PROCEDURAL ORDER NO.2

GUELPH HYDRO ELECTRIC SYSTEMS INC. (“Guelph Hydro”)

TCQ _ RESPONSES TO THE BOARD STAFF’S INTERROGATORIES ON

2012 ELECTRICITY DISTRIBUTION COST OF SERVICE RATES

FILE NUMBER EB-2011-0123

October 26, 2011

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General

1) Ref: Revenue Requirement Work Form

Please update the application to reflect changed evidence as a result of the first round of interrogatories including a table of content/exhibit list to show all relevant updates by date and schedules.

Please update the RRWF using the middle column to reflect the changes and updates to the evidence as a result of the first round of interrogatory responses.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

Issue 1.2 Are the Applicant's overall economic and business planning assumptions for the Test Year appropriate?

2) Ref: Board staff IRR #76, Appendix Guelph_BoardStaff_IRR_#3, p.10 and 13

a) Please explain and reconcile the difference between the decrease in amortization expense as a result of increase in useful lives of distribution assets of $2,836,000 on Page 13 Note (1) (b) and $3,409,000 on Page 10 Note (2) (1).

Guelph Hydro's Response:

Guelph Hydro apologizes as the $3,409,000 in note 2 of Table 1 is an old amount, the correct decrease in amortization expense as a result of the increase in useful lives of the company's PP&E is $2,836,000. This reduction is due to an offsetting change to the useful life of the related contributed capital from 25 years under CGAAP to 40 years under MIFRS. When Guelph Hydro calculated the $3,409,000 amount we inadvertently did not increase the useful life of the contributed capital. Note 2 should be changed to read that there was a $2,836,000 reduction in accumulated depreciation which was caused by the change in useful lives of the company's PP&E (including the related contributed capital) and the reclassification of net contributed capital to deferred revenue in the amount of $28,363,000 (this number is also impacted by the reduction in amortization of the contributed capital and it also was inadvertently not changed).

b) If the amortization expense for 2010 will be revised as a result of the above question, please update the applicable schedules for the revenue requirement and rate base calculations, including the 2010 calculations.

Guelph Hydro's Response:

No, the amortization expense used in the revised schedules in Appendix Guelph_BoardStaff_IRR_#3 included the correct amortization expense as identified by the $2,836,000 reduction. The old figure of $3,409,000 was only a notational explanation of the change in NBV of which included an offsetting error due to the new useful life of contributed capital as stated in a) above.

3) Ref: Board Staff IRR #76, Appendix Guelph_BoardStaff_IRR_#3

In Appendix Guelph_Board staff_IRR_#3 Guelph Hydro shows decreases in amortization expense in various tables, as follows:

(1) page 13, table 5 – Grossed Up PILS calculation for 2010 of 1,995,000 ($1,988,000 + $7,000 (as included in operations and maintenance account)
(2) On page 13, table 2 – MIFRS Impact on Revenue Requirements: $2,836,000
(3) On page 10, table 1 – MIFRS Impact on Rate Base: $3,409,000

Please provide an explanation and reconcile the difference in the decreases in amortization expense shown in these tables.

Guelph Hydro's Response:

An explanation of items 2) $2,836,000 and 3) $3,409,000 are outlined in Guelph Hydro's response to Q#2. Item 1) $1,988,000 represents the reduction in amortization of PP&E not taking into consideration the amortization of contributed capital. Table 5 separately discloses the amortization of contributed capital as an increase in Other Revenue $848,000 instead of an additional decrease of Depreciation & Amortization.

4) Ref: Energy Probe IR # 2 i)

In part i) of the response to Energy Probe IR # 2, Guelph Hydro states that it has used a 15 year life for the computer software capital additions of $1.1M, and that the 15-year life is consistent with the economic life of smart meter assets. Guelph Hydro has also used a 15-year life for computer software as shown on row 62 of sheet “3. LDC Assumptions and Data” of the updated Smart Meter Model filed on September 30, 2011.

a) What is the nature of the software that was invested in?

Guelph Hydro’s Response:

Response to be provided before the Settlement Conference.

b) Typically, computer hardware and software have shorter economic lives, in large part driven by technological obsolescence. Economic lives in the range of 3 to 5 years are more commonly used. However, the nature and cost of computer hardware and software assets may have shorter or longer lives than the norm. Please provide further explanation as to why Guelph Hydro believes that a 15 year life is appropriate for the computer software investment associated with smart meter deployment.

Guelph Hydro’s Response:

Response to be provided before the Settlement Conference.

Issue 2.1 Is the proposed rate base for the test year appropriate?

5) Ref: Board staff IRR #7b, #24, #81b) and SEC IRR #28

In Board staff IRR #7b and #24 Guelph Hydro states that a full year of depreciation calculation was used for rate making purposes for the 2012 test year. In SEC #28 Guelph states "Guelph Hydro has provided you with Appendix 2-M where years 2008 – 2011 do not use the half year rule and then 2012 applies the half year rule on all current additions".

a) Please reconcile these statements and amounts and provide a detailed explanation of how depreciation expenses were calculated for rate setting for the 2012 test year. If a full year depreciation was used please provide further explanation as to why Guelph Hydro feels that it is appropriate to use a full year depreciation calculation for rate setting purposes.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

b) Please confirm that the depreciation expense of $5,487,492 for the 2012 test year as shown in Board staff IRR 81b) is based on a full year depreciation calculation.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

c) If applicable, please restate the 2012 depreciation expense using the half year rule and update all relevant tables.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

Issue 2.3 Is the capital expenditure forecast for the test year appropriate?

6) Ref: Board staff IRR #9

Please confirm that the summary of capital expenditures shown in table 1 below correctly represents Guelph Hydro's capital investments from 2006 to 2012.

Table 1

DISTRIBUTION CAPITAL BUDGET SUMMARY	**2006**	**2007**	**2008**	**2009**	**2010**	**2011 Bridge**	**2012 Test**
CAPITAL PROJECT: DISTRIBUTION STATIONS							
TOTAL DISTRIBUTION SUBSTATION CAPITAL				**$1,819,261**	**$762,405**	**$10,875,000**	**$0**
CAPITAL PROJECT: DISTRIBUTION FEEDERS							
Total Feeders - General	$1,344,983	$957,922	$2,671,584	$2,228,772	$1,279,381	$2,400,334	$2,388,017
Total Feeders - Line Modifications for New Projects	$17,131	$325,335	$3,350,007	$2,559,590	$452,311	$1,142,676	$360,907
Total Feeders - Line Relocations	$1,043,514	$709,593	$535,205	$1,411,002	$3,411,849	$607,670	$965,032
Total Feeders - Switching devices	$119,346	$505,872	$109,508	$342,126	$80,515	$170,368	$171,290
Total Feeders - Capacitor Banks	$0	$138,948	$54,305	$20,765	$9,888	$67,778	$68,552
TOTAL DISTRIBUTION FEEDER CAPITAL	$2,524,974	$2,637,670	$6,720,609	$6,562,255	$5,233,944	$4,388,826	$3,953,798
CAPITAL PROJECT: REHABILITATION							
Total Rehabilitation - Replacement	$1,012,445	$1,852,213	$2,125,203	$1,673,282	$955,236	$2,289,567	$2,539,392
Total Rehabilitation - Transformer Upgrades	$132,166	$102,321	$349,631	$178,112	$165,598	$222,716	$223,211
Total Rehabilitation - Protective Devices	$0	$24,714	$0	$43,490	$0	$31,223	$31,530
Total Rehabilitation - Upgrade Underground Terminations	$0	$0	$0	$0	$0	$0	$0
Total Rehabilitation - Faulted Circuit Indicators		$0	$0	$0	$0	$10,089	$10,212
TOTAL REHABILITATION CAPITAL	$1,144,611	$1,979,248	$2,474,834	$1,894,884	$1,120,834	$2,553,595	$2,804,345
CAPITAL PROJECT: SUBDIVISIONS							
Total Subdivisions - Industrial	$0	$0	$0	$0	$0	$0	$0
Total Subdivisions - Residential	$1,743,006	$2,034,891	$1,332,503	$778,357	$639,333	$1,420,763	$1,463,399
Total Subdivisions - Townhousing	$184,455	$285,355	$204,360	$29,436	$882,719	$288,468	$296,512
Total Subdivisions - Service Installations	$345,816	$237,174	$286,687	$202,427	$270,447	$237,243	$239,928
TOTAL SUBDIVISIONS CAPITAL	$2,273,277	$2,557,420	$1,823,550	$1,010,220	$1,792,499	$1,946,474	$1,999,839
CAPITAL PROJECT: AP/CM/IN SERVICING							
TOTAL AP/CM/IN SERVICING CAPITAL	$1,199,244	$876,858	$1,213,922	$559,063	$668,149	$549,378	$570,315
CAPITAL PROJECT: METERING							
Total Metering - General				$1,768,016	-$405,170	$553,043	$625,000
Total Metering - RIMS				$0	$0	$0	$0
Total Metering - Smart				$1,321,378	$6,399,161	$55,467	$0
TOTAL METERING CAPITAL	$1,610,512	$384,017	$855,835	$3,089,394	$5,993,991	$608,510	$625,000
CAPITAL PROJECT/CATEGORY: SCADA							
TOTAL SCADA CAPITAL CSC	$223,505	$25,268	$43,903	$153,167	$182,529	$253,699	$200,000
SUB-TOTAL	**$8,976,123**	**$8,460,481**	**$13,132,653**	**$15,088,244**	**$15,754,351**	**$21,175,482**	**$10,153,297**
Capital Contributions	-$2,915,053	-$2,813,022	-$5,836,182	-$3,631,517	-$3,828,745	-$3,079,402	-$2,425,000
NET CAPITAL EXPENDITURES	$ 6,061,070	$ 5,647,459	$ 7,296,471	$ 11,456,727	$ 11,925,606	$ 18,096,080	$7,728,297
Vehicle replacement			$ 248,000	$ 430,700	$ 628,700	$ 450,000	$ 485,000

