St.Thomasenergyinc.
We're Your Local Power Distributor

March 25, 2011

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

Dear Ms. Walli,

RE: OEB File No: EB.2010-0141
St. Thomas Energy Inc. - 2011 Electricity Rate Application
Supplemental Information Provision – St. Thomas Energy Inc.'s Affiliates

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Please find enclosed two hard copies of supplemental information pertaining to St. Thomas Energy Inc.'s Affiliates as further evidence towards the Cost of Service Application for 2011 Electricity Distribution Rates. The same has been filed through the Board's Regulatory Electronic Submission System and has been provided to known parties, to date, who have contacted St. Thomas Energy Inc. with notices of intervention regarding the Application.

A summary page follows indicating, in some detail, the supplementary information that has been provided.

Please contact Dana Witt, our Director of Regulatory Affairs, if you have any issues or concerns,

Sincerely,

Brian Hollywood
President & CEO

135 Edward Street, St. Thomas Ontario N5P 4A8
Telephone 1-519-631-5550 Fax 1-519-631-5193

Affiliate Employee Costs (Appendix 2-K)

FTEEs, Compensation and Benefits Summary

Appendix 2-K

Employee Costs

	2006 Last Rebasing Year	2009 Historical Year (Bridge Year - 1)	2010 Bridge Year	2011 Test Year
Number of Employees (FTEEs including Part-Time)				
Executive *				
Management	5.47	5.42	5.40	7.62
Non-Union **				
Union	17.40	17.39	15.66	17.04
Total	22.86	22.81	21.06	24.66
Number of Part-Time Employees				
Executive *				
Management				
Non-Union **				
Union	1.09	0.28	0.55	1.56
Total	1.09	0.28	0.55	1.56
Total Salary and Wages				
Executive *				
Management	$ 436,651	$ 511,962	$ 608,816	$ 895,482
Non-Union **				
Union	$ 863,858	$ 992,975	$ 905,856	$ 962,163
Total	$ 1,300,508	$ 1,504,937	$ 1,514,671	$ 1,857,644
Current Benefits				
Executive *				
Management	$ 135,870	$ 163,083	$ 196,574	$ 237,689
Non-Union **				
Union	$ 276,920	$ 325,732	$ 292,578	$ 312,580
Total	$ 412,791	$ 488,816	$ 489,152	$ 550,269
Accrued Post-Retirement Benefits				
Executive *				
Management	$ 21,878	$ 5,667	$ 8,058	$ 33,674
Non-Union **				
Union	$ 43,317	$ 10,968	$ 11,921	$ 37,738
Total	$ 65,195	$ 16,635	$ 19,979	$ 71,411
Total Benefits (Current and Accrued)				
Executive *	$ -	$ -	$ -	$ -
Management	$ 157,749	$ 168,750	$ 204,632	$ 271,362
Non-Union **	$ -	$ -	$ -	$ -
Union	$ 320,237	$ 336,700	$ 304,499	$ 350,318
Total	$ 477,986	$ 505,450	$ 509,131	$ 621,680
Total Compensation (Salary, Wages, and Benefits)				
Executive *	$ -	$ -	$ -	$ -
Management	$ 594,399	$ 680,712	$ 813,448	$ 1,166,844
Non-Union **	$ -	$ -	$ -	$ -
Union	$ 1,184,095	$ 1,329,675	$ 1,210,355	$ 1,312,481
Total	$ 1,778,494	$ 2,010,387	$ 2,023,803	$ 2,479,325
Compensation - Average Yearly Base Salaries and Wages				
Executive *				
Management	$ 76,615	$ 88,433	$ 106,126	$ 108,719
Non-Union **				
Union	$ 48,064	$ 55,662	$ 55,908	$ 55,884
Total	$ 54,890	$ 63,740	$ 65,081	$ 72,213
Compensation - Average Yearly Overtime				
Executive *				
Management			$ 334	
Non-Union **				
Union	$ 1,587	$ 1,429	$ 1,947	$ 578
Total	$ 1,208	$ 794	$ 1,152	$ 400
Compensation - Average Yearly Incentive Pay				
Executive *				
Management	$ 3,265	$ 6,080	$ 6,190	$ 8,765
Non-Union **				
Union				
Total	$ 780	$ 1,444	$ 1,588	$ 2,709
Compensation - Average Yearly Benefits				
Executive *				
Management	$ 28,858	$ 31,153	$ 37,863	$ 35,602
Non-Union **				
Union	$ 18,406	$ 19,358	$ 19,448	$ 20,558
Total	$ 20,905	$ 22,159	$ 28,266	$ 25,207
Compensation - Average Yearly Total Salary, Wages and Benefits				
Executive *				
Management	$ 108,738	$ 125,666	$ 150,514	$ 153,087
Non-Union **				
Union	$ 68,057	$ 76,449	$ 77,303	$ 77,020
Total	$ 77,783	$ 88,137	$ 96,089	$ 100,528
Compensation Allocation To Capital & OM&A Activities				
Total Compensation	$ 1,778,494	$ 2,010,387	$ 2,023,803	$ 2,479,325
Total Compensation Charged to OM&A	$ 1,298,944	$ 1,627,001	$ 1,590,044	$ 1,829,579
Total Compensation Capitalized	$ 479,550	$ 383,386	$ 433,759	$ 649,745

*** Executive Staff are included in Management Category**

**** Non Union Staff are included in Management Category**

Affiliate Employee Compensation Breakdown

Explanation of information in Appendix 2-K

Employee Compensation Breakdown

The following information has been provided from St. Thomas Energy Services Inc. (the "Affiliate") as there are no employees in St. Thomas Energy Inc. (the "LDC"). The Affiliate charges employee compensation on the basis of time spent on services specifically undertaken for the LDC through a Master Services Agreement (MSA) between the Affiliate and the LDC. In addition to employee compensation, payroll overhead costs are allocated on a percentage basis of employee compensation amounts and represent both current and post retirement benefits.

Appendix 2-K provides information on employee compensation for the years 2006, 2009, 2010 Bridge Year and 2011 Test Year. Employee Compensation amounts ("Total Salary and Wages") include base salaries and wages paid, overtime and incentive plan payments. Payroll overhead costs ("Total Benefits (Current andAccrued") include current and post retirement benefits. These items are explained in further detail under the Current Benefits and the Post Retirement Benefits Sections below.

As Affiliate employees perform other duties, in addition to serving the LDC, they must be allocated on the basis of full-time employee equivalents (FTEEs) such that only those activities pertaining to the LDC are included. To be clear, an employee that spends time on LDC Capital Assets ("Capital") and LDC Operation, Maintenance and Administration ("OM&A") activities is included on Appendix 2-K. For example; if an employee spends 75% of their time on Capital & OM&A, they would be shown as a .75 FTEE. It then follows that amounts shown on Appendix 2-K representing this .75 FTEE must be on the same basis (i.e. 75% of "Total Salary and Wages" plus allocated "Total Benefits (Current and Accrued)"). FTEEs allow for the year over year comparison of average salaries, wages and benefits of each period of time.

Appendix 2-K does not include Smart Metering employee compensation activities as they do not form part of the Capital or OM&A Activities in the Bridge Year 2010 or the Test Year 2011. These activities are included as part of "Deferred Assets" under the "Other Assets" section found in the "Pro Forma Rate Making Balance Sheet" (located in Exhibit 1, Tab 4, Schedule 5, Attachment 3of the Application).

Appendix 2-K also does not include Rate Rebasing Application costs attributed to employee compensation in the Bridge Year 2010 as they do not form part of the OM&A Activities of that year. Any costs incurred in 2010 are included in "Prepayments" under the "Current Assets" section found in the "Pro Forma Rate Making Balance Sheet". For the Test Year 2011 Rate Rebasing costs are included in the "Prepayments" under the "Current Assets" section in the "Pro Forma Rate Making Balance Sheet" and in "Operating Expenses"in the "Pro Forma Rate Making Statement of Earnings"(also located in Exhibit 1, Tab 4, Schedule 5, Attachment 3of the Application). An explanation of the rationale for doing this is explained in "Regulatory Costs" under the "2011 Rate Rebasing Application" section of Exhibit 4, Tab 2, Schedule 3 of the Application. More specifically, 25% of the employee compensation or $15,600 (1 year's amortization) of the estimated $62,400 is included in the Test Year 2011's OM&A. The remaining 75% (3 years) is included in the test year 2011's "Prepayments" awaiting inclusion in the 2012 to 2014 OM&A. The employee compensation relates to the creation of a new position of Director, Regulatory Affairs in 2010. This position has assisted in the preparation of the Rate Rebasing Application (located in

Exhibit 4, Tab 2,Schedule 7 of the Application), but no duplicative costs for preparation of the Rate Rebasing Application have been included.

The categories of employees are based on Management and Union only. The Management category consists of Executive, Management and Non-Union employees. In both the Executive and Non-Union categories there are three or fewer employees. The Union Category consists of employees in bargaining unit positions and part-time positions. Part-time positions relate to co-operative student programs and students employed for the summer.

Further details of the sections in Appendix 2-K are explained below:

Yearly Base Salary and Wages - Base salaries and wages are subject to adjustments from time to time. The Affiliate is currently involved in a Collective Agreement with Local Union 636 of The International Brotherhood of Electrical Workers with an expiry date of April 30, 2011. Negotiations are scheduled to take place in the early spring of 2011. Since 2006, negotiated union wage increases have been 3% per year effective May 1st of each year. Management compensation is updated yearly to reflect cost of living increasesbased on Collective Agreement negotiated settlements with one exception; the increases are put into effect ahead of the Collective Agreement effective date (i.e. salaries increased on January 1st of each year).

Merit Increases on Base Salary and Wages–In general the prime determinants of a pay increase are an employee’s sustained past performance, present salary or wage and the length of time that an employee has been in the position. Length of service on its own does not justify pay increases. A budget is set annually for merit increases. A typical employee performance review cycle begins with the prior year’s performance review. Goals and objectives for the ensuing year are communicated verbally and in writing to the employee, agreed to by the Manager and the employee and then monitored throughout the current year resulting in a final review at the current year end, thus completing the end of a cycle. In some cases the need may exist for more frequent employee performance reviews.

Any Union employee merit increases are based on the Collective Agreement as it contains bargaining unit position descriptions with wage progression scales from entry level to top level based on time periods of service. If the Collective Agreement covers two or more years a separate wage progression scale exists for each year updated with any negotiated wage increases. As indicated above these increases are not automatic; they are subject to employee performance reviews. Prior to the completion of a performance review with the employee Management provides a copy to the Chief Executive Officer (CEO) for review.

Management employee merit increases are based on a salary grid that has minimum, midpoint and maximum levels with no reference to time periods of service. The Affiliate updates the salary grid upon receiving Affiliate Board approvals for cost of living increases. Any movement on the salary grid is subject to a review of employee performance which is usually done on an annual basis. Prior to the completion of a performance review, any recommendations for merit increases are made by appropriate management to the CEO for approval purposes. The CEO goes through a similar process of performance review with the Affiliate Board and any merit increases require Affiliate Board Approval.

The 2011 Test Year includes a 3% increase in wages (effective May 1, 2011) and salaries (effective January 1, 2011) estimated at $43,000. A merit increase budget estimated at $12,000 is also included for Union Bargaining positions only that are potentially affected.

Overtime – The nature of the LDC business results in operational staff after-hour responses to unplanned service disruptions or plannedservice disruptions (i.e. planned example - a Capital Project activity for customer convenience). While the majority of overtime relates to operational activities there is some administrative staff overtime to deal with increased temporary work loads from time to time. Administrative overtime is monitored quite closely by Management on a prudent basis.

Overtime for Management staff is limited to those involved in operations that may become involved in planned or unplanned after-hour service disruptions. Overtime is not recognized for the first two incidents that involve Management staff on a per month basis.

The 2011 Test Year includes an estimate of $10,000 of overtime.

Incentive Pay – This form of payment is directly linked to employee performance as explained in the Merit Increases section above (Management positions only). Incentive pay is subject to prior approval by the CEO (i.e. Affiliate Board approval is required for incentive pay for the CEO). Prior to 2008 incentive pay was only available to employment positions that were subject to a written agreement containing an incentive pay clause (approximately 50 % of Management Staff). Up to 6% of base salary could be granted depending on the level of employee performance. From 2008 to 2010 an additional annual Affiliate Board approved amount was available for potential distribution subject to employee performance reviews and appropriate approvals.

