniform Transmission Transformation Connection Rate of \$1.73 per kW will not change whether NWTC is included in the calculation or not.

In order to understand the purpose of this application the following discussion outlines the regulatory history surrounding NWTC. Appendix A provides the most recent Board Order and Decision (RP-2004-0139; EB-2004-0219) for NWTC. In the Order and Decision it outlines that on March 5, 2004, NWTC made an application to the Board for an electricity transmission license and the setting of rates related to a newly constructed transformer station.

Included with the Application were letters from the Minister of Energy dated June 20, 2003 and September 29, 2003, which provided approval for the rates setting Application to be made to the Board as required by section 79.6 of the Ontario Energy Board Act, 1998. In his letter of September 29, 2003, the Minister attached certain conditions to his approval.

The Board approved, among other items consistent with the conditions of the Minister, that NWTC be authorized to collect \$1.50/kW for the transformation service provided by the transformer station incremental to the existing load service provided by Hydro One Networks, effective March 12, 2004. The rate was authorized on an interim basis, pending the Board's final determination of the true cost of the service.

The Board also approved an Electricity Transmission License for NWTC and a copy of the license is outlined in Appendix B.

1 The purpose of this application is to provide the Board with information on the true cost of the
2 service which along with a proposed load forecast to be included in the calculation of the
3 Provincial Uniform Transmission Transformation Connection Rate.

4 NWTC proposes that the true cost of service in 2011 is \$841,192 and after revenue offsets of
5 \$2,520, the 2011 base revenue requirement is \$838,672. This assumes a rate base \$6,278,960
6 which reflects the depreciated value of the original cost of the transformer station owned by
7 NWTC plus a working capital allowance. No additional capital is assumed in this application.
8 The 2011 operation and administration forecast is \$210,900.

9 The annual depreciation of the transformer station is \$180,794 and no PILs are assumed in this
10 application for 2011 since NWTC has previous losses carried available to offset the 2011 PILs
11 requirement.

12 The 2011 load forecast for NWTC is 432,175 kW based on the average of the actual usage from
13 2007 to 2009.

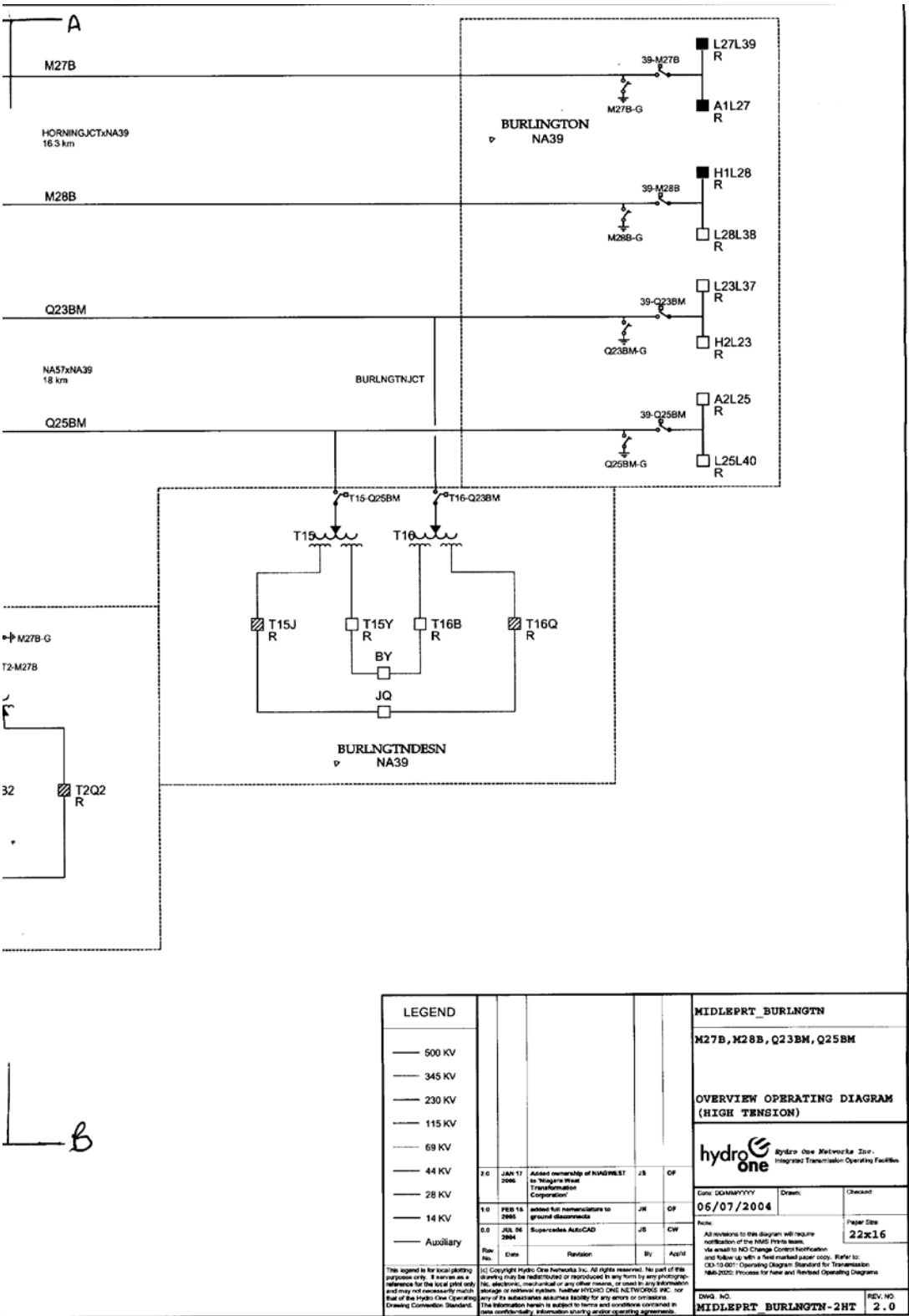
14

Description of Utility Operations

NWTC's transformer station, which is shown on the system map provided below is located in the Township of West Lincoln and consists of :