Guelph Hydro's Response:

The summary of capital expenditures shown in table 1 refers to distribution capital projects only. Guelph Hydro would like to correct the above table with the following:

DISTRIBUTION CAPITAL BUDGET SUMMARY	2006	2007	2008	2009	2010	2011 Bridge	2012 Test
CAPITAL PROJECT: DISTRIBUTION STATIONS						Budget	Budget
TOTAL DISTRIBUTION SUBSTATION CAPITAL				$ 1,819,261	$ 762,405	$ 10,875,000	$ -
CAPITAL PROJECT: DISTRIBUTION FEEDERS							
Total Feeders - General	$ 1,344,983	$ 957,922	$ 2,671,584	$ 2,228,772	$ 1,279,381	$ 2,400,334	$ 2,388,017
Total Feeders - Line Modifications for New Projects	$ 17,131	$ 325,335	$ 3,350,007	$ 2,559,590	$ 471,929	$ 1,142,676	$ 360,906
Total Feeders - Line Relocations	$ 1,043,514	$ 709,592	$ 535,205	$ 1,411,002	$ 3,411,849	$ 607,670	$ 965,029
Total Feeders - Switching Devices	$ 119,346	$ 505,872	$ 109,508	$ 342,126	$ 80,515	$ 170,368	$ 171,288
Total Feeders - Capacitor Banks	$ -	$ 138,948	$ 54,305	$ 20,765	$ 9,888	$ 67,778	$ 68,552
TOTAL DISTRIBUTION FEEDER CAPITAL	$ 2,524,974	$ 2,637,668	$ 6,720,609	$ 6,562,256	$ 5,253,560	$ 4,388,825	$ 3,953,790
CAPITAL PROJECT: REHABILITATION							
Total Rehabilitation - Replacement	$ 1,012,445	$ 1,852,213	$ 2,125,203	$ 1,673,282	$ 955,236	$ 2,289,567	$ 2,539,380
Total Rehabilitation - Transformer Upgrades	$ 132,166	$ 102,321	$ 349,631	$ 178,112	$ 165,598	$ 222,716	$ 223,207
Total Rehabilitation - Protective Devices	$ -	$ 24,714	$ -	$ 43,490	$ -	$ 31,223	$ 31,529
Total Rehabilitation - Upgrade Underground Terminations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Rehabilitation - Faulted Circuit Indicators	$ -	$ -	$ -	$ -	$ -	$ 10,089	$ 10,212
TOTAL REHABILITATION CAPITAL	$ 1,144,611	$ 1,979,247	$ 2,474,835	$ 1,894,884	$ 1,120,833	$ 2,553,594	$ 2,804,327
CAPITAL PROJECT: SUBDIVISIONS							
Total Subdivisions - Industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Subdivisions - Residential	$ 1,743,006	$ 2,034,891	$ 1,332,503	$ 778,357	$ 639,333	$ 1,420,763	$ 1,463,386
Total Subdivisions - Townhousing	$ 184,455	$ 285,355	$ 204,360	$ 29,436	$ 882,719	$ 288,468	$ 296,510
Total Subdivisions - Service Installations	$ 345,816	$ 237,174	$ 286,687	$ 202,427	$ 270,447	$ 237,243	$ 239,927
TOTAL SUBDIVISIONS CAPITAL	$ 2,273,277	$ 2,557,420	$ 1,823,549	$ 1,010,219	$ 1,792,499	$ 1,946,473	$ 1,999,822
CAPITAL PROJECT: AP/CM/IN SERVICING							
TOTAL AP/CM/IN SERVICING CAPITAL	$ 1,199,244	$ 876,858	$ 1,213,922	$ 559,063	$ 668,149	$ 549,378	$ 570,307
CAPITAL PROJECT: METERING							
Total Metering - General	$ 1,610,512	$ 384,017	$ 855,835	$ 1,768,016	$ (405,170)	$ 553,043	$ 624,715
Total Metering - RIMS				$ -	$ -	$ -	$ -
Total Metering - Smart				$ 1,321,377	$ 6,399,161	$ 55,467	$ -
TOTAL METERING CAPITAL	$ 1,610,512	$ 384,017	$ 855,835	$ 3,089,393	$ 5,993,991	$ 608,510	$ 624,715
TOTAL SCADA CAPITAL	$ 223,505	$ 25,268	$ 43,903	$ 153,167	$ 182,529	$ 253,699	$ 199,867
SUM OF ABOVE ACCOUNTS	$ 8,976,122	$ 8,460,478	$ 13,132,653	$ 15,088,243	$ 15,773,967	$ 21,175,480	$ 10,152,828
Capital Contributions	$ (2,915,054)	$ (2,813,022)	$ (5,836,182)	$ (3,631,518)	$ (3,291,072)	$ (3,079,402)	$ (2,121,040)
Net Capital Expenditures	$ 6,061,069	$ 5,647,456	$ 7,296,471	$ 11,456,725	$ 12,482,895	$ 18,096,078	$ 8,031,788

7) Ref: Board staff IRR #14b)and E2/T4/S4 Appendix A, p. 18 and Appendix B, p. 13

Board staff IRR #14b) asked to provide a vehicle replacement schedule for the years 2008 through 2012. Board staff noted that data for the 2011 bridge years was only partially completed, while the 2012 test year was missing.

a) Please complete Board staff IRR #14 and provide Guelph Hydro's vehicle replacement schedule for the 2011 bridge year and include a forecast for the 2012 test year.

Guelph Hydro's Response:

Budget Year	***Year, Make***	***Cost***	***Budget***
2008	1993 International with Posi-Plus 60' DB Aerial Device replaced with 2008 International with Posi-Plus 63' DB Aerial Device (Truck #4) - (body only)	$ 43,300.00	$230,000.00
	2008 Internal Compartmentalizing/Outfitting for the two Step Vans	$40,600.00	
	2008 Internal Compartmentalizing/Outfitting for the two Step Vans	$40,600.00	
	2001 Chevrolet Cargo Van replaced with 2009 Chevrolet Cargo Van	$36,600.00	
	2001 Ford Windstar Van replaced with 2009 Chevrolet Cargo Van	$36,600.00	
	2008 Miller Lifting Device (transport transformers into places vehicles can't get to)	$50,300.00	
	Sub-Total	$248,000.00	
2009	1994 Freightliner with Telelect 50' DB Aerial Device replaced with 2009 International Posi-Plus 50' Aerial Device (Truck #5)	$286,700.00	$406,000.00
	1998 Ford Cargo Van replaced with 2009 Chevrolet Cargo Van	$39,000.00	
	2002 Ford Ranger Pick up replaced with 2009 Ford F150 Pick up	$27,600.00	
	2000 Ford Ranger Pick up replaced with 2009 Ford F150 Pick Up	$27,600.00	

Budget Year	***Year, Make***	***Cost***	***Budget***
	2000 Chevrolet Malibu Car replaced with 2010 Ford Fusion Hybrid	$37,700.00	
	Riding Lawnmower	$4,900.00	
	Rebuilt Compact Sweeper (Tennant)	$7,200.00	
	Sub-Total	$430,700.00	
2010	1999 International with Amador 46' SB Aerial Device replaced with 2010 International with Posi-Plus 50' SB Aerial Device Unit(#2) – Added Hybrid Unit	$319,700.00	$625,000.00
	1997 International with Amador 46' SB Aerial Device replaced with 2010 International with Posi-Plus 46' SB Aerial Device (Truck #1)	$267,100.00	
	2001 Chevrolet Malibu Car replaced with 2010 Ford Fusion Car	$21,800.00	
	2005 Ford Freestar Van replaced due to motor vehicle accident with 2011 Ford Fusion Car	$20,100.00	
	1978 King Pole Trailer with 2010 Sauber Pole Trailer	$44,700.00	*Ordered & Budgeted in 2010 paid in January 2011*
	Sub-Total	$628,700.00	
2011	1978 King Pole Trailer replaced with a 2010 Sauber Pole Trailer	$44,700.00	$450,000.00
	1975 York Trailer (modified reel) replaced with a 2011 Sauber Reel Trailer	$57,120.00	
	2002 Ford F350 (T17) replaced with a 2011 Ford F450	$80,800.00	
	1994 Chevrolet P30 (T25) replaced with a 2011 Freightliner Chassis & PK Van Body	$126,000.00 *Tender*	
	2002 Ford Ranger pickup replaced with a (T61) 2011 Ford F150 pick up 4x4	$25,100.00	
	2004 Ford Freestar minivan replaced with a (T64) 2011 Ford Explorer	$30,900.00	
	Replace Front Axles in T2 & T5 for compliancy to MTO Weight & Dimension Reforms Phase 4 (SPIF)	$19,650.00	
	Vehicles planned but not yet purchased	$61,000.00	
	Sub-Total	$445,270.00	

Budget Year	***Year, Make***	***Cost***	***Budget***
2012	1995 Freightliner FL80 RDB replaced with a 2012 International RBD 5052	$370,000.00	$485,000.00
	1994 Waltron dump trailer to be replaced with a dump truck – Assessing	$50,000.00	
	Other Light Fleet Units	$65,000.00	

b) Please provide further explanation as to what is Guelph Hydro's policy on disposals of vehicles and explain why in the 2011 bridge year and the 2012 test year Guelph Hydro shows $0 amount on the disposal of vehicles.