In 2011 a formal Affiliate Board approved Incentive Compensation Program (ICP) has been put in place, replacing the existing practice.The ICP is based on two parts: 1) Employee Performance and 2) EBITDA Performance of the combined Affiliate and LDC (EBITDA is earnings before Interest, Taxes, Depreciation and Amortization). In terms of the 2011 Test Year, based on Management 2011 base salaries, up to an average of 10% of base salaries could be potentially allocated towards 1) employee performance. Anything above 10% of base salaries would be on the basis of exceeding planned“2) EBITDA”which will be specifically allocated to the Affiliate and not the LDC.

The 2011 Test Year estimated % allocation is on the same basis as 2009 and 2010.

Year to Year Variance explanations:

Number of Employees (FTEEs Including part-time):

Management Category - Management FTEE remained fairly constant comparing 2006 to 2009 and 2010. In 2010 a portion of management time (.96 FTEE) was allocated to Smart Metering and Rate Rebasing Application activities that may have otherwise been included in Appendix 2-K.

The 2011 Management FTEE is 7.62. The reasons behind the increase in FTEE in 2011 are explained in "Exhibit 4, Tab 2, Schedule 7" of the application (i.e. employee positions of "Regulatory Officer", "Financial Analyst" and "Chief Information Officer").

Union Category - Union FTEE remained constant for 2006 and 2009. In 2010 a portion of union time (2.04 FTEE) was allocated to Smart Metering Activities that may have otherwise been included in Appendix 2-K.2011 also includes a portion of union time (.53 FTEE) allocated to Smart Metering Activities.

Adjusting forchanges to 2010 and 2011 (as noted above) the comparisons for 2006 and 2009 through to 2011 are very similar for each year.

Total Salaries and Wages:

Management Category – Changes to base salaries for yearly inflationary increases, merit increases and incentive pay are included as well as changes in FTEE.

Union Category - Changes to base wages for negotiated inflationary increases, merit increases and changes in overtime are included as well as changes in FTEE.

Total Benefits (Current and Accrued):

For both Management and Union Categories the combination of Current Benefits and Accrued Post-RetirementBenefits are based on an allocated percentage to total Salaries and Wages. Changes in Total Salaries and Wages year over year will cause changes in this section.

Total Compensation (Salaries, Wages and Benefits):

For both Management and Union Categories this represents the combination of the two preceding sections.

Averages:

Yearly Base Salaries and Wages, Yearly Overtime, Yearly Incentive Pay, Yearly Benefits and Yearly Total Salary, Wages and Benefits dollars are compared to FTEEs for each category of Management and Union for each respective year. "Total" averages reported are based on total dollars of each section divided by total FTEEs.

The 2011 Test Year includes an estimated amount of $67,000 for Incentive Pay based on 8% of base salaries for Management employees solely in recognition of employee performance. The 2011 Incentive pay is allocated on the same basis as FTEEs meaning that if an employee works 75% of the time for an LDC and receives an incentive payment then 75% of the incentive payment is allocated to the LDC, provided the performance pertains to work on the LDC.

Current Benefits–

The Affiliate maintains a reasonable, comprehensive and competitive benefits package for its employees. Benefits include Health, Dental, Extended Travel, Life Insurance, Long-term Disability and an Employee Assistance Program. With the exception of the Employee Assistance Program, the other benefits are provided through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). Periodic reports are provided by each benefits provider to review use of benefits and current trends in the health industry. Through the Collective Agreement negotiations process, benefit change requests are reviewed and evaluated by Management on the basis of benefit level usage and cost containment.

The Affiliate also contributes the company's portion of the Federal Government statutory benefits such as Canada Pension Plan (CPP) and Employment Insurance (EI). In addition, contributions are also made to the Provincial Government Employer Health Tax (EHT) and the Workers' Safety Insurance Board (WSIB). The Affiliate also matches employee contributions to the Ontario Municipal Employees Retirement System (OMERS) for pension purposes.

Other items include provision of safety work wear, external training, professional membership re-imbursements, wellness program, low use of sick time awards, no lost time injury awards, length of service recognition program and a smoking cessation program.

The 2011 Test Year estimated % allocation is on the same basis as 2009 and 2010.

Post Retirement Benefits–

In 2010 the Affiliate requested Dion, Durrell and Associates Inc. to prepare a report on the Actuarial Valuation of Post-Employment Non-Pension Benefits for use in reporting values in the 2010 Audited Statements, and to provide a basis for 2010 accounting entries through to 2012.

The last report was prepared in 2007. The 2007 and 2010 reports are attached.

Essentially the 2010 report provides for a valuation of employer liabilities as at January 1, 2010 and the determination of a benefit expense for 2010 plus a benefit estimate for 2011. The 2011 post retirement benefit is based on estimated payments that are made on behalf of retired employees in 2011 plus an additional accrual representing estimated costs for current employees based on factors contained in the 2010 report.

Post retirement benefits are based on Health, Dental, Extended Travel and Life Insurance.

Management Category – In 2007 a consultant, Cyr & Associates well known in many business sectors including the utility industry, at the request of the Affiliate undertook an evaluation of management positions and recommended a formal compensation structure complete with updated job descriptions and salary grid with job grades and pay bands for Management employees. Out of this evaluation came a structure that ensured internal equity, external competitiveness and conformity with Pay Equity Legislation.The project also included a review of Utility industry compensation data to ensure the Company was competitively positioned.

Changes year over year in average yearly Base Salaries reflect changes as a result of the above evaluation as a result of merit increases over time and inflationary adjustments. Changes year over year in average yearly Incentive Pay have been explained in a previous section above. Changes in average yearly Benefits, because benefits are allocated as a percentage of total compensation, generally follow the year over year changes in average compensation (Base Salaries and Incentive Pay).

Union Category- In 2009, Cyr and Associates, at the request of the Affiliate undertook a review of Pay Equity. This action came about regarding an obligation by Management agreed to with the Union in the prior Collective Agreement to review certain positions. To ensure complete conformity with Pay Equity Legislation the Affiliate reviewed all bargaining unit positions. Out of the review came maintenance changes in updating jobs descriptions and titles with the intent to recognize these changes in the next collective agreement. There were no pay equity dollar adjustments required to maintain pay equity.

Changes year over year in average yearly Base Wages reflect negotiated cost of living adjustments and merit increases. Changes year over year in average yearly Overtime are subject to fluctuation and have been explained in a previous section above. Changes in average yearly Benefits, because benefits are allocated as a percentage of total compensation, generally follow the year over year changes in average compensation (Base Wages and Overtime).

<u>Compensation Allocation to Capital and OM&A Activities:</u>

Compensation allocated to Capital activities is dependent on economic conditions and the LDC’s year over year asset management plans. 2006 dollars spent were higher than 2009 and 2010 and less than 2011. This has been explained in more detail in other sections of the Application (Exhibit 2, Tabs 3 & 4).

While influenced to some degree with the level of activity in Capital (Operations Staff time allocations), OM&A activities have fluctuated over time. Differences between 2006, 2009 & 2010 can be attributed to various factors explained in the “Averages” section above. 2011’s increase is attributed mostly to Management positions as noted in the “Number of Employees (FTEEs Including part-time)” section above.

2007 Actuarial Valuation of Post-Employment Non-Pension Benefits – Consultant Report for Affiliate

DION DURRELL
Actuaries and Consultants

ST. THOMAS ENERGY SERVICES INC.

Report on the Actuarial Valuation of Post-Employment Non-Pension Benefits

As at January 1, 2007

FINAL

April 11, 2008

DION, DURRELL + ASSOCIATES INC.
250 Yonge Street, Suite 2900, Toronto, Ontario, Canada M5B 2L7 Tel: 416.408.2626 Fax: 416.408.3721

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EXECUTIVE SUMMARY

PURPOSE

MEARIE Actuarial Services and Dion, Durrell + Associates Inc. were engaged by St. Thomas Energy Services Inc. (the "Hydro") to perform an actuarial valuation of the post-retirement non-pension benefits sponsored by the Hydro and to determine the accounting results for those benefits for the fiscal period starting January 1, 2007 and ending December 31, 2007. The nature of these benefits is defined benefit.

This report is prepared in accordance with The Canadian Institute of Chartered Accountants (the "CICA") guidelines outlined in Employee Future Benefits, Section 3461 of the CICA Handbook – Accounting. CICA 3461 ("CICA Section 3461") was first applied to the Hydro with effect from January 1, 2000.

The most recent full valuation was prepared as at January 1, 2003 based upon assumptions appropriate as at December 31, 2003.

The purpose of this valuation is threefold:

i) to determine the Hydro's liabilities in respect of post-retirement non-pension benefits;

ii) to determine the benefit expense for fiscal year 2007; and

iii) to provide all other pertinent information necessary for compliance with CICA Section 3461.

The intended users of this report include the Hydro and their auditors. This report is not intended for use by the plan beneficiaries or for use in determining any funding of the benefit obligations.

SUMMARY OF KEY RESULTS

The key results of this actuarial valuation as at January 1, 2007 with comparative results from the previous valuation as at January 1, 2003 are shown below (all figures are in thousands):

	January 1, 2003 (000s)	January 1, 2007 (000s)
ACCRUED BENEFIT OBLIGATION (ABO)		
a) People in receipt of benefits	$ 718	$ 750
b) Fully eligible actives	$ 34	$ 61
c) Non fully eligible actives	$ 280	$ 313
TOTAL	**$ 1,032**	**$ 1,123**
CURRENT SERVICE COST	$ 29	$ 29
BENEFIT EXPENSE	$ 86	$ 97
PREPAID BENEFIT LIABILITY at January 1 (as per St. Thomas Energy Services Inc.)		$ 1,114

ACTUARIAL CERTIFICATION

An actuarial valuation has been performed on the post-retirement non-pension benefit plans sponsored by the Hydro as at January 1, 2007, for the purposes described in this report.

In accordance with the Canadian Institute of Actuaries Consolidated Standards of Practice General Standards, we hereby certify that, in our opinion, for the purposes stated in the Executive Summary:

1. The data on which the valuation is based is sufficient and reliable;

2. The assumptions employed, as outlined in this report, have been selected by the Hydro as best estimate assumptions (no provision for adverse deviations) and are in accordance with accepted actuarial practice;

3. The actuarial methods employed, as outlined in Section C, are appropriate for the purpose and consistent with sound actuarial principles;

4. All known substantive commitments with respect to the post-retirement, non-pension benefits sponsored by and identified by the Hydro are included in the calculations; and

5. The valuation conforms to the standards set out in the Canadian Institute of Chartered Accountants Accounting Handbook Section 3461.

The latest date on which the next actuarial valuation should be performed is January 1, 2010. If any supplemental advice or explanation is required, please advise the undersigned.

Respectfully submitted,

DION, DURRELL + ASSOCIATES INC.

Karen G. Long
Fellow, Canadian Institute of Actuaries

Emerald Wang
Actuarial Analyst

Toronto, Ontario
April 11, 2008

Section A
Valuation Results

Table A - 1 shows the key valuation results for the prior valuation and the current valuation.

Table A - 2 shows the sensitivity of the valuation results to certain changes in assumptions. We have shown a change to the assumed retirement age from age 57 to 59, and an increase/decrease in the health and dental claims cost trend rate by 1% per annum.

Table A - 3 presents the determination of the actuarial gain/(loss) from the previous valuation at January 1, 2003.