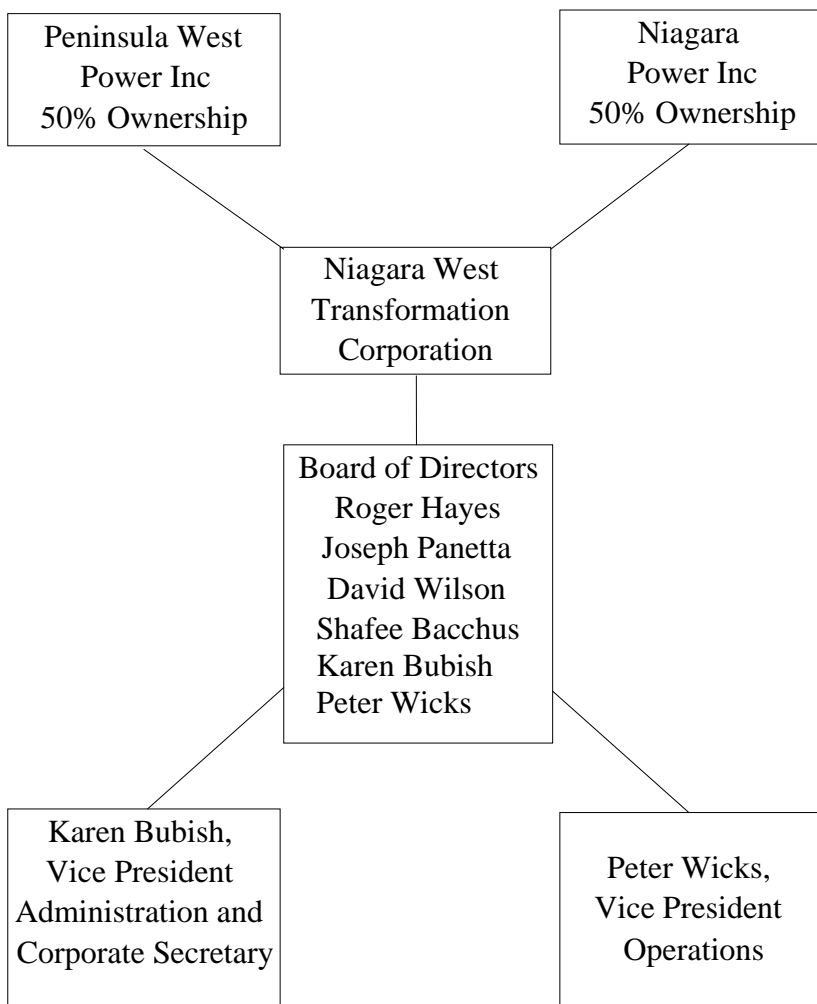
- A transformer station with connection to Hydro One Networks Inc. and
- Transmission Lines Q23BM and Q25BM to supply power to the two local distribution companies, Grimsby Power and Niagara Peninsula Energy Inc. located at 3021 Regional Road # 12, Grassie, Ontario





Corporate and Utility Organization

NWTC current corporate and utility structure is present in the following chart



Budget Overview

In the budget process for operating and administration (O&A) expenses NWTC has had very few changes since inception. NWTC does not have any employees and operates under two service agreements. One with Rondar Inc.(a five year agreement) and the other with Niagara Peninsula Energy Inc.

The Vice President of Operations confirmed the budgeted maintenance expenditures, based on prior year and future service agreements, to allow for the continued safe and reliable operation of the transmission system.

To ensure the budgeted O&A expenditures for the 2011 test years would provide sufficient funding, NWTC confirmed the budgeted O&A expenditures for the 2011 test year with staff from both service agreements via a bottom-up approach. NWTC 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. To confirm budgeted maintenance expenditures for the 2011 test year, NWTC used the information gathered through inspections, testing and asset condition assessments. All directors were involved in the process and approved the results at a regular board meeting in a resolution that was approved by all.

Schedule of Revenue Deficiency

The following Table 1 outlines NWTC's 2011 proposed revenue requirement and resulting revenue deficiency when the proposed revenue requirement is compared to revenue at existing rates.

Table 1
2011 Revenue Requirement and Revenue Deficiency

O&A Expenses	\$210,900
Amortization Expenses	\$180,794
Regulated Return On Capital	\$449,498
PILs	\$0
Service Revenue Requirement	\$841,192
Revenue Offset	(\$2,520)
Base Revenue Requirement	\$838,672
Revenue @ Existing Rates	\$648,262
Revenue Deficiency	\$190,410

The current NWTC transformation connection rate of \$1.50 per kW was established in March 2005 and was set at the time equal to the Hydro One rate for transmission transformation connection service. As a result, NWTC did not have a cost structure to support the 1.50 per kW. Without a cost structure for the existing rate it is difficult to evaluate the reasons for the revenue deficiency resulting from the proposed revenue requirement. However, NWTC believes that approval of this application and the resulting revenue requirement will allow it to earn a rate of return on rate base that is consistent with other transmitters in the province.

NWTC has completed the Board's Revenue Requirement Workform which provides additional information associated with the calculation of revenue requirement outlined above. The Revenue Requirement Workform has been filed as part of this application as a separate electronic file.

Financial Statement

The audited financial statements for 2007 to 2009 are provided in Appendix C. The following outlines the Pro Forma Financial Statement for 2010 and 2011. For 2011 revenue is assumed to be revenue at existing rates.

Pro Forma Statements		
	2010	2011
Balance Sheet		
Assets		
Current Assets	\$386,520	\$452,402
Accounts receivable	\$57,715	\$57,715
Prepaid expenses	\$0	\$0
Property and equipment	\$6,337,722	\$6,156,928
Total assets	\$6,781,957	\$6,667,045
Liabilities		
Accounts payable	\$261,041	\$261,041
Current portion of term loan	\$198,000	\$214,000
Term loan	\$4,818,000	\$4,604,000
Future PILs	\$174,000	\$174,000
Equity	\$1,330,916	\$1,414,004
Total liabilities	\$6,781,957	\$6,667,045
Income Statement		
Revenue		
Transformer connection charges	\$641,313	\$648,262
Other Revenue	\$2,920	\$2,520
Total	\$644,233	\$650,782
Expenses		
Administration	\$211,175	\$210,900
Depreciation	\$180,794	\$180,794
Interest	\$120,100	\$121,000
Total	\$512,069	\$512,694
Income	\$132,164	\$138,088
Future PILs	\$55,000	\$55,000
Net Income	\$77,164	\$83,088

Rate Base

As indicated in the Table 2 below, NWTC's rate base for 2011 has been forecasted to be \$6,278,960. Rate base is calculated as the total of the average of the 2011 opening and closing net fixed assets and an allowance for working capital. The working capital allowance is 15% of controllable expenses

NWTC has provided a summary of its rate base calculations for the actual years 2007 to 2009, 2010 Bridge Year and 2011 Test Year in the Table 2 below

Table 2
Summary of NWTC's Rate Base

Description	2007 Actual	2008 Actual	2009 Actual	2010 Test	2011 Test
Gross Fixed Assets	7,626,628	7,626,628	7,626,628	7,626,628	7,626,628
Accumulated Depreciation	746,524	927,318	1,108,112	1,288,906	1,469,700
Net Book Value	6,880,104	6,699,310	6,518,516	6,337,722	6,156,928
Average Net Book Value	6,970,501	6,789,707	6,608,913	6,428,119	6,247,325
Working Capital	133,627	220,667	131,686	211,175	210,900
Working Capital Allowance	20,044	33,100	19,753	31,676	31,635
Rate Base	6,990,545	6,822,807	6,628,666	6,459,795	6,278,960

The proposed 2011 rate base reflects the NWTC depreciated assets that were put in service on January 31, 2004 plus a 15% working capital allowance on the O&A expenses explained under the Operating Costs section. Since the original facilities were put into service no additional capital expenditures have occurred or are planned to occur in the test year.

The following Table 3 outlines the fixed asset continuity statement which supports the fixed asset information in Table 2.