Guelph Hydro's Response:

Regarding a policy on disposal of vehicles – Guelph Hydro's policy is:

- Once the decision is made to dispose of a vehicle, we have the vehicle appraised, then we sell them for as much as we are able to get either through a consultant at auction, or separately - depending on the specific situation. Prior to disposing of a vehicle, we do review our entire fleet requirement to see if an older vehicle can be replaced with the vehicle in question. This ensures that the oldest vehicles are disposed of first.

Budget for vehicle disposals:

- 2011 - $43,000.00
- 2012 - $35,000.00.

Regarding our actual gain for 2011, we are currently at $40,730 as of October 1, 2011.

The 2011 bridge year and the 2012 test years incorrectly omitted amounts for the disposal of vehicles. These vehicles are fully depreciated however and will not have an impact on the NBV of fixed assets upon their removal.

Issue 3.1 Is the load forecast methodology including weather normalization appropriate?

8) Ref: Board staff IR # 15 – Load Forecasting Regression Model

a) Please confirm that the City of Guelph is a Census Metropolitan Area ("CMA"), as defined by Statistics Canada.

Guelph Hydro's Response:

Guelph Hydro confirms that City of Guelph is a census Metropolitan Area, as defined by Statistics Canada.

b) What economic statistics are available from Statistics Canada for the Guelph CMA?

Guelph Hydro's Response:
As per City of Guelph website (i.e. http://www.guelph.ca/communityprofile/intro.html), the economic statistics available from Statistics Canada for the Guelph CMA are:

1. Demographics:
    a. Current Population
    b. Population Growth & Projections
    c. Population by Age & Sex
    d. Population by Mother Tongue
    e. Population by Marital Status

2. Education Statistics:
    a. Elementary & Secondary School Locations

3. Housing Statistics:
    a. Residential:
        i. Building Permits
        ii. Construction Values
    b. Guelph Housing Stock
    c. Private Households
    d. New Residential Units

4. Income Statistics:
    a. Personal:

        i. Income
        ii. Income distribution
    b. Private Household:
        i. Income
        ii. Income Distribution
    c. Average Household Expenditures

5. Labour Force Statistics:
    a. Highest Level of Schooling
    b. Labour Force:
        i. By Industry (NAICS)
        ii. By Occupational Category (NOCS)
        iii. Activity
    c. Sample Wages by Hourly Wage and Salary

6. Business Statistics:
    a. Major Guelph Employers
    b. Business Distribution by:
        i. Number of Employees
        ii. Year Established
        iii. Export Activity
        iv. Industry
    c. Manufacturing Businesses by Industry (structure %)

c) Did Guelph Hydro try any of these variables in regression models to estimate load?
    i) If no, please explain why not.
    ii) If yes, what were the results and why did Guelph Hydro prefer the model it chose.

Guelph Hydro's Response:

Guelph Hydro picked the Population Growth, the one variable that makes sense and that was guided by experience of the process.
In addition, considering that Guelph is a strong industrial area with a major percentage in manufacturing, Guelph Hydro has chosen Manufacturing GDP as independent variable.

Issue 3.5 Is the test year forecast of other revenues appropriate?

9) Ref: Board staff IRR #18

Please provide up-to-date amounts for scrap metal sales and confirm that the forecasted amount for the 2011 bridge year is $50,000. Please provide an explanation as to why scrap metal sales for the 2012 test year will decline to a forecast of $36,401. Please update the evidence as necessary.

Guelph Hydro's Response:

This is to confirm that Guelph Hydro's 2011 scrap metal sales is forecast to be $50,000 for 2011, with scrap metal sales of $40,046.18 to end September 2011.

The 2012 scrap metal sales was budgeted to be approximately $36,000. This is based on Guelph Hydro's best estimates of the type and volume of distribution system work for 2012. Guelph Hydro notes that between 2010 and 2011 Guelph Hydro experienced a one-time recycling/scrap metal sales increase of about $32,000 resulting from the smart metering deployment project which saw over 48,000 meters removed from our system. This element of scrap material sales will not be repeated as the smart meter deployment has concluded.

10) Ref: Board staff IRR #19 and E4/T2/S7

Please confirm that the increase of $58,830 in miscellaneous expenses, due to staffing level is not also included OM&A.

Guelph Hydro's Response:

Guelph Hydro confirms that the increase of $58,830 in miscellaneous expenses due to staffing level is not also included in OM&A.

Issue 4.1 Is the overall OM&A forecast for the test year appropriate?

11) Ref: Board staff IRR #21c)

In response to Board staff IRR #21c) Guelph Hydro stated that "2010 MIFRS adjustments were determined at a higher level than that required for a restatement of Appendix 2-F, and as a result we can only restate Appendix 2-E".

Please clarify the above statement and provide Appendix 2-F for the 2010 pivot year in CGAAP and MIFRS as well as the 2011 bridge year and the 2012 test year in MIFRS. Please provide up-to-date actual OM&A expenses for the 2011 bridge year.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

Issue 4.2 Are the methodologies used to allocate shared services and other costs appropriate?

12) Ref: SEC IR # 27 h)

In its response to SEC IR # 27 part h), Guelph Hydro stated:

> It is Guelph Hydro and the City's intention to continue with the current arrangement for water billing services after smart meters have been fully implemented. The company has recently issued an RFP for meter reading services with a newly defined scope for post smart meter implementation. The new scope excludes approximately 48,000 electric meters that will be read remotely but still includes water meters and about 2,000 commercial electric meters. Guelph Hydro has advised the City that, depending on the responses to the RFP, an adjustment in the pricing may be required. The new meter reading contract is scheduled to become effective in mid-October.

a) What is the status of the RFP and the new contract?

Guelph Hydro's Response:

The RFP process has been completed and a new contract will be entered into on November 1 with a third party contractor.

b) If the contract has been awarded, what is the adjusted cost per meter read? What is the impact of this on Guelph Hydro's OM&A expenses and revenue requirement for 2012?

Guelph Hydro's Response:

The average cost per meter read for water meters is $0.29. The previous contract cost was $0.37 for a dual read (electric + water). Allocating the previous cost 50/50 results in a comparable cost of $0.185 for water meter reads. The increased cost per read for water meters is therefore $0.105 ($0.29 – $0.185).

The increased cost of water meter reads in total for 2012 is $23,308 (221,982 reads x $0.105).

In total (water + electric), Guelph Hydro has budgeted $263,000 for third party meter reading services in 2012 (note that this includes other services such as delivery of notices and verification of previous reads). Under the terms of the new contract, Guelph Hydro now expects total costs to be approximately $180,000.

c) If awarding of the new contract is delayed, how is Guelph Hydro handling water meter reading costs? If there are any incremental costs due to a delay in the new water metering reading contract, are these costs recovered from the City of Guelph or are they borne by Guelph Hydro and its ratepayers? Please explain your response.

Guelph Hydro's Response:

Please note previous response.

Issue 4.2 Are the 2012 compensation costs and employee levels appropriate?

13) Ref: Board staff IRR#29

IAS 19 Employee Benefits was changed in 2011. The effective date for these changes is January 1, 2013. Earlier application is permitted. The changes to the standard eliminate the corridor method described by Guelph below.

Guelph described its IFRS election to record actuarial gains in equity [Exh.4/Tab2/Sch7/pg45].

In response to staff IR#29 d) i, pages 53-54, Guelph stated:

> <u>Guelph Hydro expects to recover the actual expense from ratepayers as the plan pays out benefits over future years.</u> There will be fluctuations in the present value of the liability from year to year, however, the best estimate of actual expense will be adjusted each time a new actuary study is done in conformance with the accounting treatment prescribed by IFRS. *[Emphasis added]*
>
> Using this methodology, any unrealized gains or losses in excess of 10% of the valuation result will be amortized over the remaining life of the plan. *[Corridor method – added by Board staff]* This has the effect of smoothing out losses and gains caused by changes in the discount rate applied as opposed to real changes caused by actual expenses paid out under the plan. Guelph Hydro believes it is appropriate to use the accounting derived expense estimate for the test year in rate applications as it represents the best available estimate of what actual expense will be.

a) Using the new IAS 19 standard, what elections and accounting entries would Guelph have to make?