TABLE A - 1
VALUATION RESULTS

(IN THOUSANDS OF DOLLARS)

	January 1, 2003 (000s)	January 1, 2007 (000s)
1. ACCRUED BENEFIT OBLIGATION		
a) People in receipt of benefits	$ 718	$ 750
b) Fully eligible actives	$ 34	$ 61
c) Not fully eligible actives	$ 280	$ 313
TOTAL ABO	**$ 1,032**	**$ 1,123**
2. BENEFIT EXPENSE		
a) Current Service Cost	$ 29	$ 29
b) Interest Cost	$ 57	$ 59
c) Expected Return on Assets	$ -	$ -
d) Amortization of Transition Amount	$ -	$ -
e) Amortization of (Gains)/Losses	$ -	$ 9
TOTAL BENEFIT EXPENSE	**$ 86**	**$ 97**
3. ACTUAL BENEFIT PAYMENTS	$ 61*	$ 77

*Expected benefit payments were used in 2003

TABLE A – 2
SENSITIVITY ANALYSIS

(IN THOUSANDS OF DOLLARS)

	January 1, 2007			
1. ABO	Valuation Results (000s)	Retirement Age 59 (000s)	1% Higher Trend (000s)	1% Lower Trend (000s)
a) People in receipt of benefits	$ 750	$ 750	$ 756	$ 744
b) Fully eligible actives	$ 61	$ 54	$ 63	$ 59
c) Not fully eligible actives	$ 313	$ 251	$ 347	$ 283
TOTAL	**$ 1,123**	**$ 1,055**	**$ 1,166**	**$ 1,086**
2. SERVICE COST	$ 29	$ 23	$ 33	$ 26
3. INTEREST COST	$ 59	$ 55	$ 61	$ 56

TABLE A – 3
DEVELOPMENT OF NET GAINS OR LOSSES
(IN THOUSANDS OF DOLLARS)

	2003	2004	2005	2006
ABO at January 1	$ 1,032	$ 1,057	$ 1,080	$ 1,101
Current Service Cost	$ 29	$ 31	$ 32	$ 34
Interest Cost	$ 57	$ 58	$ 59	$ 60
Expected Benefit Payments	$ (61)	$ (66)	$ (71)	$ (75)
Expected ABO at December 31	$ 1,057	$ 1,080	$ 1,101	$ 1,120
Actual ABO at December 31 (as per financial statements)				$ 1,114
Actual ABO at December 31				$ 1,123
Actuarial Loss/(Gain)				$ 9

AMORTIZATION OF UNAMORTIZED ACTUARIAL LOSS
(IN THOUSANDS OF DOLLARS)

	2007
Unamortized Net Actuarial Loss (Gain) at January 1	$ -
Actuarial Loss (Gain) for Current Year at January 1	$ 9
Total Loss (Gain) at January 1	$ 9
Less: Actual Amortization for Current Year	$ 9
Total Loss (Gain) at December 31	$ -

DEVELOPMENT OF NET GAINS OR LOSSES (cont'd)

Please note that the actual ABO at January 1, 2007 is $9,000 higher than the expected ABO at December 31, 2006. This is due to a combination of the following factors:

- A higher than expected increase in health and dental premiums (an increase of approximately $14,000 in the total ABO).
- A change in discount rate (an increase of approximately $56,000)
- A change in other valuation assumptions (an increase of approximately $35,000 in the total ABO)
- Deviations from the expected demographic changes of the valued group and other miscellaneous factors (a decrease of approximately $96,000 in the total ABO)

Section 3461 of the Canadian Institute of Chartered Accountants states that any gain or loss in excess of 10% of the Accrued Benefit Obligation (ABO) must, at minimum, be amortized over the expected average remaining service lifetime (E.A.R.S.L.). The E.A.R.S.L. of the current active group is 11 years. The Hydro has previously chosen to expense the entire gain/(loss). Section 3461 requires that the amortization method is applied consistently. Therefore, the actual amortization for the year 2007 is approximately $9,000.

SECTION B
PLAN PARTICIPANTS

Table B – 1 sets out the summary information with respect to the plan participants valued in the report, along with comparisons to the participants in the previous valuation at January 1, 2003.

Table B – 2 reconciles the number of participants in the last valuation to the number of participants in the current valuation.

TABLE B – 1
PARTICIPANT DATA

Membership data as at January 1, 2007 was received from the Hydro via e-mail and included information such as name, sex, date of birth, date of hire, current salary, benefit amounts and other applicable details for all active employees and people in receipt of benefits.

We have reviewed the data and compared it to the data used in the prior valuation for consistency and reliability for use in this valuation. The main tests of sufficiency and reliability that were conducted on the membership data are as follows:

- Date of birth prior to date of hire
- Salaries less than $20,000 per year, or greater than $200,000 per year
- Ages under 18 or over 100
- Abnormal levels of benefits and/or premiums
- Duplicate records

In addition, the following tests were performed:

- A reconciliation of statuses from the prior valuation to the current valuation;
- A review of the consistency of individual data items and statistical summaries between the current and prior valuations; and
- A review of the reasonableness of changes in such information since the prior valuation.

ACTIVE EMPLOYEES

As of January 1	2003			2007		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
NUMBER OF EMPLOYEES	21	14	35	17	12	29
AVERAGE LENGTH OF SERVICE	10.4	12.3	11.2	12.1	11.8	12.0

As of January 1, 2007	**CURRENT AGE**					
	Active Lives – not fully eligible			Active Lives – fully eligible		
	Count			Count		
Age Band	Male	Female	Total	Male	Female	Total
Less than 30	2	1	3	-	-	-
30-35	2	2	4	-	-	-
36-40	3	4	7	-	-	-
41-45	2	1	3	-	-	-
46-50	4	3	7	-	-	-
51-55	3	-	3	-	-	
56-60	-	-	-	1	1	2
61-65	-	-	-	-	-	-
66-70	-	-	-	-	-	-
71-75	-	-	-	-	-	-
Greater than 75	-	-	-	-	-	-
TOTAL	**16**	**11**	**27**	**1**	**1**	**2**

As of January 1, 2007

AVERAGE SERVICE

Age Band	Active Lives – not fully eligible Service			Active Lives – fully eligible Service		
	Male	Female	Total	Male	Female	Total
Less than 30	0.58	1.75	0.97	-	-	-
30-35	1.42	6.54	3.98	-	-	-
36-40	9.19	12.33	10.99	-	-	-
41-45	10.67	4.67	8.67	-	-	-
46-50	23.38	17.83	21.00	-	-	-
51-55	18.06	-	18.06	-	-	-
56-60	-	-	-	-	-	-
61-65	-	-	-	5.67	19.58	12.63
66-70	-	-	-	-	-	-
71-75	-	-	-	-	-	-
Greater than 75	-	-	-	-	-	-
TOTAL	**12.54**	**11.12**	**11.96**	**5.67**	**19.58**	**12.63**

PEOPLE IN RECEIPT OF BENEFITS

As of January 1	2003			2007		
	Male	Female	Total	Male	Female	Total
NUMBER OF MEMBERS	21	7	28	20	9	29

As of January 1, 2007

EXPECTED ANNUAL BENEFIT PAYMENTS

Age Band	Male	Female	Total
Less than 30	-	-	-
30-35	-	-	-
36-40	-	-	-
41-45	-	-	-
46-50	-	-	-
51-55	$ -	$ 3,716	$ 3,716
56-60	$ 8,999	$ 15,552	$ 24,552
61-65	$ 12,999	$ 3,703	$ 16,702
66-70	$ 2,533	$ 182	$ 2,715
71-75	$ 7,199	$ 814	$ 8,013
Greater than 75	$ 7,695	$ 937	$ 8,632
TOTAL	**$ 39,426**	**$ 24,903**	**$ 64,330**

TABLE B – 2
RECONCILIATION OF DATA

	Actives	Retirees
As at January 1, 2004	35	28
New Entrants	9	
Retired	(5)	5
Terminated	(10)	
Deceased		(4)
As at January 1, 2007	**29**	**29**

SECTION C
SUMMARY OF ACTUARIAL METHOD AND ASSUMPTIONS

ACTUARIAL METHOD

The aim of an actuarial valuation of post-retirement non-pension benefits is to provide a reasonable and systematic allocation of the cost of these future benefits to the years in which the related employees' services are rendered. In order to value the liabilities of the post-employment benefits, it is necessary to:

- make assumptions as to the discount rates, salary increase rates, mortality and other decrements;
- use these assumptions to calculate the present value of the expected future benefits; and
- adopt an actuarial cost method to allocate the present value of expected future benefit to the specific years of employment.

The Accrued Benefit Obligation and Current Service Cost were determined using the projected benefit method, pro-rated on service. This is the method stipulated by the Accounting Recommendations when future salary levels or cost escalation affect the amount of the employee's future benefits. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the years of service in the attribution period. The CICA Section 3461 stipulates that the attribution period commences at the employee's hire date and ends at the earliest age at which the employee could retire and qualify for full benefits.

For each employee not yet fully eligible for benefits, the Accrued Benefit Obligation is equal to the present value of expected future benefit multiplied by the ratio of the years of service to the valuation date to the total years of service in the attribution period. The Current Service Cost is equal to the present value of expected future benefits multiplied by the ratio of the year (or part) of service in the fiscal year to total years of service in the attribution period.

Given the size of the group, experience for health and dental claims for the group is not credible. We have therefore used the monthly premium rates charged to retirees as at January 1, 2007 as an estimate of the claims to be incurred. The monthly premium rates used are as follows:

	Health		**Dental**	
	Single	***Family***	***Single***	***Family***
Union	$71.66	$196.59	$40.29	$104.53
Management	N/A	$196.70	N/A	$107.40

ECONOMIC ASSUMPTIONS

CONSUMER PRICE INDEX

The consumer price index is assumed to be 2.00% per annum.

DISCOUNT RATE

The rate used to discount future benefits is assumed to be 5.0% per annum. This rate reflects the assumed long term yield on high quality bonds as at September 30, 2007.

The assumption used in the previous valuation was 5.5% per annum.

SALARY INCREASE RATE

The rate used to increase salaries is assumed to be 3.3% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion, as at September 30, 2007.

The assumption used in the previous valuation was 3.5% per annum.

CLAIMS COST TREND RATE

The rates used to project benefits costs into the future are as follows:

	Current Valuation		**Previous Valuation**	
Jan 1, Year	***Health***	***Dental***	***Health***	***Dental***
2007	9.0%	5.0%	4.5%	4.5%
2008	8.0%	5.0%	4.5%	4.5%
2009	7.0%	5.0%	4.5%	4.5%
2010	6.0%	5.0%	4.5%	4.5%
2011	5.0%	5.0%	4.5%	4.5%
2012 →	5.0%	5.0%	4.5%	4.5%

DEMOGRAPHIC ASSUMPTIONS

MORTALITY TABLE

Mortality is assumed to be in accordance with the 1994 Uninsured Pensioner Mortality (UP-94) table, with a projection of mortality improvements to the year 2015 based upon Projection Scale AA. This is the mortality table to be used in accordance with the Canadian Institute of Actuaries' Standard of Practice for Determining Pension Commuted Values, effective February 1, 2005.

Mortality rates are applied on a sex-distinct basis.

The table used at the previous valuation was 100% of the 1994 Group Annuity Mortality Basic (GAM 94 - Basic) Table.

RATES OF WITHDRAWAL

We have used 2.00% per annum for all ages for the valuation, which is the same assumption that was used in the prior valuation.

RETIREMENT AGE

All active employees are assumed to retire at age 57, or immediately if currently over age 57, which is the same assumption used in the previous valuation.

DISABLITY

No provision was made for future disability. It is assumed that individuals currently receiving long-term disability benefits will remain disabled until retirement age. This assumption remains unchanged from the previous valuation.

FAMILY/SINGLE COVERAGE

It is assumed that the current coverage type will remain into retirement. This assumption remains unchanged from the previous valuation.

EXPENSES AND TAXES

We have assumed 10% of benefits is required for taxes and the cost of sponsoring the program for life insurance.

We have assumed taxes and expenses are included in the premium rates for health and dental benefits.

This is the same assumption that was used in the prior year's valuation.

SECTION D
SUMMARY OF POST-RETIREMENT BENEFITS

The following is a summary of the plan provisions that are pertinent to this valuation.

EFFECTIVE DATE OF THE PROGRAM

The program is governed by the collective agreement between the Hydro. and the local union 636 until April 30, 2008.

PARTICIPANT CONTRIBUTIONS

The Hydro shall pay 100% of the cost of the life insurance benefits as well as the health and dental benefits for the retirees.

SUMMARY OF BENEFITS

All employees who retire from the Hydro are eligible for post-retirement life insurance, as per the MEARIE plan, administered by Great-West Life, based upon the following table:

Plan Option	Amount of Coverage	Eligibility
1	Flat $2,000.	If employee retires with less than 10 years of service in the Plan.
2	50% of final annual earnings reducing by 2.5% of final annual earnings each year thereafter for 10 years, to a final benefit equal to 25.0% of final annual earnings. Reduction occurs on anniversary date of retirement.	If employee was ever insured under Employee Plan options 2, 3 or 4, **or** if employee retires with 10 or more years of service in Plan but was never in superseded plan.
3	50% of final annual earnings	If employee was insured under superseded plan and was hired on or after May 1, 1967 and elected coverage under Option 1 only.
4	70% of the final amount insured for under the life plan immediately prior to retirement.	If employee was insured under the superseded plan and was hired before May 1, 1967 and elected coverage under Option 1 only.
5	Amount of retirement insurance coverage in force under superseded plan grandfathered.	Frozen group of insured whose retirement occurred under superseded plan prior to transfer to Sun Life.