Table 3
NWTC Fixed Continuity Statement

	Gross Cost			Accumulated Depreciation			
	Opening Balance	Additions	Closing Balance	Opening Balance	Additions	Closing Balance	Net Book Value
2007							
Land	149,992		149,992	0	0	0	149,992
Buildings and Fixtures	1,224,419		1,224,419	76,292	21,662	97,954	1,126,465
Transformer Station & Equipment	6,252,217		6,252,217	489,438	159,132	648,570	5,603,647
Total	7,626,628	0	7,626,628	565,730	180,794	746,524	6,880,104
2008							
Land	149,992		149,992	0	0	0	149,992
Buildings and Fixtures	1,224,419		1,224,419	97,954	21,662	119,616	1,104,803
Transformer Station & Equipment	6,252,217		6,252,217	648,570	159,132	807,702	5,444,515
Total	7,626,628	0	7,626,628	746,524	180,794	927,318	6,699,310
2009							
Land	149,992		149,992	0	0	0	149,992
Buildings and Fixtures	1,224,419		1,224,419	119,616	21,662	141,278	1,083,141
Transformer Station & Equipment	6,252,217		6,252,217	807,702	159,132	966,834	5,285,383
Total	7,626,628	0	7,626,628	927,318	180,794	1,108,112	6,518,516
2010							
Land	149,992		149,992	0	0	0	149,992
Buildings and Fixtures	1,224,419		1,224,419	141,278	21,662	162,940	1,061,479
Transformer Station & Equipment	6,252,217		6,252,217	966,834	159,132	1,125,966	5,126,251
Total	7,626,628	0	7,626,628	1,108,112	180,794	1,288,906	6,337,722
2011							
Land	149,992		149,992	0	0	0	149,992
Buildings and Fixtures	1,224,419		1,224,419	162,940	21,662	184,602	1,039,817
Transformer Station & Equipment	6,252,217		6,252,217	1,125,966	159,132	1,285,098	4,967,119
Total	7,626,628	0	7,626,628	1,288,906	180,794	1,469,700	6,156,928

Load Forecast

Table 4 shown below outlines the proposed 2011 load forecast for this application for the customers of NWTC. The proposed 2011 load forecast reflects the average of the actual years 2007 to 2009. The 2010 budget reflects a 1% growth rate over 2009 actual. Currently, the 2010 actual year to date (i.e January to August) results are tracking about 6% over the same period for 2009. However, the Minister of Energy and Infrastructure issued a directive, dated March 31, 2010, to the Board with regards to electricity conservation and demand management (“CDM”) targets to be met by licensed electricity distributors. In accordance with the Directive, the Board is required to amend certain electricity distributors’ licences to include a requirement to achieve reductions in electricity consumption and reductions in peak provincial electricity demand by the amounts specified by the Board, through the delivery of CDM programs, over a four year period beginning January 1, 2011. As a result, NWTC believes the expected actual 2010 level of usage is not sustainable in 2011 since Grimsby Power Inc. and Niagara Peninsula Energy Inc. will need to begin implementing additional CDM programs to achieve the required CDM targets. NWTC submits it is reasonable to base the load forecast of for the 2011 test year based on the average actual usage from 2007 to 2009.

Table 4
NWTC Load Forecast

kWs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Forecast
Grimsby Power Inc	255,774	251,702	246,436	248,612	251,306
Niagara Peninsula Energy Inc.	184,085	181,590	176,938	178,930	180,869
Total	439,859	433,292	423,374	427,542	432,175

Operating Revenue

Table 5 provides the NWTC operating revenue from 2007 actual to 2011 revenue at existing rates.

Table 5
NWTC Operating Revenue

	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Revenue at Existing Rate
Transformer Connection Charges	659,789	649,937	634,964	641,313	648,262
Interest Income	11,247	10,733	1,865	2,400	2,000
Rental Income	520	-	1,560	520	520
Total	671,556	660,670	638,380	644,233	650,782

NWTC's current transformation connection charge of \$1.50 per kW has not changed since it was approved in March 2005. The revenue for transformer connection charges is the \$1.50 per kW applied to the total annual kW's shown above in the NWTC load forecast table.

The interest income revenue represent income from a bank account of anywhere from \$150,000. to \$250,000. based on the bank interest rates at the time. Interest rates were much higher in 2007 and 2008, and in 2009 the bank balance was lower due to the fire expenses that were paid until the insurance money was recovered. The rental income revenue represents charges for renting land outside the perimeter of the station at \$520. annually. In 2009 the figure reflects 3 years rent 2007 – 2009 and the 2007 rental income was received in 2007 for 2006.

Operating Costs

Table 6 outlines by category the operating and administration expenses for 2007 actual to 2011 forecast. The 2011 O&A expense forecast is included in the proposed 2011 revenue requirement.

Table 6
NWTC Operating Costs

<u>Administration</u>	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Forecast
Bell Canada Circuit Charges	27,723	30,485	33,604	33,604	33,604
Bell Canada Land Line	895	993	1,114	1,114	1,200
Rogers Wireless	190	108	170	200	200
Directors Fees	14,200	14,200	13,400	15,300	15,300
Audit Fees	13,870	10,488	8,250	8,240	9,000
Legal Fees	12,298	1,143	2,000	5,500	2,000
Bookkeeping Services	2,897	3,200	5,417	6,000	6,000
Insurance	30,349	31,107	28,752	58,500	60,000
Regulatory Fees	2,903	2,341	2,527	2,527	2,527
Property Taxes	905	917	1,023	1,100	1,100
Total Administration Expenses	106,231	94,981	96,257	132,085	131,081
<u>Operating</u>					
Regular Maintenance (Rondar)	6,027	10,599	66,304	7,686	25,917
Maint of Transfer Station	2,869	15,255	12,015		
Maint of Transfer Station Equip		56,111	12,884		
Services (NPEI)		3,202		12,100	12,100
Monitoring (Hydro One)	12,000	26,932	24,563	27,262	27,262
Pestec				460	460
Grass Cutting	1,500	2,431	2,995	1,800	1,800
Battery Charger/Inv. Upgrade				1,500	
Building Alarm				8,000	
Fire Alarm Maintenance				280	280
Feeder Relay / Testing				3,580	
Battery Cell Replacement				955	
Filing Cabinets				650	
NPEI on site work				6,000	6,000
Ground Switch Fix (Rondar)				2,817	
Recovery of Fire Expense (Ins)			-117,507		
Station Issues (Peter Wicks)	5,000	11,156	34,175	6,000	6,000
Total Operating Expenses	27,396	125,686	35,429	79,090	79,819
Total Operating & Admin Expenses	133,627	220,667	131,686	211,175	210,900

1 The Bell Canada Circuit Charges covers the costs of all electronic circuits used for the connections to
2 Hydro One and NPEI Operation centres. The Bell Canada Land Line costs are for the regular telephone
3 service. Cost associated with Rogers Wireless are for the pager linked to the security system for
4 monitoring the alarm system for the station.

5
6 Directors Fees are based on paying \$200 per director per month plus \$150. per meeting for recording
7 secretary. However fees are not paid for missed meetings. In 2009 there were a number of missed
8 meetings by directors. The increase between 2010 and 2011 is due to the fact that full attendance at
9 meetings is expected compared to 2009.

10
11 The Audit Fees reflect the cost of conducting the annual audit and preparing the audited financial
12 statements. Legal Fess are paid to Caswell and Watson for services for the Annual General
13 Meetings and for legal aid for the fire in 2008. The increase in 2010 was due to an outstanding
14 invoice from 2009 regarding the fire. Regarding Bookkeeping Services, a bookkeeping service
15 was obtained in March 2010. In prior years a director was paid at a much lower cost, however it
16 was a board decision that an outside service was required for continuity and more timely
17 financial statements.

18
19 Insurance for liability is with MEARIE and due to a difficult year from claims in general
20 insurance, not just our claim for the fire, and aging assets, on average most property subscribers
21 saw a 100% increase in premiums.

22
23 Regulatory Fees are assessment fees from the OEB and Property Taxes are paid to the Township
24 of West Lincoln for the property where the transformer station is located.