Guelph Hydro's Response:

Under IAS 19, Guelph Hydro would record the unrealized actuarial gain as a reduction in the liability and an increase in retained earnings. The unrealized gain would also be recognized in comprehensive net income.

b) If Guelph applied this new standard to its 2012 test year, what would be the dollar impact on its test year OPEB expenses?

Guelph Hydro's Response:

There would be no impact to the OPEB expenses recognized in 2012 as the expenses budgeted were based on the latest actuarial study. Unrealized actuarial gains and losses are accounted for separately from annual OPEB expenses. An unrealized actuarial gain in any given year would have the result of lowering the annual level of OPEB expenses recognized as compared to what would have been recognized prior to the latest actuarial study.

c) Guelph wants to deny ratepayers the benefit of the actuarial gains in its test year expenses but expects the ratepayers to pay for the future changes in actuarial estimates. Please explain how this is equitable and symmetrical treatment of the same issue from a regulatory perspective.

Guelph Hydro's Response:

Guelph Hydro does not intend to deny ratepayers the benefit of actuarial gains. As noted in the previous answer, ratepayers will benefit from lower OPEB expenses being booked in the future as a result of the new actuarial study.

14) Ref: Board staff IRR#29

The accounting entries to record changes in actuarial forecasts are non-cash in nature. Guelph does not have to finance these non-cash accounting estimates.

Guelph stated in response to IR29 d) i:

> In the long run, the cost of the plan will ultimately be determined by the benefits provided and by the plan's actual experience, not by the actuarial basis adopted from time to time to estimate the cost.

Staff asked in IR29 d) ii:

> For ratemaking purposes, should the Board choose another method than IFRS accounting instructions to determine what OPEB costs should be paid by ratepayers? What suggestions can Guelph make in its case?

Guelph responded:

> Please see previous response. Guelph Hydro believes the current method of determining cost using IFRS accounting treatment is appropriate. Any other methodology risks introducing volatility from external sources such as general economic conditions that could in turn cause volatility in rates from time to time.

Guelph's cash costs of providing OPEBs can be met by funding the cash costs in distribution rates. These distribution rates will be adjusted over time to allow Guelph to recover the actual benefits provided to its retired employees as the benefits are paid.

a) From a regulatory ratemaking perspective, why would Guelph want to recover non-cash OPEB expenses from its ratepayers many years in advance of having to pay the actual benefits to employees who have not yet retired?

Guelph Hydro's Response:

Clarification and discussion is required here. Guelph Hydro is not suggesting that non-cash OPEB expenses should or will be recovered from ratepayers many years in advance of paying them out.

b) What would Guelph do with this money that it will collect from its ratepayers but will not pay out to retirees until many years in the future?

Guelph Hydro's Response:

Please see previous response.

Issue 4.6 Is the test year forecast of PILs appropriate?

15) Ref: Board staff IRR #33 - Disposition of Account 1562 Deferred PILs

a) Is each of the tax years 2001 through 2005 statute barred?

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

b) Please explain the rationale Guelph used to select the tax rates it input for each year 2001 to 2005 to calculate the tax impacts and the tax amounts grossed up in sheet TAXCALC. The Board's policy has been to account for the declining tax rates. In the 2003 model used by Guelph, the tax rate should be 36.62% rather than 38.62%.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

c) The Board decided that regulatory assets, regulatory liabilities, collections of PILs from customers, impairment provisions, etc. should be excluded from the true up calculations. In Guelph's evidence, it appears that regulatory assets and liabilities have been included in reserves, and thus improperly included in the true ups to ratepayers. Please calculate the impact for each year 2001-2005 by excluding changes in regulatory assets and liabilities, collections, impairments, etc. from the determination of the PILs 1562 balance.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

d) Please explain the rationale for the chosen dates of recording the SIMPIL variances each year in the continuity schedule for the calculation of interest carrying charges.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

e) Please explain why Guelph believes that interest and penalties on underpaid or unpaid taxes should true up to the ratepayer.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

f) Please explain why gains and losses on fixed assets for tax purposes should true up to the ratepayers rather than to the shareholder.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

g) Please re-file the SIMPIL model evidence using revised SIMPIL models for 2001 through 2005. This can be accomplished by using revised models as filed by Halton Hills, Hydro One Brampton and several other distributors.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

h) Please exclude all data related to regulatory assets, liabilities, collections, impairments, etc. from the true-ups to ratepayers by recording the amounts on sheet TAXREC3 of the revised models.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

i) Please select the correct tax rate in each year to calculate the tax impact. Please deduct 1.12% from the selected tax rate for purposes of calculating the grossed-up tax effect. These tax rates are required in sheet TAXCALC in the SIMPIL model for each tax year 2001-2005.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

j) Please explain why Guelph chose the tax rate for each year 2001-2005. Guidance can be found in the Board's decision issued on June 24, 2011.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

k) Please record the addition and deduction of Ontario capital tax (OCT) on sheet TAXREC3. OCT does not true up for income tax purposes under the Board's methodology since it is a component of net income.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

l) Please file the full sets of financial statements that were used in the preparation of the tax returns for each tax year.

Guelph Hydro's Response:

Please see the Appendix Guelph_BoardStaff_TCQ_#15_l_FS_GHESI and the Appendix Guelph_BoardStaff_TCQ_#15_l_FS_WEDCO.

Issue 6.1 Is the proposed inclusion of the smart meter costs in the 2012 revenue requirement appropriate?

16) Ref: SEC IR # 48, Exhibit 4/Tab 2/Schedule 5/page 2/Appendix 2-F and Exhibit 4/Tab 2/Schedule 6/page 2

In the response to SEC IR # 48, Guelph Hydro states: "The test year OM&A budget includes $701,311 of smart meter expenses incurred in prior periods".

In Appendix 2-F, Guelph Hydro documents a 2012 test year forecast of $1,059,614 for Account 5065 – Meter Expense.

a) Please provide a breakdown of this amount by:
   iii) ongoing meter expenses for the 2012 test year;
   iv) one-time meter expense to be incurred in the 2012 test year; and
   v) smart meter expenses incurred prior to the 2012 test year.

Guelph Hydro's Response:

Smart Metering OM&A Categories	2010	Notes	2011	Notes	2012	Notes
Ongoing Smart Metering Operating & Maintenance Costs	$335	1	$242,340	1	$225,000	2
Smart Metering Project Costs	173,566	3	285,070	3	-	
Metering Field Operations	-		-		133,302	4
Total	$173,901		$527,410		$358,302	
Notes:						
1. Ongoing AMI system operating and maintenance costs (includes maintenance of smart meters, relays, gateways and communications equipment), and cost related to the operations and support of the smart metering back-office systems (annual remote operational support and software maintenance fees).						
2. Ongoing AMI system operating and maintenance costs, including cost related to the support of the smart metering back-office systems (annual remote operational support and software maintenance fees).						
3. "One-Time" Smart Metering Project Costs.						
4. Metering field operations expenses, which covers both "smart" and "non-smart" or traditional meters.						

b) In the updated Smart Meter model filed on September 30, 2011, Guelph Hydro shows $173,901 of operating expenses related to smart meter deployment in 2010 and $527,410 of operating expenses in 2011. The two-year total is $701,311, equal to what Guelph Hydro has documented in its response to SEC IR # 48.
   i) Please confirm whether the $701,311 that Guelph Hydro has included the 2012 operating expense is this amount;

Guelph Hydro's Response:

Guelph Hydro confirms that the $701,311 included in the 2012 operating expense represents $173,901 of operating expenses related to smart meter deployment in 2010 and $527,410 of operating expenses in 2011.

ii) In the Smart Meter Model, the 2010 and 2011 operating expenses are factored into the deferred revenue requirement for each year, and recovered through the combination of Smart Meter Funding Adder revenues collected since May 1, 2006 and through the proposed Smart Meter Disposition Rider for the variance between the Funding Adder Revenues collected and the deferred revenue requirement to December 31, 2011. Please explain why Guelph Hydro has included the prior period OM&A expenses in 2012 OM&A expenses? Does not Guelph Hydro consider that this would result in a double-recovery of these prior period costs?

Guelph Hydro's Response:

Prior to 2012, the costs shown for 2010 - $173,901 and 2011 - $527,410 have been/will be included in Deferral and Variance Account #1556 Smart Meter OM&A Variance. In accordance with the Board's Guideline G-2008-0002 – Smart Meter Funding and Cost Recovery these expenses were reclassified from Deferral and Variance account #1556 and recorded as 2012 expenses. This treatment is based on the condition that Guelph Hydro will be granted approval of its smart meters and associated revenue requirement in the 2012 rate order.

Guelph Hydro agrees that including the prior period OM&A expenses in the 2012 OM&A expenses would result in a double-recovery of these prior period costs. Guelph Hydro proposes to remove these expenses from the 2012 rate base calculation.

Issue 6.2 Is the proposed disposition of the balances in variance accounts 1555 and 1556 appropriate?