In addition, all employees who retire from the Hydro with an OMERS pension are eligible for health and dental benefits to age 65. Coverage for health and dental benefits continues to the eligible dependents of a deceased retiree until the retiree would have turned age 65.

SECTION E
EMPLOYER CERTIFICATION

Post-Retirement Non-Pension Benefit Plan
of St. Thomas Energy Services Inc.
Actuarial Valuation as at January 1, 2007

I hereby confirm as an authorized signing officer of the administrator of the Post-Retirement Non-Pension Benefit Plan of St. Thomas Energy Services Inc. that, to the best of my knowledge and belief, for the purposes of the valuation:

i) the assumptions upon which this report is based as summarized in Section C are management best estimate assumptions and are adequate and appropriate for the purposes of this valuation;

ii) the membership data summarized in Section B is accurate and complete; and

iii) the summary of Plan Provisions in Section D is an accurate and complete summary of the terms of the Plan in effect on December 31, 2007.

ST. THOMAS ENERGY SERVICES INC.

May 9/08
Date

[redacted]
Signature

[redacted]
Name

[redacted]
Title

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA Section 3461)
Final

	Calendar Year 2007	Projected Calendar Year 2008	Projected Calendar Year 2009
Discount Rate	5.25%	5.25%	5.25%
Assumed increase in Employer Contributions	10%	9%	8%

A. Determination of Benefit Expense

	Calendar Year 2007	Projected Calendar Year 2008	Projected Calendar Year 2009
Current Service Cost	29,112	30,640	32,249
Interest on Benefits	58,489	58,937	59,091
Expected Interest on Assets	-	-	-
Transitional Obligation/(Asset)	-	-	-
Actuarial (Gain)/Loss	9,042	-	-
Benefit Expense	96,643	89,577	91,340

B. Reconciliation of Prepaid Benefit Asset (Liability)

	Calendar Year 2007	Projected Calendar Year 2008	Projected Calendar Year 2009
Accrued Benefit Obligation (ABO) as at December 31	1,134,182	1,139,318	1,138,618
Assets as at December 31	-	-	-
Unfunded ABO	(1,134,182)	(1,139,318)	(1,138,618)
Unrecognized Loss/(Gain)	-	-	-
Unrecognized Transition	-	-	-
Prepaid Benefit Asset (Liability)	(1,134,182)	(1,139,318)	(1,138,618)
Prepaid Benefit/(Liability) as at January 1	(1,114,304)	(1,134,182)	(1,139,318)
Benefit Income/(Expense)	(96,643)	(89,577)	(91,340)
Contributions/Benefit Payments by the Employer	76,765	84,441	92,041
Prepaid Benefit Asset (Liability)	(1,134,182)	(1,139,318)	(1,138,618)

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA Section 3461)
Final

	Calendar Year 2007	Projected Calendar Year 2008	Projected Calendar Year 2009
C. Calculation of Component Items			
Calculation of the Service Cost			
- Current service cost	29,112	30,640	32,249
Interest on Benefits			
- ABO at January 1	$1,123,346	1,134,182	1,139,318
- Current service cost	29,112	30,640	32,249
- Benefit payments	(38,382)	(42,221)	(46,020)
- Accrued benefits	1,114,075	1,122,602	1,125,547
- Interest	58,489	58,937	59,091
Expected Interest on Assets			
- Assets at January 1	-	-	-
- Funding	38,382	42,221	46,020
- Benefit payments	(38,382)	(42,221)	(46,020)
- Expected assets	-	-	-
- Interest	-	-	-
Expected ABO as at December 31			
- ABO at January 1	1,123,346	1,134,182	1,139,318
- Current service cost	29,112	30,640	32,249
- Interest on benefits	58,489	58,937	59,091
- Benefit payments	(76,765)	(84,441)	(92,041)
- Expected ABO at December 31	1,134,182	1,139,318	1,138,618
Expected Assets as at December 31			
- Assets at January 1	-	-	-
- Funding	76,765	84,441	92,041
- Interest on assets	-	-	-
- Benefit payments	(76,765)	(84,441)	(92,041)
- Expected Assets at December 31	-	-	-

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA Section 3461)
Final

D. Actuarial (Gain)/Loss

	Calendar Year 2007	Projected Calendar Year 2008	Projected Calendar Year 2009
(Gain)/Loss on ABO as at January 1			
- Expected ABO	1,114,304	1,134,182	1,139,318
- Actual ABO	1,123,346	1,134,182	1,139,318
- (Gain)/Loss on ABO	9,042	-	-
(Gain)/Loss on assets as at January 1			
- Expected assets	-	-	-
- Actual assets	-	-	-
- (Gain)/Loss on assets	-	-	-
Total (Gain)/Loss as at January 1	9,042	-	-
10% of ABO as at January 1	112,335	113,418	113,932
Total (Gain)/Loss in excess of 10%	-	-	-
Expected average remaining service life (years)	11	10	9
Minimum Amortization for current year	-	-	-
Actual Amortization for current year	9,042	-	-
Unamortized (Gain)/Loss	-	-	-

2010 Actuarial Valuation of Post-Employment Non-Pension Benefits – Consultant Report for Affiliate

Dion Durrell
Actuaries and Consultants

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ST. THOMAS ENERGY SERVICES INC.

REPORT ON THE ACTUARIAL VALUATION OF POST-RETIREMENT NON-PENSION BENEFITS

As At January 1, 2010

FINAL—November 18, 2010

Dion Durrell

TABLE OF CONTENTS

Dion Durrell

EXECUTIVE SUMMARY

PURPOSE

MEARIE Actuarial Services and Dion, Durrell + Associates Inc. were engaged by St. Thomas Energy Services Inc. (the "Corporation") to perform an actuarial valuation of the post-retirement non-pension benefits sponsored by the Corporation and to determine the accounting results for those benefits for the fiscal period ending December 31, 2010. The nature of these benefits is defined benefit.

This report is prepared in accordance with The Canadian Institute of Chartered Accountants (the "CICA") guidelines outlined in Employee Future Benefits, Section 3461 of the CICA Handbook-Accounting ("CICA Section 3461"). CICA Section 3461 was first applied to the Corporation with effect from January 1, 2000.

The most recent full valuation was prepared as at January 1, 2007 based on the then appropriate assumptions.

The purpose of this valuation is threefold:

i) to determine the Corporation's liabilities in respect of post-retirement non-pension benefits at January 1, 2010;

ii) to determine the benefit expense for fiscal year 2010; and

iii) to provide all other pertinent information necessary for compliance with CICA Section 3461.

The intended users of this report include the Corporation and their auditors. This report is not intended for use by the plan beneficiaries or for use in determining any funding of the benefit obligations.

Dion Durrell

SUMMARY OF KEY RESULTS

The key results of this actuarial valuation as at January 1, 2010 with comparative results from the previous valuation as at January 1, 2007 are shown below:

	January 1, 2007 ($000s)	January 1, 2010 ($000s)
Accrued Benefit Obligation (ABO)		
a) People in receipt of benefits	750	723
b) Fully eligible actives	61	64
c) Not fully eligible actives	313	418
Total ABO	**1,123**	**1,205**
Current Service Cost: *for following 12 months*	29	41
Benefit Expense: *for following 12 months*	97	114
Prepaid Benefit Liability: *at January 1*		1,198

The January 1, 2010 Prepaid Benefit Liability is based on the Corporation's financial statements as at December 31, 2009.

Dion Durrell

ACTUARIAL CERTIFICATION

An actuarial valuation has been performed on the post-retirement non-pension benefit plans sponsored by the Corporation as at January 1, 2010, for the purposes described in this report.

In accordance with the Canadian Institute of Actuaries Consolidated Standards of Practice General Standards, we hereby certify that, in our opinion, for the purposes stated in the Executive Summary:

1. The data on which the valuation is based is sufficient and reliable;
2. The assumptions employed, as outlined in this report, have been selected by the Corporation as management's best estimate assumptions (no provision for adverse deviations). We have reviewed the assumptions and consider them to be appropriate for the purposes of the valuation described herein;
3. The actuarial methods employed, as outlined in Section C, are appropriate for the purpose and consistent with sound actuarial principles;
4. All known substantive commitments with respect to the post-retirement non-pension benefits sponsored by and identified by the Corporation are included in the calculations; and
5. The valuation conforms to the standards set out in the Canadian Institute of Chartered Accountants Accounting Handbook Section 3461.

We are not aware of any subsequent events from January 1, 2010 up to the date of this report that would have a significant effect on our valuation.

The latest date on which the next actuarial valuation should be performed is January 1, 2013. If any supplemental advice or explanation is required, please advise the undersigned.

Respectfully submitted,

DION, DURRELL + ASSOCIATES INC.

Stanley Caravaggio

Stanley Caravaggio FSA, FCIA

Patrick G. Kavanagh

Patrick G. Kavanagh
Actuarial Analyst

Toronto, Ontario
November 18, 2010

SECTION A—
VALUATION RESULTS

Table A - 1 shows the key valuation results for the prior valuation and the current valuation.

Table A - 2 shows the sensitivity of the valuation results to certain changes in assumptions. We have shown a change to the assumed retirement age from age 57 to age 55, and an increase/decrease in the health and dental claims cost trend rate by 1% per annum.

Table A - 3 presents the determination of the actuarial gain/(loss) from the previous valuation at January 1, 2007.

Dion Durrell

VALUATION RESULTS

Table A.1—Valuation Results
(in thousands of dollars)

	January 1, 2007	January 1, 2010
1. Accrued Benefit Obligation		
a) People in receipt of benefits	750	723
b) Fully eligible actives	61	64
c) Not fully eligible actives	313	418
Total ABO	**1,123**	**1,205**
2. Benefit Expense		
a) Current Service Cost	29	41
b) Interest Cost	59	66
c) Expected Return on Assets	-	-
d) Amortization of Transition Amount	-	-
e) Amortization of Prior Service Cost	-	-
f) Amortization of (Gain)/Losses	9	7
Total Benefit Expense *for following 12 months*	**97**	**114**
3. Expected Benefit Payments *for following 12 months*	77*	77

* Represents actual benefit payments.

Dion Durrell

SENSITIVITY ANALYSIS

Table A.2—Sensitivity Analysis
(in thousands of dollars)

	January 1, 2010			
	Valuation Results	Retirement Age 55	1% Higher Trend	1% Lower Trend
1. Accrued Benefit Obligation				
a) People in receipt of benefits	$ 723	$ 723	$ 728	$ 719
b) Fully eligible actives	64	64	65	63
c) Not fully eligible actives	418	496	462	379
Total ABO	**$ 1,205**	**$ 1,283**	**$ 1,255**	**$ 1,161**
2. Current Service Cost *for following 12 months*	$ 41	$ 48	$ 46	$ 36
3. Interest Cost *for following 12 months*	$ 66	$ 71	$ 69	$ 64
4. Expected Average Remaining Service Lifetime of the current Active Employees (years)	11	9	11	11

DEVELOPMENT OF NET GAINS OR LOSSES

Table A.3—Development of Net Gains or Losses (in thousands of dollars)

Expected ABO at December 31, 2009 per financial statements	1,198
Actual ABO at January 1, 2010	1,205
Actuarial Loss/(Gain)	7
Amortization of Unamortized Actuarial Loss	
Unamortized Net Actuarial Loss (Gain) at December 31, 2009	-
Actuarial Loss (Gain) for Current Year at January 1, 2010	7
Total Loss (Gain) at January 1, 2010	7
Less: Actual Amortization for 2010	7
Expected Unamortized Actuarial Loss (Gain) at December 31, 2010	-

Please note that the actual ABO at January 1, 2010 is approximately $7,000 higher than the expected ABO at December 31, 2009. This is due to a combination of the following factors:

- A change in the health claims cost trend rate assumptions (an increase of approximately $35,000)
- A change in the mortality table assumption (a decrease of approximately $8,000)
- Differences between the actual and expected benefit cost rates (a decrease of approximately $28,000)
- A change in the discount rate assumption (a decrease of approximately $63,000)
- Deviations from the expected demographic changes of the valued group and other miscellaneous factors (an increase of approximately $71,000 in the total ABO)

CICA Section 3461 requires entities to adopt a systematic method for recognizing actuarial gains and losses in income. Furthermore, once adopted, CICA Section 3461 requires that the method of recognizing actuarial gains/(losses) be applied consistently from year to year. In prior valuations, the Corporation has recognized the full amount of actuarial gains/(losses) in the fiscal year following the date of calculation. The amount of actuarial losses to be recognized in 2010 is approximately $7,000.