25
26 The Regular Maintenance (Rondar) reduction is due to the fact NWTC now has a service
27 agreement with Rondar. In 2009 there were maintenance costs that were recovered by fire
28 insurance and with the onset of the service agreement the 5 year agreement fluctuates depending

1 on the type of maintenance required in any certain year. ie.

YEAR 1 - Price: (Regular Hours - Monday to Friday).....\$ 25,564.00
(Scope of Work: I, II, III, IV, V, VI, VII, (VIII, IX - Bus A) and X

YEAR 2 - Price: (Regular Hours - Monday to Friday).....\$ 3,787.00
(Scope of Work: I, II, III and V)

YEAR 3 - Price: (Regular Hours - Monday to Friday).....\$ 25,917.00
(Scope of Work: I, II, III, IV, V, VI, VII, (VIII, IX - Bus B) and X

YEAR 4 - Price: (Regular Hours - Monday to Friday).....\$ 3,890.00
(Scope of Work: I, II, III and V)

YEAR 5 - Price: (Regular Hours - Monday to Friday).....\$ 3,938.00
(Scope of Work: I, II, III and V)

2

3 The Maintenance of Transfer Station account would contain anything that was not equipment
4 related such as replacing stone in the yard, grass cutting, pest control etc., and one time costs
5 due to fire at the station, which were recovered through insurance. The Maintenance of
6 Transformer Station Equipment was used to capture one time costs due to fire at the station.

7

8 The Services (NPEI) provided in 2008 were on an hourly basis. A new service agreement with
9 Niagara Peninsula Energy Inc. was signed at the end of 2009. These costs are new to NWTC
10 and reflect charges for looking after the day to day or month to month station items that were
11 previously not addressed. The fire that occurred in April 2008, brought to light many items that
12 needed addressing, even though the equipment that was installed was faulty and it was nothing to
13 do with day to day items.

14

15 At approximately 2:00pm on April 17, 2008, one of the 230 kV primary metering transformers at
16 the NWTC transformer station on Mountain Rd., in Grimsby caught fire and was destroyed.
17 Mineral oil contained within the transformer dispersed all over the structure, equipment and on
18 the station ground below. The resulting oil fire caused substantial damage to the 230 kV
19 isolating disconnects, the pole closest to the metering unit and corresponding insulators, drive
20 mechanism, disconnect mechanism, metering cabinet and stand-off insulator on the line side

1 centre phase. It appears that there was some additional damage to the adjacent metering
2 transformer.

3
4 Following the incident, Hydro One isolated half of the substation, which was then de-energized
5 so the cause of the incident could be investigated and repair work could commence. The
6 remaining half of the substation was still energized and we were able to continue providing
7 power required by our customers.

8
9 MEARIE was notified of the situation and Arcon Engineering Consultants were assigned to the
10 claim. Trench Limited (as manufacturer of the transformers) was also notified.

11
12 Badger was called in to pump the dispersed oil out of the gravel and ground around the fire area
13 in an effort to contain the spill, with additional work to be done to remove the remaining oil.

14
15 Trench the manufacturer of the transformers, issued a Safety Advisory on April 29, 2008 ,
16 recommending the safety of personnel and all that come in close proximity to the Instrument
17 Transformers. They also advised NWTC that known metering units manufactured between
18 January 1, 1998 and February 15, 2008 had experienced an abnormal in service failure rate.

19
20 Arcon Engineering issued a report indicating that the five year old transformer requiring oil
21 processing for water and particle contamination would, in itself, suggest that there was
22 something inherently wrong with the transformer.

23
24 Associated expenses for clean up, repairs and replacements totaled \$359,401.70 and was
25 reimbursed to NWTC through insurance coverage over the period of August 2008 to October 15,
26 2009 less the \$10,000 deductible.

27
28 The monitoring through Hydro One for the station (all alarms, outages, overloads, etc.) go
29 through Hydro One at Barrie. The increase between 2007 and 2008 reflected higher charges from
30 Hydro One for the monitoring service. In 2008 NWTC was over charged which caused the 2009

1 costs to be a small amount lower. For 2010 and 2011 the projected costs reflect the expected
2 charges from Hydro One for the service.

3
4 Pestec is a new service providing the control of flies, bees and other insects. The Grass Cutting
5 service cost decreased due to a new company that was hired.

6
7 The NPEI agreement covers items that require inspection on a monthly or weekly basis, if there
8 is an extra expense over and above the agreed upon service agreement it is invoiced to NWTC at
9 the cost of the repair.

10
11 The Recovery of Fire Expense account was money received from MEARIE insurance due to the
12 fire at the station.

13
14 With the Station Issues which occurred in 2008/2009, Peter Wicks took on the role as VP of
15 Operations to be a point person for all technical and service personal, as well as the contact
16 person for Hydro One. The 2009 expense reflected the fire, 2010 and 2011 expenses are
17 projected at the normal level of expense for operational duties.

18
19 With regards to depreciation, NWTC has two asset classes that are depreciated. Buildings and
20 Fixtures are assumed to have an economic life of 55 years. Transformer Station & Equipment
21 are assumed to have economic life of 40 years. The resulting annual depreciation is \$180,794

22
23 Regarding PILs, NWTC has over \$500,000 in loss carried forwards from previous years which
24 means NWTC will not be paying PILs in the 2011 test year.

25
26

Cost of Capital

The following outlines the method and cost of financing NWTC's rate base for the 2011 test year. NWTC 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)

NWTC'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.

NWTC is requesting a return on equity ("ROE") for the 2011 Test year of 9.85% in accordance with the Cost of Capital Parameter Updates for 2010 Cost of Service Applications issued by the Board on February 24, 2010. NWTC understands that the Board will be finalizing the ROE for 2011 rates based on January 2011 market interest rate information. The updated ROE should be applied for the purposes of determining NWTC's approved revenue requirement.

In similar manner, NWTC is requesting a return on short term debt for the 2011 Test year of 2.07% in accordance with the Cost of Capital Parameter Updates for 2010 Cost of Service Applications issued by the OEB on February 24, 2010. NWTC understands that the Board will be finalizing the return on short term debt for 2011 rates based on January 2011 market interest rate information. The updated return on short term debt should be applied for the purposes of determining NWTC's approved revenue requirement.

With regards to rate of return of long term debt NWTC proposes to use a rate of return of 5.6%. NWTC has a variable rate term loan issued as bankers acceptances and is due March 9, 2012. The loan is held with the Toronto Dominion Bank. The loan is secured by a general security agreement, assignment of fire Insurance and guarantees by Niagara Power Inc. and Peninsula West Power Inc. in the amount of \$6,500,000. NWTC has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.60% until January 31, 2025. NWTC annually repays a portion of the principal and the outstanding principal

1 as of December 31, 2009 was \$5,016,000. The following provides the most current
2 documentation on the loan.



*Niagara Region Commercial Centre
46 King Street
St. Catharines, Ontario L2R 3J4
Telephone (905) 685-7942
FAX (905) 685-7053*

Niagara West Transformation Corporation
C/o 28 Lake Street
Grimsby, Ontario
L3M 2G7

August 31, 2010

Attention: Karen Bush

Dear Karen:

Re: Bankers' Acceptance

We confirm the booking of the following Bankers' Acceptance transaction.

Term Loan:

Value Date	August 31, 2010
Amount:	\$5,087,000.00
Maturity:	September 30, 2010
Term:	30 days
Alt-In rate:	.98667% + plus fee 0.75%* = \$ 7,227.77
Interest Paid:	\$ 4,104.27
Net Proceeds:	\$ 5,082,895.73
	to be charged directly to account.