17) Ref: Energy Probe IR # 41

In the response to part a) of Energy Probe IR # 41, Guelph Hydro states:

Computer hardware and systems software are included in the same CCA class (Class 50, Class 52). Applications software should be allocated to Class 12. Guelph Hydro has identified $186,427 that should be reclassified to Class 12.

In the updated Smart Meter Model filed on September 30, 2011, computer hardware and software are still shown as combined.

Has Guelph Hydro calculated the impact if the $186,427 of application software was reclassified to Class 12. If so, what is the impact on the deferred revenue requirement for each of 2010 and 2011?

Guelph Hydro's Response:

Guelph Hydro has not calculated the impact of reclassifying $186,427 of application software to Class 12. In preparation for the Settlement Conference Guelph Hydro will calculate the impact of this reclassification on the deferred revenue requirement for 2010 and 2011.

18) Ref: Smart Meter Model

Please rerun and submit a revised version of the Smart Meter Model adjusting for the following two matters:

a) It appears the current (and recent models) calculate compounded interest on funding adder revenues. Please revise the model applying simple interest (i.e. interest on the opening monthly balance of the principal only) on funding adder revenues, and

Guelph Hydro's Response:

Guelph Hydro will provide a revised version of the Smart Meter Revenue Requirement Model based on all adjustments, already acknowledged through the interrogatories and the adjustments following the results of the Technical Conference, no later than the proposed date of the Settlement Conference November 15, 2011.

b) Please revise the model to calculate simple interest expense on the opening monthly balance for OM&A and amortization expenses.

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

19) Ref: Smart Meter Disposition Rate Rider

Please re-calculate the smart meter disposition rider using the following methodology that is based on the approach approved by the Board in PowerStream's 2010 smart meter application (EB-2010-0209):

a) Allocate the total revenue requirement for the historical years, as revised per the previous interrogatory, using the following cost allocation methodology:

- Allocate the return (deemed interest plus return on equity) and amortization based on the allocation of Account 1860 in the cost allocation model (CWMC in the cost allocation model)
- Allocate the OM&A based on the number of meters installed for each class
- Allocate PILs based on the revenue requirement allocated to each class before PILs

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

b) Sum the allocated amounts and calculate the percentages of costs allocated to customer rate classes.

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

c) Subtract the revenues generated from the smart meter funding adder from the overall revenue requirement.

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

d) Allocate the amount calculated in part (c) by using the allocation factors derived in part (b)

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

e) To calculate the smart meter disposition rider, divide the allocated amount by rate class derived in part (d) by the number of customers in each class, and then divide by 12.

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

f) If the proposed disposition period is greater than 1 year, divide the result of part (e) by the proposed number of years.

Guelph Hydro's Response:

Please see the response to interrogatory No.18 a.

Issue 6.3 Is the proposal related to stranded meters appropriate?

20) Ref: Exhibit 9/Tab 3/Schedule 1/Appendices C and D and Board staff IR # 44 – Stranded Meter Rate Rider

In Exhibit 9/Tab 3/ Schedule 1, Guelph Hydro documents that it removed the net book value of meters stranded upon replacement by smart meters as of December 31, 2010. In Exhibit 9/Tab 3/Schedule 1/Appendix C, Guelph Hydro documented that the Gross Book Value of the stranded meters as of December 31, 2010 was $4,364,163, and the associated accumulated depreciation as of December 31, 2010 for these meters was $2,270,935. Guelph Hydro also documented that it had net proceeds from the sale or disposal of the stranded meters of $31,728. This resulted in a Net Book Value of stranded meters net of proceeds of $2,061,500 as of December 31, 2010.

In its response to Board staff IR # 44, Guelph Hydro stated:

> Guelph Hydro confirms that the stranded meter costs recorded in Account 1555 are comprised of the gross costs of the stranded meters, less the accumulated depreciation. Guelph Hydro inadvertently omitted the deduction of unamortized capital contributions and the proceeds of disposition of the meters from the gross cost of the stranded meters. Including these two items reduces the cost of stranded meters by $183,006 based on the following values:
>
> Unamortized capital contributions related to stranded meters: $151,278
> Proceeds of disposition of stranded meters: $31,728

a) Please confirm whether it is only the unamortized capital contributions related to stranded meters, documented as $151,278, that was omitted, and thus that the net residual value of stranded meters as of December 31, 2010 was $2,061,500 - $151,278 = $1,910,222.

Guelph Hydro's Response:

Guelph Hydro confirms that it is only the unamortized capital contributions related to stranded meters that was omitted and that the net residual value of stranded meters as of December 31, 2010 was $2,061,500 - $151,278 = $1,910,222.

b) Since no adjustments were made to base rates for 2011 to remove the recovery of costs related to the stranded meters (specifically the cost of capital, related taxes/PILs and depreciation expense), please provide Guelph Hydro's views as to whether the residual value of stranded meters should not be updated to reflect the 2011 depreciation expense recovered in base rates for stranded meters.

Guelph Hydro's Response:

Guelph Hydro agrees that since no adjustments were made to base rates for 2011 to remove recovery of costs related to the stranded meters, the residual value of stranded meters should be updated to reflect the 2011 depreciation expense recovered in base rates for stranded meters (i.e. $184,379).

c) Based on responses to a) and b), please provide an updated Stranded Meter Rate Rider, showing the calculations.

Guelph Hydro's Response:

Guelph Hydro updated Stranded Meter rate Rider to reflect the adjustments of $151,278 and $184,379 explained on responses to interrogatory 20 (a) and (b):
$2,061,500-$151,278-$184,379 = $1,725,843.

Updated Stranded Meter Cost Recovery Rate Rider calculation:

Description		Amount
Revenue Requirement - 2006	$	-
Revenue Requirement - 2007	$	-
Revenue Requirement - 2008	$	-
Revenue Requirement - 2009	$	-
Revenue Requirement - 2010	$	1,725,843
Revenue Requirement - 2011	$	-
Total Revenue Requirement	$	1,725,843
Smart Meter Rate Adder Collected	$	-
Carrying Cost / Interest	$	-
Stranded Meter Cost Recovery	$	1,725,843
Number of Years of Recovery		4
Annual Cost Recovery	$	431,461
2010 Installed Smart Meters		49,033
Proposed Stranded Meter Cost Rate Rider per SM	**$**	**0.73**

Issue 7.1 Is Guelph Hydro's cost allocation appropriate?

21) Ref: Board staff IRR #49

a) Guelph Hydro stated that street light connections are based on new design standards as well as legacy connections. Please describe a typical connection for each scenario.

Guelph Hydro's Response:

- Legacy street lights are connected directly to the secondary network of the distribution system
- New street light design standards connects a string of street lights to a connection box either overhead or underground through a protective device which is then connected to the secondary network of the distribution system.

b) When did Guelph Hydro start connecting street lights based on the new design?

Guelph Hydro's Response:

Guelph Hydro starting connecting street lights based on the new design standards in 2003 due to changes brought on by the Electrical Safety Authority.

c) How many legacy connections were connected prior to the implementation of the new design standard?

Guelph Hydro's Response:

Guelph Hydro estimates that there were over 11,000 legacy street lights connected prior to implementing the new street light design standard in 2003.

d) How many legacy connections are still in place?

Guelph Hydro's Response:

Guelph Hydro estimates that there are approximately 10,865 legacy connected street lights still in place.

e) If possible, please use the information in the previous responses to refine the 10:1 ratio of fixtures to connections and the weighting factor of 1.0 that has been applied to the street lighting class.

Guelph Hydro's Response:

Guelph Hydro has approximated the ratio of fixtures to connection to 4:1, and the weighting factors for Service, and Billing & Collecting to 0.4.

Guelph Hydro will update accordingly its Cost Allocation Model (version 2).

Issue 7.2 Are the proposed revenue to cost ratios for each class appropriate?

22) Ref: Board staff IRR #56

In response to Board staff IRR #56 Guelph Hydro provided an updated proposed adjustment to cost allocation based on the updated Cost allocation model filed as appendix Guelph_Board staff_IRR_47b_CostAllocationModel. Board staff noted changes to the CA_v2 results, which could have a significant impact on the adjustments required to attain the proposed revenue to cost ratio.

a) Please provide a table comparing class revenue requirements as per the original CA model and the updated CA_v2.

Guelph Hydro's Response:

Based on the response to Board Staff interrogatory #31 (e), Guelph Hydro has updated its version of the Cost Allocation Model (v2):

1. Sheet I5.2 -Weighted factors for Services and Billing & Collection changed from 1.0 to 0.4 for Street Lighting class [see IRR 21(e)]
2. Sheet I6.2 – Number of Connections for Street Lighting class changed from 1,361 (i.e. 13,609/10) to 3,402 (i.e. 13,609/4)

The requested table comparing class revenue requirements at revenue to cost ratio of 100% is presented below:

	CA Model Worksheet O-1, row 35	New CA Model .Worksheet O-1, row 40
Customer Class	**Class Revenue Requirement CA Old Version at 100% rev to cost ratio**	**Class Revenue Requirement CA New Version v2 updated at 100% rev to cost ratio**
Residential	$18,225,225	$19,286,772
GS < 50 kW	$2,766,216	$2,905,591
GS 50 kW to 999 kW	$3,396,317	$3,540,976
GS 1000 to 4999 kW	$5,209,466	$5,218,922
Large User	$2,712,192	$1,194,423
Street Lights	$285,384	$449,532
Sentinel Lights	$4,382	$4,477
USL	$103,924	$102,412
Total	**$32,703,106**	**$32,703,106**

b) Please file updated proposed rates and charges that would yield revenues equal to the updated class revenue requirements.