SECTION B—
PLAN PARTICIPANTS

Table B – 1 sets out the summary information with respect to the plan participants valued in the report, along with comparisons to the participants in the previous valuation at January 1, 2007.

Table B – 2 reconciles the number of participants in the last valuation to the number of participants in the current valuation.

PARTICIPANT DATA

Table B.1—Participant Data

Membership data as at January 1, 2010 was received from the Corporation via e-mail and included information such as name, sex, date of birth, date of hire, current salary, benefit amounts and other applicable details for all active employees and people in receipt of benefits.

We have reviewed the data and compared it to the data used in the prior valuation for consistency and reliability for use in this valuation. The main tests of sufficiency and reliability that were conducted on the membership data are as follows:

- Date of birth prior to date of hire
- Salaries less than $20,000 per year, or greater than $250,000 per year
- Ages under 18 or over 100
- Abnormal levels of benefits and/or premiums
- Duplicate records

In addition, the following tests were performed:

- A reconciliation of statuses from the prior valuation to the current valuation;
- A review of the consistency of individual data items and statistical summaries between the current and prior valuations; and
- A review of the reasonableness of changes in such information since the prior valuation.

Active Employees

As of January 1	2007 Male	2007 Female	2007 Total	2010 Male	2010 Female	2010 Total
Number of Employees	17	12	29	16	14	30
Average Length of Service	12.1	11.8	12.0	12.5	11.7	12.1

As of January 1, 2010	Current Age					
	Active Lives – not fully eligible			Active Lives –fully eligible		
	Count			Count		
Age Band	Male	Female	Total	Male	Female	Total
Less than 30	3	-	3	-	-	-
30-35	1	1	2	-	-	-
36-40	2	3	5	-	-	-
41-45	1	4	5	-	-	-
46-50	5	2	7	-	-	-
51-55	3	3	6	-	-	-
56-60	-	-	-	1	1	2
61-65	-	-	-	-	-	-
66-70	-	-	-	-	-	-
71-75	-	-	-	-	-	-
Greater than 75	-	-	-	-	-	-
Total	**15**	**13**	**28**	**1**	**1**	**2**

As of January 1, 2010	Average Service					
	Active Lives – not fully eligible			Active Lives –fully eligible		
	Count			Count		
Age Band	Male	Female	Total	Male	Female	Total
Less than 30	3.08	-	3.08	-	-	-
30-35	4.33	4.75	4.54	-	-	-
36-40	6.92	10.61	9.13	-	-	-
41-45	21.50	12.83	14.57	-	-	-
46-50	16.18	8.38	13.95	-	-	-
51-55	20.28	11.97	16.13	-	-	-
56-60	-	-	-	8.67	22.58	15.63
61-65	-	-	-	-	-	-
66-70	-	-	-	-	-	-
71-75	-	-	-	-	-	-
Greater than 75	-	-	-	-	-	-
Total	**12.71**	**10.81**	**11.83**	**8.67**	**22.58**	**15.63**

People in Receipt of Benefits

As of January 1	2007			2010		
	Male	Female	Total	Male	Female	Total
Number of Members	20	9	29	21	8	29

As of January 1, 2010	Expected Annual Benefit Payments		
Age Band	Male	Female	Total
Less than 30	$ -	$ -	$ -
30-35	$ -	$ -	$ -
36-40	$ -	$ -	$ -
41-45	$ -	$ -	$ -
46-50	$ -	$ -	$ -
51-55	$ 4.340	$ -	$ 4.340
56-60	$ 10,617	$ 8,616	$ 19,233
61-65	$ 4,734	$ 12,842	$ 17,576
66-70	$ 4,474	$ 358	$ 4,832
71-75	$ 3,797	$ -	$ 3,797
Greater than 75	$ 18,501	$ 1,382	$ 19,883
Total	**$ 46,463**	**$ 23,198**	**$ 69,661**

PARTICIPATION DATA

Table B.2—Participation Data

	Actives	Retirees
As at January 1, 2007	**29**	**29**
New Entrants	4	-
Active	-	2*
Part-Time (No benefits)	-	-
LTD	-	-
Terminated	(1)	-
Deceased	-	(2)
Retired	(2)*	-
As at January 1, 2010	**30**	**29**

* 1 active who retired during 2010 is included as a retiree in the above table.

SECTION C— SUMMARY OF ACTUARIAL METHOD AND ASSUMPTIONS

ACTUARIAL METHOD

The aim of an actuarial valuation of post-retirement non-pension benefits is to provide a reasonable and systematic allocation of the cost of these future benefits to the years in which the related employees' services are rendered. To accomplish this, it is necessary to:

- make assumptions as to the discount rates, salary rate increases, mortality and other decrements;
- use these assumptions to calculate the present value of the expected future benefits; and
- adopt an actuarial cost method to allocate the present value of expected future benefits to the specific years of employment.

The ABO and Current Service Cost were determined using the projected benefit method, pro-rated on service. This is the method stipulated by CICA Section 3461 when future salary levels or cost escalation affect the amount of the employee's future benefits. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the years of service in the attribution period. CICA Section 3461 stipulates that the attribution period commences at the employee's hire date and ends at the earliest age at which the employee could retire and qualify for the post-retirement non-pension benefits valued herein.

For each employee not yet fully eligible for benefits, the ABO is equal to the present value of expected future benefits multiplied by the ratio of the years of service to the valuation date to the total years of service in the attribution period. The Current Service Cost is equal to the present value of expected future benefits multiplied by the ratio of the year (or part) of service in the fiscal year to total years of service in the attribution period.

For health and dental benefits, we have used the premium rates charged to retirees as an estimate of the claims to be incurred. The total monthly premium rates, inclusive of premium taxes, used are as follows:

	Health Care		*Dental Care*	
Retirees	Single Coverage	Family Coverage	Single Coverage	Family Coverage
Union	$ 88.34	$ 242.32	$ 42.10	$ 109.24
Management	$ 88.43	$ 242.46	$ 43.32	$ 112.24

The above premium rates were provided by the Corporation and represent the rates effective January 1, 2010 to December 31, 2010.

The ABO at January 1, 2010 is based on membership data and management's best-estimate assumptions at January 1, 2010.

ACCOUNTING POLICIES

Pursuant to CICA Section 3461, the Corporation recognizes the full amount of any actuarial gains or losses as an expense in the fiscal year period following its valuation.

MANAGEMENT'S BEST ESTIMATE ASSUMPTIONS

The following are management's best estimate economic and demographic assumptions as at January 1, 2010.

ECONOMIC ASSUMPTIONS

Consumer Price Index

The consumer price index is assumed to be 2.00% per annum.

This is the same assumption used in the prior valuation.

Salary Increase Rate

The rate used to increase salaries is assumed to be 3.30% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit, and promotion.

This is the same assumption used in the prior valuation.

Discount Rate

The rate used to discount future benefits is assumed to be 5.50% per annum. This rate reflects the assumed yield on high quality debt instruments at the valuation date.

The assumption used in the previous valuation was 5.00% per annum.

Claims Cost Trend Rate

The rates used to project benefits costs into the future are as follows:

	Current Valuation		Previous Valuation	
End of Year	***Health***	***Dental***	***Health***	***Dental***
2010	8.00%	5.00%	6.00%	5.00%
2011	7.63%	5.00%	5.00%	5.00%
2012	7.25%	5.00%	5.00%	5.00%
2013	6.88%	5.00%	5.00%	5.00%
2014	6.50%	5.00%	5.00%	5.00%
2015	6.13%	5.00%	5.00%	5.00%
2016	5.75%	5.00%	5.00%	5.00%
2017	5.38%	5.00%	5.00%	5.00%
2018 and Thereafter	5.00%	5.00%	5.00%	5.00%

DEMOGRAPHIC ASSUMPTIONS

Mortality table

Mortality is assumed to be in accordance with the 1994 Uninsured Pensioner Mortality (UP-94) table, with a projection of mortality improvements to the year 2020 based upon Projection Scale AA. The use of these rates seems reasonable given this is the mortality table to be used in accordance with the Canadian Institute of Actuaries' Standard of Practice for Determining Pension Commuted Values, effective April 1, 2009.

Mortality rates are applied on a sex-distinct basis.

The previous valuation used the 1994 Uninsured Pensioner Mortality (UP-94) table, with a projection of mortality improvements to the year 2015 based upon Projection Scale AA.

Rates of Withdrawal

Termination of employment prior to age 55 was assumed to be equal to 2.00% per annum. This is the same assumption used in the prior valuation.

Retirement Age

All active employees are assumed to retire at age 57, or immediately if currently over age 57.

This assumption remains unchanged from the previous valuation.

Disability

No provision was made for future disability. It is assumed that individuals currently receiving long-term disability benefits will remain disabled until retirement at age 65. This assumption remains unchanged from the previous valuation.

Family/Single Coverage

It is assumed that the coverage type as at January 1, 2010 will remain the same into retirement. This assumption remains unchanged from the previous valuation.

Expenses and Taxes

We have assumed 10% of benefits is required for the cost of sponsoring the program for life insurance. We have assumed taxes and expenses are included in the premium rates for health and dental benefits. This is the same assumption that was used in the previous valuation.

SECTION D— SUMMARY OF POST-RETIREMENT BENEFITS

The following is a summary of the plan provisions that are pertinent to this valuation.

GOVERNING DOCUMENTS

The program is governed by the following governing documents:

- Collective Agreement between St. Thomas Energy Services and Local Union 636 of the International Brotherhood of Electrical Workers A.F. of L., C.I.O., C.L.C. in full force and effect until April 30, 2011.
- St. Thomas Energy Services Inc. (Management Employees) Benefit Handbook prepared July, 2008.

What follows is only a summary of the post retirement non-pension benefit program. For a complete description, please refer to the above-noted document.

ELIGIBILITY

All employees are eligible for post-retirement life insurance for the remainder of their lifetime. All employees who retire on an OMERS pension are eligible for post-retirement health and dental benefits.

PARTICIPANT CONTRIBUTIONS

The Corporation shall pay 100% of the cost of the post-retirement life, health, and dental insurance benefits for the eligible retirees.

PAST SERVICE

Past service is defined as continuous service prior to joining the plan if the participant was employed by another electrical distribution company/hydro prior to joining the Corporation.

LENGTH OF SERVICE

Length of service is defined as continuous service from the date of hire to the valuation date, measured in years and months.

SUMMARY OF BENEFITS

Life Insurance

Eligible employees are entitled to the following post-retirement life insurance, as per the MEARIE plan, administered by Great West Life, based upon the following table:

Plan Option	Amount of Coverage	Eligibility
1	Flat $2,000.	If employee retires with less than 10 years of service in the Plan.
2	50% of final annual earnings reducing by 2.5% of final annual earnings each year thereafter for 10 years, to a final benefit equal to 25.0% of final annual earnings. Reduction occurs on anniversary date of retirement.	If employee was ever insured under Employee Plan options 2, 3 or 4, **or** if employee retires with 10 or more years of service in Plan but was never in superseded plan.
3	50% of final annual earnings	If employee was insured under superseded plan and was hired on or after May 1, 1967 and elected coverage under Option 1 only.
4	70% of the final amount insured for under the life plan immediately prior to retirement.	If employee was insured under the superseded plan and was hired before May 1, 1967 and elected coverage under Option 1 only.

Health and Dental Benefits

Eligible employees are entitled to post-retirement health and dental benefits to age 65. Coverage for health and dental benefits continues to the eligible dependents of a deceased retiree until the retiree would have turned age 65.

Dion Durrell

SECTION E—
EMPLOYER CERTIFICATION

Post-Retirement Non-Pension Benefit Plan
of St. Thomas Energy Services Inc.
Actuarial Valuation as at January 1, 2010

I hereby confirm as an authorized signing officer of the administrator of the Post-Retirement Non-Pension Benefit Plan of St. Thomas Energy Services Inc. that, to the best of my knowledge and belief, for the purposes of the valuation:

i) the membership data summarized in Section B is accurate and complete;

ii) the assumptions upon which this report is based as summarized in Section C are management best estimate assumptions and are adequate and appropriate for the purposes of this valuation; and

iii) the summary of Plan Provisions in Section D is an accurate and complete summary of the terms of the Plan in effect on January 1, 2010.

ST. THOMAS ENERGY SERVICES INC.