Yours truly,

for

David Drosky
Relationship Manager, Niagara Region
Direct Line (905) 685-7031

The following outlines the proposed rate of return on rate base with the rates of return discussed above.

Table 7**NWTC Return on Rate Base**

Financing Component	Capitalization	Rate of Return	Component Cost
Equity	40%	9.85%	3.94%
Short Term Debt	4%	2.07%	0.08%
Long Term Debt	56%	5.60%	3.14%
Total			7.16%

Cost Allocation

NWTC's approved revenue requirement will be allocated completed to the Uniform Transmission Transformation Connection Rate pool since NWTC only has assets associated with a transformer which provides service at voltage greater than 50 kV.

Rate Design

For the purposes of the evidence of this section, NWTC has extracted information from the Application by Great Lakes Power Transmission LP for 2011 and 2012 Transmission Rates (EB-2010-0291). In Exhibit 8, Tab 2, Schedule 1, Page 3 of 9, Table 8 2-1 A, titled Proposed 2011 Uniform Transmission Rates there is information provided on revenue requirement, total annual charge determinants and the resulting Uniform Transmission Rate for each Uniform Transmission Rate pool for 2011. NWTC has extracted the information that relates only to the Uniform Transmission Transformation Connection Rate pool and calculated the Uniform Transmission Transformation Connection Rate assuming NWTC is included or not included in the pool. As shown in Table 8 on the following page including NWTC in the Uniform Transmission Transformation Connection Rate pool has no impact on the Uniform Transmission Transformation Connection Rate.


Table 8

Uniform Transmission Transformation Connection Rate Analysis.

Transmitter	Transformation Connection Revenue Requirement w/o NWTC	Transformation Connection Revenue Requirement w/ NWTC
FNEI	\$1,451,088	\$1,451,088
CNPI	\$1,292,596	\$1,292,596
GLPT	\$9,872,334	\$9,872,334
H1N	\$340,941,000	\$340,941,000
NWTC		\$838,672
All Transmitters	\$353,557,018	\$354,395,690
Transmitter	Transformation Connection Total Annual Charge Determinants (MW) w/o NWTC	Transformation Connection Total Annual Charge Determinants (MW) w/ NWTC
FNEI	44.915	44.915
CNPI	668.600	668.600
GLPT	985.415	985.415
H1N	202,860.490	202,860.490
NWTC		432.175
All Transmitters	204,559.420	204,991.573
Proposed 2011 Uniform Transmission Transformation Connection Rate (\$/kW)	1.73	1.73

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Appendix A: Board Orders

Ontario Energy Board	Commission de l'Énergie de l'Ontario	
RP-2004-0139 EB-2004-0219		
<p>IN THE MATTER OF an Application under section 78 the <i>Ontario Energy Board Act, 1998</i>, S.O. 1998, c.15 (Sched. B)</p> <p>BEFORE: Paul Sommerville Presiding Member</p> <p>Bob Betts Member</p> <p>DECISION AND ORDER</p> <p>Particulars of The Proceeding</p> <p>On March 5, 2004, the Niagara West Transformation Corporation ("NWTC") made an application (the "Application") to the Ontario Energy Board (the "Board") for an electricity transmission licence and the setting of rates related to a newly constructed transformer station "Niagara West MTS" (the "transformer station"). On September 30, 2004, the Board granted NWTC a three-year electricity transmission licence ET-2004-0218. The Board also assigned file number RP-2004-0139/EB-2004-0219 to the rates setting part of the Application.</p> <p>Included with the Application were letters from the Minister of Energy dated June 20, 2003 and September 29, 2003, which provided approval for the rates setting Application to be made to the Board as required by section 79.6 of the <i>Ontario Energy Board Act, 1998</i>. In his letter of September 29, 2003, the Minister attached certain conditions to his approval. These conditions are:</p> <ul style="list-style-type: none">• Niagara West Transformation Corporation can only collect transformation-related costs associated with service that is <i>incremental</i> to that being provided by Hydro One Networks in servicing Grimsby Power's and Peninsula West Utilities' customers		

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- Niagara West Transformation Corporation shall engage in an annual or semi-annual true-up with Hydro One Networks to ensure that Niagara West Transformation Corporation collects only for incremental transformation connection service;
- Until the Board has determined the true cost of this service, Niagara West Transformation Corporation shall collect \$1.5/kW for transformation connection service from the date on which the transformer station comes into service.

The Board reviewed the Application and, in particular, the definition of incremental load as provided by NWTC.

The Board notes that there are two separate Connection and Cost Recovery Agreements, one agreement between Hydro One Networks and Grimsby Power Inc. dated January 29, 2004 and the other agreement between Hydro One Networks and Peninsula West Utilities Limited dated February 25, 2003. The base load for the purpose of determining the incremental transformation connection service is defined as the load above Base Load Trigger Point:

- For Grimsby, the Base Load Trigger Point is 19,274 MW; and
- For Peninsula West, the Base Load Trigger Point is 42,256 MW

The base loads were confirmed by Hydro One Networks in a January 25, 2005 letter to the Board and by NWTC in correspondence of February 24, 2005.

Board Findings

The Board finds that approval of NWTC's Application is in the public interest. The transformer station will help address a concern that existing Hydro One facilities have been overloaded and the station will improve transmission and distribution system reliability in serving Grimsby Power's and Peninsula West Utilities' customers. In addition, the transformer station will accommodate local growth in demand. The Board notes that the load service provided by the transformer station is incremental to the existing load service provided by Hydro One Networks. The granting of this rate to NWTC represents a transfer of income from Hydro One Networks to the new transformer owner for incremental load, so there will be no negative rate impact on ratepayers.

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Ontario Energy Board

Based on the evidence filed, the Board finds that no person will be adversely affected in a material way by the outcome of this proceeding, and therefore has disposed of this matter without a hearing.

THE BOARD ORDERS THAT:

1. Niagara West Transformation Corporation is authorized to collect \$1.50/kW for the transformation service provided by the transformer station incremental to the existing load service provided by Hydro One Networks, effective March 12, 2004. The rate is authorized on an interim basis, pending the Board's final determination of the true cost of the service.
2. Niagara West Transformation Corporation shall establish accounts to record the income from the transformer station and the cost of providing the transformation service. Niagara West Transformation Corporation shall provide to the Board the accounts to be used and the proposed accounting treatment as soon as possible.
3. Niagara West Transformation Corporation shall provide an annual statement to the Board, with a copy provided to Hydro One Networks, indicating that the amounts recorded represent payment for incremental transformation load only.

ISSUED at Toronto, March 28, 2005.

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary

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Appendix B: NWTC Electricity Transmission Licence




Electricity Transmission Licence

ET-2007-0780

Niagara West Transformation Corporation

Valid Until

February 18, 2011


Jennifer Lea
Counsel, Special Projects
Ontario Energy Board
Date of Issuance: February 19, 2008

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
27^e étage
Toronto ON M4P 1E4

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Niagara West Transformation Corporation Electricity Transmission Licence ET-2007-0780	
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Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

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, 1999*, S.O. 1998, c. 15, Schedule A;

"Licensee" means Niagara West Transformation Corporation

"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.

Niagara West Transformation Corporation
 Electricity Transmission Licence ET-2007-0780

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Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

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

Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

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

Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

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.

Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

15 Term of Licence

- 15.1 This Licence shall take effect on February 19, 2008 and expire on February 18, 2011. 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.

Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

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. A transformer station and connection to Hydro One Networks Inc. transmission lines Q23 and Q25 to supply electricity to the former Peninsula West Utilities Limited (now known as Niagara Peninsula Energy Inc.) and Grimsby service areas, located at 3021 Regional Road #12, Grassie, Ontario.

Niagara West Transformation Corporation
Electricity Transmission Licence ET-2007-0780

SCHEDULE 2 LIST OF CODE EXEMPTIONS

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

N/A

1 **Appendix C: Audited Financial Statements - Historical (2007 to 2009)**

Financial Statements of

NIAGARA WEST TRANSFORMATION CORPORATION

Year ended December 31, 2007

NIAGARA WEST TRANSFORMATION CORPORATION

Financial Statements

Year ended December 31, 2007

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St. Catharines ON L2R 7A7

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AUDITORS' REPORT

To the Shareholders of Niagara West Transformation Corporation

We have audited the balance sheet of Niagara West Transformation Corporation as at December 31, 2007 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

St. Catharines, Canada
March 14, 2008

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss entity. KPMG International provides no assurance to KPMG LLP.

	2007	2006
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 451,118	\$ 87,743
Term loan (note 5)	5,571,000	5,732,000
Future payment in lieu of taxes	297,000	397,000
Shareholders' equity:		
Capital stock:		
Authorized:		
Unlimited number of common shares		
Unlimited number of Class "A" shares, non-voting,		
redeemable at the option of the corporation for		
\$10,000 per share		
Issued:		
100 common shares	100	100
240 Class "A" shares, non-voting	2,400,000	2,400,000
Deficit	(1,397,519)	(1,060,633)
	1,002,681	1,339,467
	<u>\$ 7,321,699</u>	<u>\$ 7,556,210</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

NIAGARA WEST TRANSFORMATION CORPORATION

Statement of Earnings and Deficit

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Transformer connection charge	\$ 659,789	\$ 558,210
Other revenue	11,767	15,060
	671,556	573,270
Expenses:		
Administration	133,627	102,489
Depreciation	180,793	180,794
Interest expense	272,255	380,329
	586,675	673,592
Earnings (loss) before payment in lieu of taxes	84,881	(100,322)
Payment in lieu of taxes:		
Current	-	19,000
Future (reduction)	(100,000)	(17,000)
	(100,000)	2,000
Net earnings (loss)	184,881	(102,322)
Deficit, beginning of year, as previously reported	(1,060,633)	(958,311)
Unrecognized loss on interest rate swap at beginning of year (note 2)	(521,767)	-
As restated	(1,582,400)	(958,311)
Deficit, end of year	\$ (1,397,519)	\$ (1,060,633)

See accompanying notes to financial statements.

NIAGARA WEST TRANSFORMATION CORPORATION

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 184,881	\$ (102,322)
Items not involving cash:		
Depreciation	180,793	180,794
Future payment in lieu of taxes (reduction)	(100,000)	(17,000)
Change in fair value of Interest rate swap	(87,862)	-
Change in non-cash operating working capital:		
Accounts receivable	70,420	(45,584)
Prepaid expenses	(2,659)	941
Payment in lieu of taxes receivable	4,770	481,782
Accounts payable and accrued liabilities	(70,530)	(20,056)
	179,803	478,555
Financing:		
Repayment of term loan	(161,000)	(150,000)
Increase in cash	18,803	328,555
Cash, beginning of year	355,089	26,534
Cash, end of year	\$ 373,892	\$ 355,089

See accompanying notes to financial statements.

NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

Niagara West Transformation Corporation (the "Corporation") was incorporated under the Business Corporations Act. The Corporation provides hydro transformation services to the subsidiaries of its shareholders; Peninsula West Utilities Ltd. and Grimsby Power Inc.

1. Significant accounting policies:

(a) Revenue recognition:

The Corporation records revenue from the transformation of electricity on the basis of peak demand for the month. Revenue is recognized when the peak demand has occurred.

(b) Property and equipment:

Property and equipment are stated at cost. Depreciation is provided over the estimated life of the assets on a straight-line basis as follows:

Asset	Rate
Building and structures	50 years
Equipment	40 years

The Corporation assesses the carrying amount of long-lived assets initially based on the net recoverable amounts determined on an undiscounted cash flow basis. If the carrying amount of an asset exceeds its net recoverable amount, an impairment loss is recognized to the extent that fair value is below the asset's carrying amount. Fair value is determined based on quoted market prices when available, otherwise on the discounted cash flows over the life of the asset.

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NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

1. Significant accounting policies (continued):

(c) Payments in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA"). Pursuant to the Electricity Act, 1998 (Ontario) ("EA"), the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario).

The Corporation applies the asset and liability method of accounting for payment in lieu of taxes. Under the asset and liability method, future tax assets and liabilities are recognized to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(d) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

Accounts receivable are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Amounts recorded for depreciation and amortization of equipment are based on estimates of useful service life.

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NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

2. Change in accounting policy:

Effective January 1, 2007, the Corporation adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 "Financial Instruments - recognition and Measurement". Under the new standard, all financial instruments are initially recorded on the balance sheet at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale", or "loans and receivables" and financial liabilities are classified as either "held-for trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of earnings and deficit. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized costs using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with the change in fair value recorded in shareholders' equity. Such gains or losses are reclassified to the statement of earnings and deficit when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivable
Accounts payable and accrued liabilities	Other liabilities
Interest rate swap	Held-for-trading
Term loan	Other liabilities

In the prior year, the Corporation designated its interest rate hedge agreement as hedges of the underlying debt. As a result of the implementation of the new CICA handbook sections, the interest rate swap has no longer been designated as a hedge for accounting purposes. The interest rate swap is recorded at fair value based on quoted market prices with changes in fair value recorded in interest expense.

The change in accounting policy is treated prospectively as required under the standard. The effect on the opening shareholders' equity at January 1, 2007 is \$(521,767).

NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

3. Rate regulation:

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformer connection fees that the Corporation charges. The OEB may also prescribe license requirements and conditions of service which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The Corporation has an interim rate order from the OEB establishing the connection fees which the Corporation is allowed to charge. The rate order is in effect until September 2007 at which time the Corporation may be subject to a rate application process. Historically, all transformers costs and connection fees in the province have been pooled, with the same rate in effect for all transformers in that pool.

4. Property and equipment:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 149,992	\$ -	\$ 149,992	\$ 149,992
Building and structures	1,224,419	97,954	1,126,465	1,148,126
Equipment	6,252,217	646,570	5,605,647	5,762,779
	<u>\$ 7,626,628</u>	<u>\$ 744,524</u>	<u>\$ 6,882,104</u>	<u>\$ 7,060,897</u>

NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

5. Term loan:

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, assignment of fire insurance and guarantees by the class A shareholders in the amount of \$6,500,000. The interest rate has been fixed at 5.60% through an interest rate swap contract.

The carrying value of the term loan approximates its fair value as the loan bears interest at current rates. The Corporation has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on amounts quoted by the Corporation's bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at December 31, 2007. At December 31, 2007, the interest rate swap agreement was in a net unfavourable position of \$433,905 (2006 - \$521,767 unrecorded net unfavourable position), which has been classified as held for trading under the new financial instrument standards. This unfavourable amount has been included in accounts payable and accrued liabilities. The current year impact of the change in the fair value of the interest rate swap included in the Statement of Earnings is a reduction of interest expense by \$87,862.

6. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE") which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Corporation was a member.

To December 31, 2007, the Corporation has not been made aware of any additional assessments.

Participation in MEARIE expires January 1, 2009. Notice to withdraw from MEARIE must be given six months prior to the commencement of the underwriting term.

NIAGARA WEST TRANSFORMATION CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

7. Transactions with related parties:

Related parties are the Corporation's shareholders, Peninsula West Power Inc., Niagara Power Inc., Peninsula West Utilities Limited and Grimsby Power Inc. and the subsidiaries of the shareholders, Peninsula West Services Ltd. and Grimsby Hydro Incorporated.

Included in accounts receivable are \$63,442 (2006 - \$133,862) owing from related parties.

The transformer connection charge of \$659,789 (2006 - \$558,210) is from two of the shareholders and is measured at the exchange amount.

Included in administration expense is \$1,750 (2006 - \$2,400) paid to one of the shareholders for bookkeeping services. The transaction has been measured at the exchange amount.

8. Financial instruments:

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items.

9. Supplementary cash flow information:

	2007	2006
Cash paid for:		
Interest	\$ 360,117	\$ 390,329
Cash received for PILs	4,770	462,782

Niagara West Transformation Corporation
Year End: December 31, 2007
Adjusting Journal Entries
Date: 1/1/2007 To 12/31/2007

G3

Prepared by RR 3/14/2008	Prepared by	Prepared by	Prepared by
Reviewed by	Reviewed by NW 4/22/2008	Reviewed by	Reviewed by JLA 4/15/2008

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit
1	12/31/2007	Payment in Lieu of Taxes	2225	855	-	100,000.00	
1	12/31/2007	Future Income Tax Expense	5610	855	-		100,000.00
		to record tax entry					
2	12/31/2007	Misc. Current & Accrued Liab	2220	NN6	-		433,905.00
2	12/31/2007	Unappropriated Retained Earnings	3100	NN6	-	521,767.00	
2	12/31/2007	Interest on Long Term Debt	5410	NN6	-		87,882.00
		To properly record the mark to market value of the interest rate swap in the current year and record the effect on retained earnings.					
						621,767.00	621,767.00
		Net Income (Loss)	184,881.01				

NIAGARA WEST TRANSFORMATION CORPORATION

Financial Statements
for the Year Ended December 31, 2009
and Auditors' Report to the Shareholders

DUNWARD JONES BARKWELL & COMPANY LLP Chartered Accountants

NIAGARA WEST TRANSFORMATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2009

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BURWARD JONES BARKWELL & COMPANY LLP Chartered Accountants



CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Niagara West Transformation Corporation:

We have audited the balance sheet of Niagara West Transformation Corporation as at December 31, 2009 and the statements of income and deficit and of cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

May 5, 2010

Big enough to know
SMALL ENOUGH TO CARE

BURLINGTON • FORT ERIE • GRIMSBY • HAMILTON • NIAGARA FALLS • ST. CATHARINES • STONEY CREEK • WELLAND

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NIAGARA WEST TRANSFORMATION CORPORATION

STATEMENT OF INCOME AND DEFICIT
YEAR ENDED DECEMBER 31, 2009

	2009	2008
REVENUE		
Transformer connection charges	\$ 634,964	\$ 649,937
Other revenue	3,405	10,733
	<u>638,369</u>	<u>660,670</u>
EXPENSES		
Administration	131,686	220,667
Depreciation	180,794	180,794
Interest	117,116	339,812
	<u>429,596</u>	<u>741,273</u>
INCOME (LOSS) BEFORE PAYMENT IN LIEU OF TAXES	<u>208,773</u>	<u>(80,603)</u>
FUTURE PAYMENT IN LIEU OF TAXES (RECOVERED) (Note 6)	<u>55,000</u>	<u>(178,000)</u>
NET INCOME	<u>153,773</u>	<u>97,397</u>
DEFICIT, BEGINNING OF YEAR	<u>(1,300,121)</u>	<u>(1,397,518)</u>
DEFICIT, END OF YEAR	<u>\$ (1,146,348)</u>	<u>\$ (1,300,121)</u>

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NIAGARA WEST TRANSFORMATION CORPORATION

BALANCE SHEET
DECEMBER 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash	\$ 326,468	\$ 296,512
Accounts receivable	57,715	67,914
Prepaid expenses	94	1,578
	384,277	366,004
Property and equipment (Note 3)	6,518,516	6,699,310
	\$ 6,902,793	\$ 7,065,314
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges (Note 4)	\$ 261,041	\$ 449,335
Current portion of term loan	198,000	183,000
	459,041	632,335
Term loan (Note 5)	5,016,000	5,214,000
Future payment in lieu of taxes (Note 6)	174,000	119,000
Commitments (Note 7)		
	5,849,041	5,965,335
SHAREHOLDERS' EQUITY		
Share capital		
<i>Authorized</i>		
Unlimited common shares		
Unlimited Class A special shares, non-voting, redeemable at \$10,000 per share		
<i>Issued</i>		
100 common shares	100	100
240 Class A special shares	2,400,000	2,400,000
	2,400,100	2,400,100
Deficit	(1,146,348)	(1,300,121)
	1,253,752	1,099,979
	\$ 6,902,793	\$ 7,065,314

Approved by the Board:

..... Director Director

DURWARD JONES BARNWELL & COMPANY LLP Chartered Accountants

NIAGARA WEST TRANSFORMATION CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 153,773	\$ 97,397
Items not affecting cash		
Depreciation	180,794	180,794
Change in unrealized difference on fair market value adjustment of interest rate swap	(216,929)	6,999
Future payment in lieu of taxes	55,000	(178,000)
	172,638	107,190
Changes in non-cash operating assets and liabilities		
Accounts receivable	10,199	(4,472)
Prepaid expenses	1,484	2,683
Accounts payable and accrued charges	28,635	(8,781)
	212,956	96,620
FINANCING ACTIVITY		
Repayment of term loan	(183,000)	(174,000)
INCREASE (DECREASE) IN CASH	29,956	(77,380)
CASH, BEGINNING OF YEAR	296,512	373,892
CASH, END OF YEAR	\$ 326,468	\$ 296,512

During the year, interest in the amount of \$334,045 (2008 - \$332,613) was paid.

NIAGARA WEST TRANSFORMATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Nature of business

The Company is subject to the provisions of the Ontario Business Corporations Act and provides hydro transformation services to Grimsby Power Inc. and Niagara Peninsula Energy Inc.

Property and equipment

Property and equipment are stated at cost. Depreciation is recorded on a straight-line basis over the estimated life of the assets as stated in Note 3. Depreciation is recorded at one half of the normal rates in the year of acquisition.

Revenue recognition

Revenue from the transformation of electricity is recorded on the basis of peak demand for the month and is recognized when the peak demand has occurred. Other revenue is recognized as earned.

Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the security granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transformer connection fees that the Company charges. The OEB may also prescribe license requirements and conditions of service which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

The Company has an interim rate order from the OEB establishing the connection fees which the Company is allowed to charge. The rate order was renewed effective February 19, 2008 and expires February 18, 2011, at which time, the Company may become subject to a rate application process. Historically, all transformers costs and connection fees in the province have been pooled, with the same rate in effect for all transformers in that pool.