Guelph Hydro's Response:

Guelph Hydro has updated its proposed rates and charges that would yield revenues equal to the updated class revenue requirements as following:

Proposed 2012 Electricity Distribution rates (excluding proposed rate riders and rate adders)

	Proposed Fixed Distribution		Proposed Volumetric	
Customer Class	**Customer**	**Connection**	**kWh**	**kW**
Residential	$17.32		$0.0212	
GS < 50 kW	$11.61		$0.0148	
GS 50 to 999 kW	$184.03			$2.4197
GS > 1000 kW	$1,320.76			$4.2202
Large Use	$944.93			$2.2659
Sentinel Lights		$7.06		$7.8100
Street Lighting		$0.50		$12.1415
USL		$5.48	$0.0250	
microFIT Charge	$8.84			
Transformer Allowance				-$0.72

Please note that Guelph Hydro has corrected the fixed/variable split for GS 50-999 kW to account for the lower variable revenues due to the transformer ownership discount (Ref.: VECC's interrogatory No. 31a – part of first round of interrogatories responded on September 30, 2011).

c) Please provide bill impact calculations based on the updated information.

Guelph Hydro's Response:

Guelph Hydro has provided the bill impact calculation based on the updated Cost Allocation results. Please note that no changes were done to the rate riders/adders.

Bill Impact based on the new CA Model (v2)

Class - Typical Usage	Monthly Dollar Impact	Total Bill Impact
Residential - 800 kWh/month after OCEB credit		
Comparison to 2011	$5.49	4.95%
General Service <50 kW - 2000 kWh/month		
Comparison to 2011	-$7.54	-2.72%
General Service 50 to 999 kW - 100 kW 40,000 kWh/month		
Comparison to 2011	-$208.61	-4.53%
Large Use 15,000kW 10,000,000 kWh		
Comparison to 2011	-$5,228.48	-0.52%
Street Lighting 15,000 connections, 2,400 kW 850,000 kWh		
Comparison to 2011	$13,754.84	11.94%
Sentinel Lighting 2 connections 1 kW 25 kWh/month		
Comparison to 2011	$1.15	3.92%
Unmetered Scattered Load 200 connections 65,000 kWh/month		
Comparison to 2011	$20.58	0.20%

d) Please explain the components that have affected the changes in the Large Use customer class revenue requirements.

Guelph Hydro's Response:

As noted by the Board Staff and corrected by Guelph Hydro, the Large User load should be zero for Line Transformer Non Coincident Peak LTNCP1, LTNCP4, LTNCP12, and for Secondary Non Coincident Peak SNCP1, SNCP4, SNCP12. The Large Use customers are primary connected. Therefore the following cells have been updated to have a zero amount: I57, I58, I63, I64, I69, and I70.

Issue 11.1 Is the proposed revenue requirement determined using modified IFRS appropriate?

23) Ref: Board staff IRR #63

In its response to the Board staff interrogatory #63, Guelph stated that

> Guelph Hydro was recording the $200,000 credit to variance account 1592 on a prorated basis over the original period of rebasing. i.e. September 1, 2008 to April 30, 2011. Since Guelph Hydro is requesting disposition of account 1592 as of December 31, 2010, the full amount of the PILs tax allowance has not yet been credited to variance account 1592. In order to comply with the Decision and Order (EB-2007-0742), Guelph Hydro needs to increase the balance of 1592 by $25,000.

a) Please clarify if the proration recording of the $200,000 credit in account 1592 was directed by the Board? If so, please provide the references. If not, please provide the reason why Guelph is using the proration method.

Guelph Hydro's Response:

Guelph Hydro confirms that the proration recording of the $200,000 credit in account 1592 was not directed by the Board. Guelph Hydro used the proration method for financial accounting purposes to reduce reported distribution revenue by the amount of PILs overstatement over the period it was being billed.

Please clarify if Guelph Hydro is requesting the disposition of the $200,000 credit in account 1592 in this proceeding (EB-2011-0123) despite the fact that Guelph Hydro is showing an account balance of $175,000 as at December 31, 2010 under account 1592 in above reference Appendix 2-T.

Guelph Hydro's Response:

Guelph Hydro confirms that it is requesting the disposition of the $200,000 credit in account 1592 in this proceeding (EB-2011-0123). Guelph Hydro proposes to adjust the account balance of account 1592 as at December 31, 2010 to properly reflect the $200,000 credit plus appropriate carrying charges.

24) Ref: Board staff IRR #64

In part (a) of its reply to the Board staff interrogatory #64, Guelph stated that:

> Guelph Hydro calculates the incremental IC that should have been recorded in account 1592 sub-account HST/OVAT ITCs to be $729,166.

In part (b) of its reply to the Board staff interrogatory #64, Guelph stated that:

> Guelph Hydro has not followed the December 2010 FAQs accounting guidance regarding Account 1592 sub-account HST/OVAT ITCs.

And in response to interrogatory #64.

In this rate proceeding, Guelph Hydro request for the disposition of the balance in Account 1592 sub-account HST/OVAT ITCs calculated in accordance to the related accounting guidance found in the December 2010 FAQs.

a) Please confirm that the requested amount of $729,166 is calculated by Guelph in accordance with APH FAQs December 2010.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

b) Please provide an explanation of how Guelph Hydro calculated the amount for $729,166. Please provide supporting document for the calculation including a copy of the Guelph Hydro's analysis.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

c) Please provide the balance of Account 1592 sub-account HST/OVAT ITCs as of December 31, 2010 and projected balance as of December 31, 2011.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

d) Please clarify what amount Guelph Hydro is seeking disposition of the balance in Account 1592 sub-account HST/OVAT ITCs in this proceeding (EB-2011-0123).

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

e) Please provide an update to Appendix 2-T, Deferred PILs Account 1592 Balances for PILs tax allowance. Please supplement Appendix 2-T with the amount for HST/OVAT ITCs and provide updated Table 8 (Method of Disposition of Accounts) for PILs & Taxes Variance – sub-account 1592.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

25) Ref: Board staff IRR #70 b)

Please provide the December 2010 Journal Entry to record the RPP portion of GA variance in Account 1588 control account.

Guelph Hydro's Response:

As clarification to the above noted comment. Guelph Hydro does not typically budget for Retail Services Revenue (4082) or Service Transaction Request Revenue (4084) due to the small amount of revenue ultimately recorded. As per the Accounting Procedures Handbook the revenue balances in these accounts are periodically compared to the expense accounts pertaining to retail services. A journal entry is made to reduce the higher of the revenue or expenditure accounts. Historically in Guelph Hydro's case, the adjustment has been made to reduce revenue to the amount of related expense (approx. $15,000). In preparing the 2011 and 2012 budgets, the total of Retail Services Revenue and Service Transaction Request (STR) Revenue was simply forecasted to equal the related expense accounts i.e. $15,850. This was done to ensure that there was no impact on budgeted Net Income. Consideration was not given to the actual impact on the related RCVA accounts (1518 and 1548) resulting from the reduction of Retail Services revenue likely to be billed to the amount of expense estimated to be incurred. For information purposes the following amounts represent the amount of Retail Services revenue billed and incremental costs incurred in providing Retail services for 2009 and 2010:

	2010	**2009**
Retail Services Revenue	70,232	30,179
STR Revenue	110,879	49,922
Incremental Costs	15,865	15,420

Issue 9.2 Are the proposed rate riders to dispose of the account balances appropriate?

26) Ref: Board staff IRR #72c)

Guelph's response to question c) states that "Guelph didn't forecast balances in account 1518 and 1548 for 2011 and 2012 as it assumes revenue and costs will net to zero." Please explain on what basis Guelph concluded that the revenue and costs will net to zero given that Guelph has not considered a change to the retail service charges. Please provide evidence that the revenue and costs will net to zero.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

Issue 11.1 Is the proposed revenue requirement determined using modified IFRS appropriate?