NOV -5 2010
Date

[redacted]
Signature

[redacted]
Name

[redacted]
Title

Dion Durrell
Actuaries and Consultants

Dion, Durrell + Associates Inc.
250 Yonge Street, Suite 2900
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November 18, 2010

BY REGULAR MAIL

Stacy Simpson, CGA, MBA
Accounting Supervisor
St. Thomas Energy Services Inc.
135 Edward Street
St. Thomas, ON N5P 4A8

Dear Ms. Simpson:

Re: St. Thomas Energy Services Inc. Actuarial Valuation Report as at January 1, 2010: Post-Retirement Non-Pension Benefit Plan

This letter provides you with our calculation of the FY 2010 benefit expense and December 31, 2010 Accrued Benefit Obligation ("ABO") for the above noted benefit plan.

The intended users of this letter and attachments include St. Thomas Energy Services Inc. and its auditors for financial reporting in compliance with CICA guidelines in respect of its post-retirement non-pension benefit plan.

For the post-retirement non-pension plan, the FY 2010 benefit expense is approximately $114,000 and the December 31, 2010 ABO is approximately $1,235,000 with their supporting calculations summarized in the accounting worksheets hereby attached.

We have performed our calculations based on the following:

- **Plan provisions**: The plan provisions as summarized in our January 1, 2010 actuarial valuation report ("Report").
- **Data**: We have used the data as at January 1, 2010 which is summarized in the Report.
- **Assumptions**: We have used the assumptions as summarized in the Report to reflect management's best estimate assumptions at December 31, 2010.
- **Method**: We have done our calculations as at January 1, 2010 using the above information and the method described in the Report. The December 31, 2010 ABO is based on a roll forward of the January 1, 2010 results using management's best estimate assumptions as at December 31, 2010.
- **Accounting policy**: We have applied the same accounting policies described in the Report.

The calculations were performed in accordance with The Canadian Institute of Chartered Accountants (CICA) guidelines outlined in Employee Benefits, Section 3461 of the CICA Handbook – Accounting.

We are not aware of any subsequent events that would have a significant impact on our calculations.

If you have any questions regarding the above or the attached valuation report and accounting schedules, please do not hesitate to call.

Yours truly,

Stanley Caravaggio

Stanley Caravaggio, FSA FCIA
Consulting Actuary
[E-mail: stanleyc@dion-durrell.com]
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Patrick G. Kavanagh

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SC/PK:mb

Encls.

Dion Durrell

11/18/2010

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA 3461)
FINAL

	Calendar Year 2010	Projected Calendar Year 2011
Discount Rate at January 1	5.50%	5.50%
Discount Rate at December 31	5.50%	5.50%
Withdrawal Rate	2.00%	2.00%
Assumed Increase in Employer Contributions	expected*	expected*

A. Determination of Benefit Expense

	Calendar Year 2010	Projected Calendar Year 2011
Current Service Cost	40,680	42,918
Interest on Benefits	66,394	68,027
Expected Interest on Assets	-	-
Past Service Cost/(Gain)	-	-
Transitional Obligation/(Asset)	-	-
Actuarial (Gain)/Loss	7,407	-
Benefit Expense	114,481	110,945

B. Reconciliation of Prepaid Benefit Asset (Liability)

	Calendar Year 2010	Projected Calendar Year 2011
Accrued Benefit Obligation (ABO) as at December 31	1,234,850	1,263,976
Assets as at December 31	-	-
Unfunded ABO	(1,234,850)	(1,263,976)
Unrecognized Loss/(Gain)	-	-
Unrecognized Past Service Cost/(Gain)	-	-
Prepaid Benefit Asset (Liability)	(1,234,850)	(1,263,976)
Prepaid Benefit/(Liability) as at January 1	(1,197,775)	(1,234,850)
Benefit Income/(Expense)	(114,481)	(110,945)
Contributions/Benefit Payments by the Employer	77,406	81,818
Prepaid Benefit Asset (Liability)	(1,234,850)	(1,263,976)

* based on estimated employer benefit payments for those expected to be eligible for benefits

Projected calendar year 2011 figures are shown for informational purposes only. In accordance with CICA 3461 these results must be determined using assumptions appropriate to December 31, 2010.

Dion Durrell

11/18/2010

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA 3461)
FINAL

	Calendar Year 2010	Projected Calendar Year 2011
Discount Rate at January 1	5.50%	5.50%
Discount Rate at December 31	5.50%	5.50%
Withdrawal Rate	2.00%	2.00%
Assumed Increase in Employer Contributions	expected*	expected*

C. Calculation of Component Items

	Calendar Year 2010	Projected Calendar Year 2011
Calculation of the Service Cost		
- Current Service Cost	40,680	42,918
Interest on Benefits		
- ABO at January 1	1,205,182	1,234,850
- Current Service Cost	40,680	42,918
- Benefit Payments	(38,703)	(40,909)
- Accrued Benefits	1,207,159	1,236,858
- Interest	66,394	68,027
Expected Interest on Assets		
- Assets at January 1	-	-
- Funding	38,703	40,909
- Benefit Payments	(38,703)	(40,909)
- Expected Assets	-	-
- Interest	-	-
Expected ABO as at December 31		
- ABO at January 1	1,205,182	1,234,850
- Current Service Cost	40,680	42,918
- Interest on Benefits	66,394	68,027
- Benefit Payments	(77,406)	(81,818)
- Expected ABO at December 31	1,234,850	1,263,976
Expected Assets as at December 31		
- Assets at January 1	-	-
- Funding	77,406	81,818
- Interest on Assets	-	-
- Benefit Payments	(77,406)	(81,818)
- Expected Assets at December 31	-	-

Projected calendar year 2011 figures are shown for informational purposes only. In accordance with CICA 3461 these results must be determined using assumptions appropriate to December 31, 2010.

Dion Durrell

11/18/2010

St. Thomas Energy Services Inc.
ESTIMATED BENEFIT EXPENSE (CICA 3461)
FINAL

	Calendar Year 2010	Projected Calendar Year 2011
Discount Rate at January 1	5.50%	5.50%
Discount Rate at December 31	5.50%	5.50%
Withdrawal Rate	2.00%	2.00%
Assumed Increase in Employer Contributions	expected*	expected*

D. Actuarial (Gain)/Loss

	Calendar Year 2010	Projected Calendar Year 2011
(Gain)/Loss on ABO as at January 1		
- Prepaid Benefit/(Liability)	1,197,775	
- Unamortized (Gain)/Loss From Prior Year	0	
- Expected ABO	1,197,775	1,234,850
- Actual ABO	1,205,182	1,234,850
- (Gain)/Loss on ABO	7,407	-
(Gain)/Loss on assets as at January 1		
- Expected Assets	-	-
- Actual Assets	-	-
- (Gain)/Loss on Assets	-	-
Total (Gain)/Loss as at January 1	7,407	-
10% of ABO as at January 1	120,518	123,485
Total (Gain)/Loss in Excess of 10%	-	-
Expected Average Remaining Service Life (Years)	11	10
Minimum Amortization for Current Year	-	-
Actual Amortization for Current Year	7,407	-
Unamortized (Gain)/Loss as at December 31	-	-

Projected calendar year 2011 figures are shown for informational purposes only. In accordance with CICA 3461 these results must be determined using assumptions appropriate to December 31, 2010.

OM&A Cost Driver Table (Appendix 2-G)

OM&A Sources of Costs and Drivers

Appendix 2-G
OM&A Cost Driver Table

		2006	2007	2008	2009	2010	2011
O M & A Source of Cost	**Cost Driver**	**Historic Year (Last Rebasing)**	**Historic Year**	**Historic Year**	**Historic Year**	**Bridge Year**	**Test Year**
	Opening Balance (2006 Board Approved Amount)	2,651,144	3,394,865	3,546,000	3,096,848	3,247,021	3,059,876
LDC Direct Charges	Bad Debts, Collection Fees & Charges, Bank Fees etc.	-47,084	-84,373	44,042	23,949	-6,133	13,212
* Master Services Agreement - Other Charges	Third Tranche Adjustment	9,084	259,371	-56,858	0	0	0
* Master Services Agreement - Other Charges	Regulatory, Insurance, General Plant Maintenance etc.	772,350	-53,278	-447,851	142,544	-165,937	665,649
* Master Services Agreement - Other Charges	Inflationary Adjustments	6,772	32,861	20,027	25,622	21,229	42,231
* Master Services Agreement -Fixed Fee	Performance Based Adjustment	-90,000	-45,000	-45,000	-45,000	-45,000	-45,000
* Master Services Agreement -Fixed Fee	Customer Increase Adjustment	92,599	41,554	36,488	3,058	8,696	17,612
	Closing Balance	3,394,865	3,546,000	3,096,848	3,247,021	3,059,876	3,753,580

Allocation of Costs from the Affiliate to the LDC

Explanation of information in Appendix 2-G

Allocation of Costs from the Affiliate to the LDC

A Master Services Agreement ("MSA") has existed since May 21, 2004 between St. Thomas Energy Inc. (the "LDC") and St. Thomas Energy Services Inc. (the "Affiliate") such that the Affiliate is under contract to provide services to the LDC. Services covered relate to Operations, Maintenance and Administration activities ("OM&A"), Capital Construction Activities ("Capital") and any new services required by the LDC since May 21, 2004 (i.e. Conservation and Demand Management Programs). The MSA is provided in the Application at Exhibit 1, Tab 2, Schedule 4, Attachment 1.

Exhibit 1, Tab 2 (Company Overview) of the Application explains, among other items, the relationship between the LDC and the Affiliate. Exhibit 1, Tab 2, Schedules 3 and 4 provide for the basis of the following information:

<u>OM&A Cost Driver Table (Appendix 2-G of the Supplemental Filing)</u>

To illustrate more clearly the OM&A sources of cost an explanation is provided below:

LDC Direct Charges (not part of the MSA) – Items that the LDC pays for directly due to the unique nature of how the costs reach the LDC. For example banking services are charged directly to the LDC through the LDC bank account by the Financial Institution, third party collections charges and bad debts relate directly to customer accounts under the control of the LDC and third party Pole Rental Fees are part of a net transaction (pole rental revenue net of pole rental fees) invoiced directly to a third party (i.e. Bell Canada). Offset against these charges are customer collection fee revenues. Customer collection fees (as approved by the Ontario Energy Board ("OEB")) are charged to customers by the LDC to collect or attempt to collect overdue amounts.

Master Services Agreement – Fixed Fee – As part of the terms of the MSA, the LDC is charged a fixed fee that is a portion of that year's costs subject to adjustments related to: 1) the percentage increase in the number of customers year over year and 2) a productivity adjustment decrease ($45,000 based on the productivity factor applied in the 2002 Distribution Rate Adjustment OEB Decision). The impact over the 2006 to 2011 period is a decline in the overall fixed fee. Expressed as a percentage of total OM&A from 2006 to 2011 this fee has ranged from 62% to 71%. Any inflationary impacts are at the Affiliate's risk.

Master Services Agreement – Other Charges –These charges are separate and apart from the Fixed Fee. They are based on actual costs incurred by the Affiliate on behalf of the LDC and subsequently charged to the LDC. These costs have been separated in the OM&A Cost Driver Table to show: 1) those costs related to Third Tranche Conservation and Demand Management, 2) other costs related to internal and external regulatory costs, LDC Director Fees, LDC Office and Service Centre building maintenance, audit fees and insurance fees) and 3) inflationary impacts that are part of 1) and 2). Regulatory costs and building maintenance costs have varied year over year. Expressed as a percentage of total OM&A from 2006 to 2011 charges in this section have ranged from 22% to 38%.

OM&A Cost per Customer and FTEES (Appendix 2-I)

Various comparators of OM&A costs

Appendix 2-I

OM&A Cost per Customer and FTEE

	2006	2007	2008	2009	2010	2011
	Actual Year (last Rebasing)	Actual Year	Actual Year	Actual Year	Bridge Year	Test Year
Number of Customers (1)	19,931	20,251	20,770	20,950	21,134	21,314
Total OM&A from Schedule 2-G	3,394,865	3,546,000	3,096,849	3,247,022	3,059,876	3,753,580
OM&A cost per Customer	170.33	175.10	149.10	154.99	144.78	176.11
Number of FTEEs (2)	22.86	22.80	23.84	22.81	21.06	24.46
FTEEs/Customer	0.0011	0.0011	0.0011	0.0011	0.0010	0.0011
OM&A cost per FTEE	148,475.30	155,538.32	129,919.25	142,352.43	145,280.54	153,435.60

(1) Number of customers: average number of customers and connections during the year.