Financial instruments

The Company has classified its financial instruments as follows:

Cash	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued charges	Other liabilities
Interest rate swap	Held-for-trading
Term loan	Other liabilities

Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of income or loss and deficit. At December 31, 2009, the Company reported a gain of \$218,929 as a result of the change in value of its interest rate swap which has been included in interest on long-term debt. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at amortized costs using the effective interest method.

NIAGARA WEST TRANSFORMATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect 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 results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as the determination of an impairment of long-lived assets, useful lives of building and equipment, fair market value of the interest rate swap, revenue recognition and future payment in lieu of taxes.

2. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2009, the Company adopted the provisions of CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosure about whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements. This section requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Company applied the new accounting standard at the beginning of its current fiscal year and its implementation resulted in additional disclosures in the financial statements but did not have an impact on the results of the operations or financial position.

3. PROPERTY AND EQUIPMENT

	Annual Depreciation Rates	2009			2008
		Assets at Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	-	\$ 149,992	\$ -	\$ 149,992	\$ 149,992
Building	S.L. 50 yrs.	1,224,419	146,931	1,077,488	1,101,977
Machinery and equipment	S.L. 40 yrs.	6,252,217	951,181	5,291,036	5,447,341
		\$ 7,626,628	\$ 1,108,112	\$ 6,518,516	\$ 6,699,310

4. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2009	2008
Accounts payable		
Trade	\$ 31,424	\$ 2,737
Goods and Services Tax	5,642	2,394
Unrealized difference on fair market value adjustment of interest rate swap	223,976	440,904
Accrued liabilities	-	3,300
	\$ 261,041	\$ 449,335

NIAGARA WEST TRANSFORMATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

5. TERM LOAN

The term loan is a variable rate loan issued as bankers acceptances and is due March 9, 2012. The loan is secured by a general security agreement, assignment of fire insurance and guarantees by Grimsby Power Inc. and Niagara Peninsula Energy Inc., related parties as described in Note 8, in the amount of \$6,500,000. The Company has entered into a swap transaction for the full amount of the debt, the effect of which is to fix the interest rate of the loan at 5.6% until January 31, 2025.

The fair value of the interest rate swap agreement is based on discounted future cash flows of amounts estimated by the Company's bank of the cost or benefit of the swap contracts until the end of the term of the loan. At December 31, 2009, the interest rate swap agreement was in a net unfavourable position of \$223,976 (2008 - \$440,804), which has been classified as held for trading. This unfavourable amount has been included in accounts payable and accrued charges as noted above. The current year impact of the change in the fair value of the interest rate swap amounted to \$216,929 and is included in interest on long-term debt expense.

	2009	2008
Term loan - as described above	\$ 5,214,000	\$ 5,397,000
Less principal due within one year	198,000	183,000
	<u>\$ 5,016,000</u>	<u>\$ 5,214,000</u>

The principal amounts due over the next five years assuming the term loan is renewed under similar terms and conditions are as follows:

2010	\$ 198,000
2011	214,000
2012	228,000
2013	246,000
2014	265,000
	<u>\$ 1,151,000</u>

6. FUTURE PAYMENT IN LIEU OF TAXES

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), the Company is required to compute taxes under the Income Tax Act and Ontario Corporations Tax Act and remit such amounts computed thereunder to the Ministry of Finance (Ontario).

Future payment in lieu of taxes relate to claiming capital cost allowance for tax purposes in excess of depreciation charged in the financial statements less the benefit of non-capital losses carried forward. The Company has Provincial non-capital losses in the amount of approximately \$507,522 available for carry forward to reduce future years' payments in lieu of taxes which begin to expire as follows:

December 31, 2015	\$ 222,111
2026	157,321
2028	128,090
	<u>\$ 507,522</u>

NIAGARA WEST TRANSFORMATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

7. COMMITMENTS

(i) Maintenance agreement

In June 2009, the Company entered into an agreement with Rondar Inc. for the regular maintenance on its equipment from 2009 to 2013. Under this agreement, the Company will incur total maintenance costs over the next four years as follows:

2010	\$ 3,787
2011	25,917
2012	3,890
2013	3,938
	<u>\$ 37,532</u>

(ii) Service agreement

Effective September 3, 2009, the Company entered into a service contract with Niagara Peninsula Energy Inc., a related party as described in Note 8, to perform regular monthly inspections, maintenance and building and yard cleaning. The estimated annual cost of these services is approximately \$12,100. The term of the agreement expires September 3, 2010 and is subject to a renewal term for an additional twelve months.

8. RELATED PARTIES

The Company is controlled under common ownership by Peninsula West Power Inc. and Niagara Power Inc. Peninsula West Power Inc. holds an investment in Niagara Peninsula Energy Inc. and Niagara Power Inc. is the parent company of Grimsby Power Inc. In addition, Niagara Peninsula Energy Inc. and Grimsby Power Inc. guarantee the term loan of this Company.

During the year, the Company recorded transformer connection charges of \$265,409 (2008 - \$272,385) and \$389,555 (2008 - \$377,552) from Niagara Peninsula Energy Inc. and Grimsby Power Inc. respectively.

At December 31, 2009, included in accounts receivable were amounts due from Niagara Peninsula Energy Inc. and Grimsby Power Inc. in the amounts of \$24,415 (2008 - \$25,524) and \$32,149 (2008 - \$32,655) respectively.

All transactions are measured at the exchange amount, are under similar terms with non-related parties and are in the normal course of business.

9. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of its share capital and deficit. Management's objective is to optimize the return to the shareholders while supporting and fostering the future growth of the Company. During the 2009 fiscal year the Company's strategy, which was unchanged from the 2008 fiscal year, was to meet or exceed its TD Commercial Banking credit facility covenants. The Company and its guarantors are required to maintain a combined minimum debt service coverage ratio of not less than 1.25:1 and a combined debt to capitalization ratio not to exceed 0.60:1. The Company was not in violation of any of its covenants at September 30, 2009 and, although all of the information from the guarantors is not yet available to calculate the combined ratios, it is not anticipated there will be any covenant violations at December 31, 2009.

NIAGARA WEST TRANSFORMATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) *Fair values*

The fair values of cash, accounts receivable, and accounts payable and accrued charges are assumed to approximate their carrying amounts because of their short term to maturity. The carrying amount of the term loan approximates its fair value because the interest rate approximates the market rate.

b) *Derivative financial instrument*

The Company utilizes an interest rate swap contract to manage the risk associated with fluctuations in interest rates. The Company's policy is not to utilize financial instruments for trading or speculative purposes. The interest rate swap contract is used to reduce the impact of fluctuating interest rates on the Company's long-term debt. The swap agreement requires the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward exchange contracts are recognized into income during the same period as the corresponding revenue and expenses.

c) *Risk management*

In the normal course of business, the Company is exposed to financial risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost effective basis.

i) *Liquidity risk*

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors collection efforts to ensure sufficient cash flows are generated from operations to meet the current debt obligations. The Company monitors cash flow on a daily basis and in aggregate through its annual budget process. The Company expects that cash flow from operations in fiscal 2010 will be adequate to fund on-going investment in working capital and capital expenditures.

ii) *Credit risk*

The Company had a significant exposure of sales to two customers during the year. As at December 31, 2009 the Company had accounts receivable totalling \$57,715 of which \$56,565 or 98% related to two customers. This amount is current and management monitors collections on a regular basis and is not aware of any collection issues related to these accounts.

iii) *Other risks*

The Company is not exposed to significant currency risk on its financial instruments.