27) Ref: Board staff IRR #77, table 1

Please confirm if Table 1 on page 11 of Part 2_Responses to Board Staff Interrogatories Delivered on Oct 11, 2011 replaced Table 2 on pg 14 of 22 of the Appendix Board Staff IRR #3 filed on Sep 30, 2011

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

28) Ref: Board staff IRR #77, table 2

a) Please confirm if Table 2 on page 12 of Part 2_Responses to Board Staff Interrogatories Delivered on Oct 11, 2011 replaced Table 4 on pg 14 of 22 of the Appendix Board Staff IRR #3 filed on Sep 30, 2011

Guelph Hydro's Response:

No, Table 2 on page 12 delivered on Oct 11, 2011 does not replace Table 4 on page 14 filed on Sept 30, 2011. Table 2 of the Oct 11, 2011 delivery was in response specifically to question #77 regarding changes to Guelph Hydro's capitalization policy and its impact on the revenue requirements. Whereas, Table 4 in the Sept 30, 2011 filing takes into consideration all adjustments relating to the transition to MIFRS, not just the adjustments directly related to the company's new capitalization policy.

b) Please provide the comparative balances under CGAAP to be presented beside the MIFRS column for the rate base calculation in Table 2 – Rate Base Calculation for 2010 and explain the difference between MIFRS and CGAAP in a similar format as Table 1

Guelph Hydro's Response:

In review of Table 2 of the Oct 11, 2011 delivery, there were a couple of changes that needed to be made to the MIFRS Rate Base calculation based on capital policy adjustments only (As per Q #77). First, the Fixed Assets Opening Balance needed to be changed to reflect the proper balance of $90,470,000 and the closing balance needed to be changed to reflect the adjusted balance of $90,562,000. The primary reason for the change in the closing balance was that the previous balance didn't reflect the new useful life of the Contributed capital offset, it was inadvertently left at the old useful life of 25 years.

The table below compares the new Rate base per MIFRS (capital policy changes only) for 2010 to CGAAP.

Table 2 -Rate Base Calculation for 2010	MIFRS	CGAAP	Difference
Fixed Assets Opening Balance 2010, net of contributions & grants	$ 90,470,000	$ 90,470,000	$ -
Fixed Assets Closing Balance 2010, net of contributions & grants	90,562,000	$ 90,412,000	$ 150,000
Average Fixed Asset Balance for 2010, net of contributions & grants	**90,516,000**	**90,441,000**	
Working Capital Allowance (calculated below)	19,532,600	19,129,700	
Rate Base	**110,048,600**	**109,570,700**	
Regulated Rate of Return	7.02%	7.02%	
Regulated Return on Capital	**$ 7,728,493**	**$ 7,694,931**	

The difference in closing NBV of $150,000 is made up of the following:

Removal of ineligible burden	($2,686,000)
Reduced depn due to extended Useful lives	2,836,000
	$ 150,000

WORKING CAPITAL ALLOWANCE FOR 2010			
Distribution Expenses	**MIFRS**	**CGAAP**	**Difference**
Distribution Expenses - Operation	$ 3,615,000	$ 929,000	$ 2,686,000
Distribution Expenses - Maintenance	1,655,000	1,655,000	$ -
Billing and Collecting	2,070,000	2,070,000	$ -
Administrative and General Expenses	5,345,000	5,345,000	$ -
Less: Capital Taxes within 6105	124,667	124,667	$ -
Total Eligible Distribution Expenses	**12,560,333**	**9,874,333**	$ 2,686,000
Power Supply Expenses	117,657,000	117,657,000	$ -
Total Working Capital Expenses	**$ 130,217,333**	**$ 127,531,333**	**$ 2,686,000**
Working Capital Allowance rate of 15%	$ 19,532,600	$ 19,129,700	

The difference in Working capital is the additional expense of the burden costs that are no longer eligible to be capitalized with the adoption of MIFRS.

c) Please reconcile the Fixed Assets Opening Balance 2010 net of contributions and grants of $90,412,000 to Table 7 Appendix 2-B Fixed Assets Continuity Schedule As at Dec 31, 2010 opening NBV of $90,470,272 ($140,123,475 - $49,653,203) filed on October 18, 2011 in response to Board Staff IR #7(a)

Guelph Hydro's Response:

The correct Fixed Assets NBV Opening balance for 2010 MIFRS is $90,470,000. Guelph Hydro inadvertently used the Fixed Assets NBV Closing balance from the CGAAP 2010 fixed asset continuity schedule instead of the Fixed Assets NBV Closing balance from the CGAAP 2009 fixed asset continuity schedule.

d) In it response to the Board staff interrogatory #7a, Guelph Hydro provided a number of updates to its Fixed Asset continuity schedules for 2008 to 2012 years on October 18, 2011. Please clarify if the Fixed Asset continuity schedules for 2010 to 2012 are prepared under CGAAP or MIFRS. If the updates are all related to CGAAP, are there any updates to Fixed Asset continuity schedule for 2010 to 2012 under MIFRS? If so, please file the updates.

Guelph Hydro's Response:

All Fixed Asset continuity schedules filed to date for the years 2011 and 2012 are under MIFRS. Guelph Hydro did prepare a lot of these schedules taking a full year of depreciation in all years including the Test year 2012. In response to Energy Probe Q#8 Guelph Hydro prepared new Fixed Asset Continuity Schedules for 2011 and 2012 which takes into consideration the half year for the additions in both 2011 and 2012, the revised schedules are below.

Guelph Hydro Electric Systems
License Number ED-2002-0565, File Number

Table 8 Appendix 2-B REVISED

Fixed Asset Continuity Schedule (Distribution & Operations) **Fixed Asset Continuity Schedule** **MIFRS**

As at December 31, 2011 **As of December 31, 2011**

			Cost				Accumulated Depreciation				
CCA Class	**OEB**	**Description**	**Opening Balance**	**Additions**	**Disposals**	**Closing Balance**	**Opening Balance**	**Additions**	**Disposals**	**Closing Balance**	**Net Book Value**
N/A	1805	Land	2,641,987			2,641,987	0			0	2,641,987
CEC	1806	Land Rights	0			0	0			0	0
1	1808	Buildings and Fixtures	18,260,502	1,735,000		19,995,502	2,705,497	409,263		3,114,760	16,880,741
N/A	1810	Leasehold Improvements	0			0	0			0	0
	1815	Transformer Station Equipment - Normally Primary	758,177	9,225,000		9,983,177	25,273	179,023		204,295	9,778,882
47	1820	Distribution Station Equipment - Normally Primary	1,708,887			1,708,887	129,970	73,394		203,364	1,505,522
	1825	Storage Battery Equipment	0			0	0			0	0
47	1830	Poles, Towers and Fixtures	22,276,501	1,322,234		23,598,735	8,001,755	494,271		8,496,027	15,102,708
47	1835	Overhead Conductors and Devices	17,880,210	1,224,591		19,104,801	6,709,061	396,768		7,105,829	11,998,971
47	1840	Underground Conduit	37,660,552	2,885,590		40,546,142	13,309,293	874,330		14,183,623	26,362,520
47	1845	Underground Conductors and Devices	35,823,198	2,595,379		38,418,577	12,199,463	829,977		13,029,439	25,389,138
47	1850	Line Transformers	18,187,753	1,033,848		19,221,601	7,194,113	389,435		7,583,548	11,638,053
47	1855	Services	7,183,493	269,265		7,452,758	2,593,145	165,175		2,758,320	4,694,438
47	1860	Meters	6,634,663	609,000		14,725,108	1,537,947	277,567		3,125,651	11,599,457
	1865	Other Installations on Customer's Premises	0			0	0			0	0
N/A	1905	Land	0			0	0			0	0
CEC	1906	Land Rights	0			0	0			0	0
1	1908	Buildings and Fixtures	0			0	0			0	0
	1910	Leasehold Improvements	0			0	0			0	0
	1915	Office Furniture and Equipment	1,221,843			1,221,843	750,797	45,425		796,221	425,622
45	1920	Computer Equipment - Hardware	2,502,577	420,000		3,549,349	1,737,566	320,335		2,057,900	1,491,448
	1925	Computer Software	0			1,114,457	0			0	1,114,457
10	1930	Transportation Equipment	2,881,072	450,000		3,331,072	1,349,158	316,417		1,665,575	1,665,497
	1935	Stores Equipment	96,338			96,338	96,338			96,338	0
8	1940	Tools, Shop and Garage Equipment	992,103	60,000		1,103,006	608,968	69,980		678,947	424,058
	1945	Measurement and Testing Equipment	14,872			14,872	14,872			14,872	0
	1950	Power Operated Equipment	0			0	0			0	0
	1955	Communication Equipment	0			0	0			0	0
50	1960	Miscellaneous Equipment	2,332,949	50,000		2,439,448	2,249,423	74,094		2,323,517	115,931
	1970	Load Management Controls - Customer Premises	314,982			314,982	314,982			314,982	(0)
	1975	Load Management Controls - Utility Premises	0			0	0			0	0
50	1980	System Supervisory Equipment	526,929	361,093		888,022	175,777	141,495		317,272	570,749
	1985	Sentinel Lighting Rentals	6,158			6,158	0			0	6,158
	1990	Other Tangible Property	0			0	0			0	0
47	1995	Contributions and Grants	(35,235,111)	(2,679,000)		(37,914,111)	(7,444,651)	(914,706)		(8,359,357)	(29,554,754)
	2005	Property Under Capital Leases	0			0	0			0	0
	2070	Other Utility Plant	771			771	424	51		476	295
Total before Work in Process / Re-allocation of amortization			**144,671,404**	**19,562,000**	**0**	**173,563,480**	**54,259,170**	**4,142,293**	**0**	**59,711,601**	**113,851,879**
95	2055	Work in Process	40,117			40,117	0				40,117
		Re-allocation of amortization						(332,817)			
		Total after Work in Process	**144,711,521**	**19,562,000**	**0**	**173,603,597**	**54,259,170**	**3,809,476**	**0**	**59,711,601**	**113,891,996**

e) Please provide explanation on how Guelph Hydro calculated the figure for $91,197,000 for Fixed Assets Closing Balance 2010 net of contributions and grants and reconcile this balance to the applicable Fixed Assets Continuity Schedules for 2010 under MIFRS.