(2) STEI is a virtual utility, it does not have any FTEEs to report. FTEES shown are based on STEI's Affiliate, St. Thomas Energy Services Inc., servicing STEI Capital, Operations, Maintenance and Administration activities.

Affiliate Supplier Listing of Amounts

Amounts equal to or greater than $ 50,000

Activities involved and selection process used

St. Thomas Energy Services Inc - Affiliate
Supplier Listing - Annual Purchases > $ 49,999

Suppiler Name	Activity	Selection Process	Amount
2006 Total			
C.E.S. TRANSFORMER	Distribution System Transformers	RFQ	$175,195
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$77,503
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$110,684
ENERGY COST MANAGEMENT INC	Regulatory Consulting Services	Regulatory Expertise	$67,063
ERIE THAMES SERVICES	Customer Information/Financial Management Systems Application Services Provider, Billing & Metering	RFP	$241,872
GRAFTON UTILITY SUPPLY	Distribution System Other Hardware	RFQ	$96,109
OGILVY RENAULT	Regulatory Legal Services	Regulatory Expertise	$56,317
OLAMETER INC	Meter Reading & Collection Services	RFP	$154,547
PACHECOS CONTRACTORS LTD	Electricity Subdivision System Installation Services	RFQ	$356,491
SOUTHWOLD DIVERSIFIED LTD	Electricity Subdivision System Installation Services	RFQ	$147,555
UTILISMART CORPORATION	Electricity Wholesale Power Reporting Services	RFP	$56,083
WESTBURNE RUDDY ELECTRIC	Distribution System Wire/Other Hardware	RFQ	$91,014
2007 Total			
ANIXTER CANADA INC	Distribution System Wire	RFQ	$66,942
C.E.S. TRANSFORMER	Distribution System Transformers	RFQ	$158,005
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$89,310
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$136,114
COMVERGE INC.	Conservation & Demand Management Program - Ontario Power Authority	RFP	$109,919
ERIE THAMES SERVICES	Customer Information/Financial Management Systems Application Services Provider, Billing & Metering	RFP	$236,138
GUELPH UTILITY POLE	Distribution System Poles	RFQ	$106,443
HD SUPPLY UTILITIES	Distribution System Transformers	RFQ	$80,747
OLAMETER INC	Meter Reading & Collection Services	RFP	$152,580
PACHECOS CONTRACTORS LTD	Electricity Subdivision System Installation Services	RFQ	$585,877
TUROLIGHT	Conservation & Demand Management Program - Third Tranche	Unique Market	$58,092
UTILISMART CORPORATION	Electricity Wholesale Power Reporting Services	RFP	$60,407
2008 Total			
ABB INC	Distribution System Transformers	RFQ	$77,083
C.E.S. TRANSFORMER	Distribution System Transformers	RFQ	$100,747
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$74,684
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$116,306
DAVEY TREE EXPERT CO	Tree Trimming Services	RFQ	$52,026
ERIE THAMES SERVICES	Customer Information/Financial Management Systems Application Services Provider, Billing & Metering	RFP	$211,324
GUELPH UTILITY POLE	Distribution System Poles	RFQ	$51,998
HD SUPPLY UTILITIES	Distribution System Transformers	RFQ	$160,189
OLAMETER INC	Meter Reading & Collection Services	RFP	$161,435
PACHECOS CONTRACTORS LTD	Electricity Subdivision System Installation Services	RFQ	$342,671
SOUTHWOLD DIVERSIFIED LTD	Electricity Subdivision System Installation Services	RFQ	$403,152
TILTRAN SERVICES INC.	Electricity Distribution Substation Maintenance	RFQ	$59,969
UTILISMART CORPORATION	Electricity Wholesale Power Reporting Services	RFP	$52,730
WOLSELEY MECHANICAL GROUP	Distribution System Wire/Other Hardware	RFQ	$55,984

St. Thomas Energy Services Inc - Affiliate
Supplier Listing - Annual Purchases > $ 49,999

Suppiler Name	Activity	Selection Process	Amount
2009 Total			
ABB INC	Distribution System Transformers	RFQ	$52,591
BURMAN ENERGY CONSULTANTS	Conservation & Demand Management Program - Ontario Power Authority	Unique Service	$77,738
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$77,515
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$108,356
DAVEY TREE EXPERT CO	Tree Trimming Services	RFQ	$60,379
ECALIBER (formerly Erie Thames Services)	Customer Information/Financial Management Systems Application Services Provider, Billing & Metering	RFP	$167,607
ENER SPECTRUM GROUP	Conservation & Demand Management Program - Ontario Power Authority	Unique Service	$103,718
GREEN ENERGY DYNAMICS	Conservation & Demand Management Program - Ontario Power Authority	Unique Service	$69,348
GUELPH UTILITY POLE	Distribution System Poles	RFQ	$54,058
HD SUPPLY UTILITIES	Distribution System Transformers	RFQ	$99,103
OLAMETER INC	Meter Reading & Collection Services	RFP	$145,680
WOLSELEY MECHANICAL GROUP	Distribution System Wire/Other Hardware	RFQ	$55,700
2010 Total			
ANIXTER CANADA INC	Distribution System Wire	RFQ	$55,131
BURMAN ENERGY CONSULTANTS	Conservation & Demand Management Program - Ontario Power Authority	Unique Service	$286,020
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$83,962
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$105,987
COOPER POWER SYSTEMS	Conservation & Demand Management Program - Ontario Power Authority	Unique Market	$79,914
DAVEY TREE EXPERT CO	Tree Trimming Services	RFQ	$61,800
ECALIBER (formerly Erie Thames Services)	Customer Information/Financial Management Systems Application Services Provider, Billing & Metering	RFP	$168,762
EKSTROM INDUSTRIES	Smart Meter Hardware	RFQ	$91,848
ELSTER METERING	Smart Meters	London RFP	$1,700,929
ENERGY COST MANAGEMENT INC	Regulatory Consulting Services	Regulatory Expertise	$66,547
GUELPH UTILITY POLE	Distribution System Poles	RFQ	$65,460
HD SUPPLY UTILITIES	Distribution System Transformers	RFQ	$81,118
OLAMETER INC	Meter Reading & Collection Services/ Smart Metering Installation	RFP	$309,998
PACHECOS CONTRACTORS LTD.	Electricity Subdivision System Installation Services	RFQ	$214,534
UTIL-ASSIST	Smart Meter Project Management	RFP	$77,646
2011 Total			
ANDREW TAYLOR, ENERGY LAW	Regulatory Legal Services	Regulatory Expertise	$69,750
ANIXTER CANADA INC	Distribution System Wire	RFQ	$60,000
CANADA POST CORPORATION	Mail Delivery Services - Customer Billing & Collecting	Federal Gov't Service	$85,000
CITY OF ST THOMAS	Municipal Property Taxes	Municipal	$110,000
DAVEY TREE EXPERT CO	Tree Trimming Services	RFQ	$62,000
ELENCHUS RESEARCH CONSULTANTS	Regulatory Consulting Services	Regulatory Expertise	$116,200
GUELPH UTILITY POLE	Distribution System Poles	RFQ	$75,000
HD SUPPLY UTILITIES	Distribution System Transformers	RFQ	$90,000
KPMG	IFRS Consulting Services	RFP	$50,000
OLAMETER INC	Meter Reading & Collection Services	RFP	$150,000
SUPPLIER TO BE DETERMINED	Electricity Subdivision System Installation Services	RFQ	$240,000
SUPPLIER TO BE DETERMINED	Electricity Distribution Substation Maintenance	RFQ	$60,000
SUPPLIER TO BE DETERMINED	Conservation & Demand Management Program - Ontario Power Authority	Unique Market & Services	$300,000
UTILITY COLLABORATIVE SERVICES	Customer Information/Financial Management Systems Application Services Provider & Billing	RFP	$165,000
WOLSELEY MECHANICAL GROUP	Distribution System Wire/Other Hardware	RFQ	$60,000

2009 Affiliate Audited Financial Statements

As prepared by External Audit Firm

ST.THOMAS ENERGY SERVICES INC.

Financial Statements

December 31, 2009

ST.THOMAS ENERGY SERVICES INC.

Financial Statements

For the Year Ended December 31, 2009

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AUDITORS' REPORT

To the shareholder of
St. Thomas Energy Services Inc.

We have audited the balance sheet of **St. Thomas Energy Services Inc.** as at December 31, 2009 and the statements of retained earnings, operations and cash flow 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 company as at December 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

St. Thomas, Ontario
February 25, 2010

Graham Scott Enns LLP
CHARTERED ACCOUNTANTS
Licensed Public Accountants

ST.THOMAS ENERGY SERVICES INC.

Balance Sheet
As At December 31, 2009

	2009 $	2008 $
ASSETS		
CURRENT ASSETS		
Accounts receivable (net of allowance $32,000; 2008 - $32,000)	**652,792**	679,795
Inventory	**394,333**	419,722
Payment in lieu of taxes recoverable	**175,252**	270,934
Prepaid expenses	**139,629**	160,133
Current portion - Note receivable (Note 3)	**56,944**	52,973
Current portion - Due from related parties (Note 13)	**1,371,442**	2,123,683
Current portion - Deferred charges (Note 4)	**13,235**	26,470
	2,803,627	3,733,710
PROPERTY, PLANT & EQUIPMENT (NOTE 5)	**1,638,051**	1,621,852
OTHER ASSETS		
Deferred charges (Note 4)	**-**	13,235
Note receivable (Note 3)	**14,891**	71,835
Future payment in lieu of taxes recoverable	**345,200**	365,900
Due from St. Thomas Holding Inc. (Note 13)	**2,243,795**	1,077,008
Note Receivable from St. Thomas Holding Inc. (Note 13)	**3,500,000**	3,500,000
	6,103,886	5,027,978
TOTAL ASSETS	**10,545,564**	10,383,540
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	**484,729**	374,571
Accounts payable and accrued liabilities	**818,927**	794,803
Due to City of St. Thomas (Note 13)	**2,024,706**	1,999,898
Current portion of long-term debt (Note 7)	**44,440**	42,025
Current portion of employee retirement liabilities (Note 8)	**91,000**	91,000
	3,463,802	3,302,297
DEFERRED REVENUE (NOTE 9)	**69,996**	73,329
LONG-TERM DEBT (NOTE 7)	**149,235**	193,675
EMPLOYEE RETIREMENT BENEFIT LIABILITIES (NOTE 8)	**1,106,775**	1,082,931
	4,789,808	4,652,232
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (NOTE 10)	**4,296,055**	4,296,055
RETAINED EARNINGS	**1,459,701**	1,435,253
	5,755,756	5,731,308
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**10,545,564**	10,383,540

See accompanying notes to the financial statements.

ST.THOMAS ENERGY SERVICES INC.

Statement of Retained Earnings
For the Year Ended December 31, 2009

	2009	2008
	$	$
BALANCE, BEGINNING OF YEAR	**1,435,253**	1,065,276
Net earnings for the year	**24,448**	369,977
BALANCE, END OF YEAR	**1,459,701**	1,435,253

See accompanying notes to the financial statements.

ST.THOMAS ENERGY SERVICES INC.

Statement of Operations
For the Year Ended December 31, 2009

	2009 $	2008 $
REVENUES		
Services to related parties (Note 13)	**6,502,204**	7,385,169
Services to unrelated parties	**333,493**	353,513
Other	**8,952**	4,632
Interest	**14,404**	18,076
	6,859,053	7,761,390
OPERATING EXPENSES		
Administrative wages and benefits	**1,252,837**	1,190,088
Administrative	**743,661**	742,227
Amortization	**255,263**	261,079
Business promotion	**6,652**	4,607
Materials and subcontracting	**2,610,844**	3,162,946
Operational wages and benefits	**1,782,745**	1,714,579
Professional services and consulting	**18,338**	16,696
Vehicle expenses	**144,428**	150,826
	6,814,768	7,243,048
EARNINGS FROM OPERATIONS	**44,285**	518,342
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	**2,100**	81,000
EARNINGS BEFORE PAYMENTS IN LIEU OF TAXES	**46,385**	599,342
PROVISION FOR PAYMENTS IN LIEU OF TAXES (NOTE 11)		
Current	**1,237**	178,965
Future	**20,700**	50,400
	21,937	229,365
NET EARNINGS FOR THE YEAR	**24,448**	369,977

See accompanying notes to the financial statements.

ST.THOMAS ENERGY SERVICES INC.

Statement of Cash Flow
For the Year Ended December 31, 2009

	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**6,868,317**	7,709,181
Cash paid to suppliers and employees	**(6,545,508)**	(7,391,481)
Interest received	**14,404**	18,076
Interest paid	**(14,513)**	(7,242)
Payment in lieu of income taxes paid	**94,445**	(627,099)
Cash flows (used in) from operating activities	**417,145**	(298,565)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(271,461)**	(558,229)
Proceeds on disposal of property, plant and equipment	**2,100**	81,000
Decrease in note receivable	**52,973**	49,279
Note receivable issued to St. Thomas Holding Inc.	**-**	(3,500,000)
Cash flows (used in) investing activities	**(216,388)**	(3,927,950)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to City of St. Thomas	**24,808**	84,034
(Decrease) increase in term debt	**(42,025)**	235,700
Decrease in due from St. Thomas Energy Inc.	**391,170**	508,305
(Increase) in due from St. Thomas Holding Inc.	**(684,868)**	(586,927)
Cash flows (used in) from financing activities	**(310,915)**	241,112
NET DECREASE IN CASH DURING THE YEAR	**(110,158)**	(3,985,403)
BANK INDEBTEDNESS, BEGINNING OF YEAR	**(374,571)**	3,610,832
BANK INDEBTEDNESS, END OF YEAR	**(484,729)**	(374,571)

See accompanying notes to the financial statements.

1. NATURE OF THE BUSINESS

St. Thomas Energy Services Inc. (the Company) is incorporated under the Business Corporations Act (Ontario) on November 3, 2000 and is wholly owned by St. Thomas Holding Inc. The principal business of St. Thomas Energy Services Inc. is to provide service support to St. Thomas Energy Inc. and other organizations within the St. Thomas area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the financial statements have been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Accounting Estimates

These preparation of financial statements in accordance with Canadian generally accepted accounting principals require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Financial Instruments

The corporation has adopted Sections 3855, "Financial Instruments- Recognition and Measurement", 3862, "Financial Instruments – Disclosures", and 3863, "Financial Instruments - Presentation", of The Canadian Institute of Chartered Accountants (CICA) Handbook. These standards provide recommendations on recognizing and measuring financial assets and financial liabilities.

These standards require that all financial instruments be classified into one of five categories: held-for-trading, available for sale, held-to-maturity, loans and receivables or other liabilities. All financial instruments are measured on the balance sheet at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. The company has classified its financial instruments as follows: accounts receivable, notes receivable, and due from related parties are classified as loans and receivables; bank indebtedness, accounts payable and due to related parties are classified as other liabilities.

Revenue Recognition

Revenue is recognized when realized and earned. Revenue is considered to be realized and earned when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collection is reasonably assured and performance requirements are met. Specifically, the company recognizes revenue from services on the completion of the work order.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water Accounts Receivable

Water and sewer accounts receivable are maintained by the corporation on behalf of the City of St. Thomas.

Property, Plant & Equipment

Equipment is stated at cost and is amortized on the straight-line basis over the estimated service life. The amortization rates are as follows:

	Life Years	Rate
Substations	30	3.33%
Fibre optics	25	4.00%
Rolling stock (over 3 tons)	8	12.50%
Rolling stock (under 3 tons)	5	20.00%
Water heater rental units	10	10.00%
Miscellaneous equipment	10	10.00%
Computers	5	20.00%
Office	10	10.00%

When non-grouped equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings. Grouped property, plant and equipment are, by their nature not readily identifiable as individual assets. The related cost and accumulated amortization is therefore removed from the respective accounts at the end of their estimated useful life regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined at laid down cost on the average cost basis.

Pension Agreements

The corporation makes contributions to the Ontario Municipal Employees Retirement System Pension Fund (OMERS), which is a multi-employer plan, on behalf of members of its staff. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by employees based on length of service and rates of pay.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Corporate Income and Capital Taxes

Under the Electricity Act, 1998, St. Thomas Energy Services Inc. is required to make payments in lieu of corporate taxes to Ontario Electric Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The future tax method of income tax allocation is used by the corporation. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

3. NOTE RECEIVABLE

The note receivable is from a customer for a transformer purchase, paid in blended monthly payments of $5,024 bearing an interest rate of 7.25% and is due January 2011. The note is classified in the financial instrument category of loans and receivables.

4. DEFERRED CHARGES

	Cost	Accumulated Amortization	**2009**	2008
	$	$	**$**	$
Billing software conversion costs	133,477	120,242	**13,235**	39,705
Less: Current portion			**13,235**	26,470
			-	13,235

Billing software conversion cost are to be amortized to operations over a term of five years.

5. PROPERTY, PLANT & EQUIPMENT

	Cost $	Accumulated Amortization $	**2009 $**	2008 $
Fibre optics	479,483	87,106	**392,377**	401,052
Mobile substation	400,848	167,849	**232,999**	245,943
Rolling stock	1,235,234	1,032,553	**202,681**	225,411
Water heater rental units	1,978,978	1,371,321	**607,657**	543,523
Miscellaneous equipment	804,038	724,012	**80,026**	93,878
Computers	980,751	904,379	**76,372**	96,052
Office	272,884	226,945	**45,939**	15,993
	6,152,216	4,514,165	**1,638,051**	1,621,852

6. BANK INDEBTEDNESS

The company operating lines are guaranteed by St. Thomas Holding Inc in the amount of $1,100,000 and St. Thomas Energy Inc in the amount of $1,100,000. The company has an authorized operating line of credit of $500,000 at a rate of bank prime less 0.375%, of which $350,000 was drawn as at December 31, 2009. The company has an authorized revolving line of credit of $500,000 for machinery and equipment acquisitions at the bank's prime lending rate with a option to set a fixed rate at prime plus 1.6%, of which $193,675 had been drawn as at December 31, 2009 (note 7). The indebtedness is classified in the financial instrument category of other financial liabilities.

7. LONG TERM DEBT

	2009 $	2008 $
Term note - Bank of Nova Scotia, repayable in blended monthly instalments of $4,513, prime plus 1.6% (prime was 2.25% at Dec. 31), due December 2013, secured by vehicle.	**193,675**	235,700
Less: Current portion	**44,440**	42,025
	149,235	193,675

Interest expense for the year on long term debt was $8,684 (2008-$1,002).

The loans are classified as other financial liabilities. Principal repayments are scheduled as follows:

	$
2010	44,440
2011	46,993
2012	49,694
2013	52,548

8. EMPLOYEE RETIREMENT BENEFIT LIABILITIES

Employee future benefits are liabilities of the Company to its employees for benefits provided to retirees until they reach 65 years of age as at December 31, 2009. The last actuarial review was completed as at December 31, 2007. The significant assumptions are as follows:

General Inflation	2.2%
Discount rate	5.25%
Assumed salary increase per annum	3.3%
Healthcare cost increase	5.0% - 9.0%
Average retirement age	57 years

	2009	2008
	$	$
Accrued benefit obligation, January 1	**1,173,931**	1,155,754
Current service cost	**32,249**	30,640
Interest cost	**59,091**	58,937
Benefits paid for the year	**(67,496)**	(71,400)
Accrued benefit obligation, December 31	**1,197,775**	1,173,931
Less: current portion	**91,000**	91,000
	1,106,775	1,082,931

The amount contributed to OMERS for 2009 was $174,159 (2008 - $169,563) for current services.

9. DEFERRED REVENUE

The corporation has entered into a twenty five year contract with Hydro One Telecom Inc. for the use of a portion of St. Thomas Energy Services Inc. fibre optic line in the City of St. Thomas. As part of this contract Hydro One Telecom Inc. has paid in advance to the corporation $83,328 to be amortized into income over the life of the contract ($3,333 annually). There are 21 years remaining in the life of the contract.

10. CAPITAL STOCK

	2009 $	2008 $
Authorized Capital:		
Unlimited common shares		
Stated Capital:		
1,000 Common shares	**4,296,055**	4,296,055

11. PROVISION FOR PAYMENT IN LIEU OF TAXES

	2009 $	2008 $
Income before provision for PIL's	**46,385**	599,342
Combined rate of federal and provincial income tax	**33.0%**	33.5%
Provision for PIL's at statutory rate	**15,539**	200,780
Increases resulting from:		
Capital taxes included in PIL provision (net of tax)	**-**	2,993
Change in corporate rate for future taxes	**5,230**	23,052
Other	**1,168**	2,540
	21,937	229,365

12. COMMITMENTS

At December 31, 2009, the Company was committed to operating lease payments for computer hardware and automobiles in the following approximate amounts over the next five years:

	$
2010	23,062
2011	3,682
2012	1,209
2013	-
2014	-

13. RELATED PARTY TRANSACTIONS

During the year, the Company had business transactions with St. Thomas Energy Inc., St. Thomas Holding Inc., 2154310 Ontario Inc., Tiltran Services Inc., Lizco Sales Inc., Tall Trees Inc. and the City of St. Thomas. The Company contracts with St. Thomas Energy Inc. to build and maintain their capital infrastructure as well as bill and collect their sales revenues. The terms of the transactions are as set out in the services agreement and are adjusted to attempt to correspond with market rates. The Company contracts with St. Thomas Holding Inc., 2154310 Ontario Inc., Tiltran Services Inc., Lizco Sales Inc. and Tall Trees Inc. to provide accounting and administrative services. The Company contracts with the City of St. Thomas for the billing and collecting their water and sewer charges.

The particulars of these transactions and balances owing from or to these corporations for the years ended December 31, were as follows:

	2009	2008
	$	$
Service revenue transactions during the year:		
St. Thomas Energy Inc.	**5,269,715**	6,382,662
St. Thomas Holding Inc.	**549,712**	308,053
City of St. Thomas	**430,553**	464,201
Interest received on intercompany loans	**2,413**	-
Building rental payments to St. Thomas Energy Inc.	**265,225**	257,500
Sale of vehicle to Tiltran Services Inc.	**-**	10,000
Management service fees to Tiltran Services Inc., Lizco Sales Inc. Tall Trees Inc. and 2154310 Ontario Inc.	**163,201**	140,037
Balances at end of year:		
Amounts due from related parties (current)		
St. Thomas Energy Inc.	**1,250,591**	1,641,761
2154310 Ontario Inc.	**120,851**	250,526
Tiltran Services Inc.	**-**	113,295
Lizco Sales Inc.	**-**	118,101
	1,371,442	2,123,683
Note Receivable from St. Thomas Holding Inc. (long-term)	**3,500,000**	3,500,000
Due from St. Thomas Holding Inc.	**2,243,795**	1,077,008
Amounts due to City of St. Thomas	**2,024,706**	1,999,898

The Note Receivable from St. Thomas Holding Inc. was advanced on January 1, 2008, and is non interest bearing. The entire principal is due in full on January 3, 2013.

14. ECONOMIC DEPENDENCY

The Company derives the majority of its revenue from related parties and as a result, the Company is economically dependent on these related parties to ensure its ability to operate as a going concern.

15. CONTINGENT LIABILITIES

The company has guaranteed the bank indebtedness of a related company, St Thomas Energy Inc, to a maximum of $7,259,216. At December 31, 2009, St Thomas Energy Inc had not drawn upon the credit facilities guaranteed by St. Thomas Energy Services Inc.

16. NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to commence in 2011. On February 13, 2008 the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. As such, the Company will apply IFRS to its financial statements ending December 31, 2011 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2010, for comparative purposes. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

17. CAPITAL DISCLOSURES

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The company considers its capital structure to consist of shareholder's equity, payable to related parties, long-term debt, and cash and bank indebtedness.

The company manages it capital and makes adjustments to it in light of economic conditions. The company will balance its overall capital structure through the payment of dividends, the repayment of debt or by undertaking other activities as deemed appropriate under specific circumstances.

The company is not subject to any covenant restrictions.

18. FINANCIAL INSTRUMENTS

Accounts receivable and balances due from related party are classified as loans and receivables. Accounts payable and accrued liabilities, and due to related party are classified as other financial liabilities.

Foreign currency risk

The company has no significant sales or purchases in foreign currencies.

Credit risk

The company does not have any significant exposure to any individual customer. The company may require payment guarantees, such as a letter of credit or customer deposits.

Fair value

The carrying value of accounts receivable, inventory, note receivable, accounts payable and accrued liabilities and long-term debt approximate their fair values due to the near-term maturity of these instruments. The carrying value of amounts due to related parties may not approximate fair value as they are non-interest bearing and there are no specific terms of repayment.