Guelph Hydro's Response:

As noted in b) above Guelph Hydro needed to make a change to the Fixed Asset Closing balance for 2010 in the Rate Base calculation as it inadvertently did not change the useful life of contributed capital to the new extended life under MIFRS. The continuity schedule that supports this new Closing balance of $90,562,000 is outlined below.

Guelph Hydro Electric Systems
License Number ED-2002-0565, File Number

Table 7 Appendix 2-B
Fixed Asset Continuity Schedule
As of December 31, 2010

REVISED

MIFRS

			Cost					Accumulated Depreciation				
CCA Class	**OEB**	**Description**	**Opening Balance**	**Additions**	**Disposals**	**Burden Adjust**	**Closing Balance**	**Opening Balance**	**Additions**	**Disposals**	**Closing Balance**	**Net Book Value**
N/A	1805	Land	768,123	1,873,864			2,641,987	0			0	2,641,987
CEC	1806	Land Rights	0				0	0			0	0
1	1808	Buildings and Fixtures	18,191,632	68,870			18,260,502	2,296,732	391,913		2,688,645	15,571,856
N/A	1810	Leasehold Improvements	0				0	0			0	0
	1815	Transformer Station Equipment - Normally Primary above 50	0	758,177			758,177	0			0	758,177
47	1820	Distribution Station Equipment - Normally Primary below 50	1,697,266	11,621			1,708,887	73,007	137,807		210,814	1,498,073
	1825	Storage Battery Equipment	0				0	0			0	0
47	1830	Poles, Towers and Fixtures	20,579,581	1,696,920		(431,551)	21,844,950	6,976,469	525,559		7,502,028	14,342,922
47	1835	Overhead Conductors and Devices	17,035,390	844,820		(346,384)	17,533,826	5,886,145	421,825		6,307,970	11,225,856
47	1840	Underground Conduit	34,914,467	2,746,085		(729,578)	36,930,974	11,549,527	821,547		12,371,075	24,559,899
47	1845	Underground Conductors and Devices	33,460,819	2,362,380		(693,984)	35,129,214	10,528,968	779,871		11,308,839	23,820,375
47	1850	Line Transformers	17,111,497	1,076,256		(352,342)	17,835,412	6,328,035	368,092		6,696,127	11,139,285
47	1855	Services	6,769,661	413,832		(139,162)	7,044,331	2,257,695	157,245		2,414,940	4,629,390
47	1860	Meters	11,338,425	(4,703,762)			6,634,663	3,304,589	543,528	2,270,935	1,577,182	5,057,481
	1865	Other Installations on Customer's Premises	0				0	0			0	0
N/A	1905	Land	0				0	0			0	0
CEC	1906	Land Rights	0				0	0			0	0
1	1908	Buildings and Fixtures	0				0	0			0	0
	1910	Leasehold Improvements	0				0	0			0	0
8	1915	Office Furniture and Equipment	1,165,296	56,547			1,221,843	658,628	51,942		710,570	511,273
45	1920	Computer Equipment - Hardware	2,193,680	308,896			2,502,577	1,410,016	298,571		1,708,587	793,990
45.1	1925	Computer Software	0				0	0			0	0
10	1930	Transportation Equipment	2,687,174	633,782	439,885		2,881,072	1,403,166	302,567	433,988	1,271,745	1,609,327
	1935	Stores Equipment	96,338				96,338	96,284	54		96,338	(0)
8	1940	Tools, Shop and Garage Equipment	940,008	52,094			992,103	535,192	74,751		609,942	382,160
	1945	Measurement and Testing Equipment	14,872				14,872	11,898			11,898	2,974
	1950	Power Operated Equipment	0				0	0			0	0
	1955	Communication Equipment	0				0	0			0	0
	1960	Miscellaneous Equipment	2,327,700	5,249			2,332,949	2,118,596	214,297		2,332,893	55
	1970	Load Management Controls - Customer Premises	314,982				314,982	178,610	136,371		314,982	0
	1975	Load Management Controls - Utility Premises	0				0	0			0	0
47	1980	System Supervisory Equipment	304,281	222,647			526,929	70,392	90,327		160,719	366,210
	1985	Sentinel Lighting Rentals	6,158				6,158	0			0	6,158
	1990	Other Tangible Property	0				0	0			0	0
47	1995	Contributions and Grants	(31,794,646)	(3,440,464)			(35,235,110)	(6,031,118)	(848,000)		(6,879,118)	(28,355,992)
	2005	Property Under Capital Leases	0				0	0			0	0
	2070	Other Utility Plant	771				771	373	51		424	347
Total before Work in Process / Re-allocation of amortization			**140,123,475**	**4,987,814**	**439,885**	(2,693,000)	**141,978,404**	**49,653,204**	**4,468,320**	**2,704,923**	**51,416,601**	**90,561,804**
95	2055	Work in Process	150,530	(110,413)			40,117	0			0	40,117
		Re-allocation of amortization							(377,763)			
		Total after Work in Process	**140,274,005**	**4,877,401**	**439,885**	(2,693,000)	**142,018,521**	**49,653,204**	**4,090,557**	**2,704,923**	**51,416,601**	**90,601,921**

29) Ref: Board staff IRR #77, table 3

Please confirm if Table 3 on page 13 of Part 2_Responses to Board Staff Interrogatories Delivered on Oct 11, 2011 replaced Table 5 on pg 15 of the Appendix Board Staff IRR #3 filed on Sep 30, 2011

Guelph Hydro's Response:

No, Table 3 on page 13 delivered on Oct 11, 2011 does not replace Table 5 on page 15 filed on Sept 30, 2011. Table 3 of the Oct 11, 2011 delivery was in response specifically to question #77 regarding changes to Guelph Hydro's capitalization policy and its impact on the revenue requirements. Whereas, Table 5 in the Sept 30, 2011 filing takes into consideration all adjustments relating to the transition to MIFRS, not just the adjustments directly related to the company's new capitalization policy.

30) Ref: Board staff IRR #77 h)

Please provide the burden rates related to the capitalization of costs of self-constructed assets for the prior and after transition to IFRS.

Guelph Hydro's Response:

GUELPH HYDRO ELECTRIC SYSTEMS INC.
BURDEN RATES SUMMARY PRE/POST IFRS

Burden	Basis	Applied to	Pre-IFRS	Post-IFRS
Payroll	Work Order Payroll	Lines, Metering, Maintenance	65%	55%
Operations	Work Order Payroll	Lines, Metering, Maintenance	65%	55%
Payroll	Work Order Payroll	Inspectors, Customer Service	30%	25%
Operations	Work Order Payroll	Inspectors, Customer Service	30%	25%
Stores	Stores Issues		15%	0%
Stores-Engineering	Stores Issues		15%	0%
Engineering - O&M	Work Order Payroll	O&M Work Orders	25%	0%
Engineering - Capital	Work Order Payroll	Capital Work Orders	65%	15%
Engineering - Contracting	Contracting		18%	9%
Vehicles - LC, IN, CS	Work Order Payroll	Lines, Inspectors, Customer Service	65%	65%
Vehicles - MA, ME	Work Order Payroll	Maintenance, Metering	35%	35%

31) Ref: Board staff IRR #78

Guelph's response confirmed that it has not recognized any assets retirement obligation. Please confirm whether that includes any recognition of constructive obligation under IAS 37 from its current pool of owned assets. If not, please identify if Guelph has any constructive obligation related to its assets.

Guelph Hydro's Response:

Guelph Hydro confirms that it does not have any constructive obligations related to its assets.

32) Ref: Board staff IRR #80

Please explain the difference between $1,414,000 and $848,000 as presented in note (4) in note (1) of the Statement of Revenue and Expenses respectively, given both balances refer to the amortization of deferred revenue on customer contribution and it is a reclassification from amortization to deferred revenue.

Guelph Hydro's Response:

The $1,414,000 in Note 4 is part of the explanation for the difference between CGAAP depreciation and MIFRS depreciation. This amount is the CGAAP amortization of the contributed capital using the CGAAP useful lives of 25 years. Under MIFRS, this amount has been reversed and thus is no longer part of the depreciation total as it requires a reclassification to Other Revenue.

Under MIFRS the amortization of Contributed Capital is affected in two ways. First, the amortization period has been increased from 25 years to 40 years as the assets of which these contributions related to have an increased useful life of 40 years. Due to this change in useful life, the new amortization for 2010 is $848,000. Second, this amortization has now been reported as Other Revenue instead of an offset to depreciation and therefore shows up as a reconciling difference as outlined in Note 1.

Issue 12.1 Is Guelph Hydro's Green Energy Act Plan, including the Smart Grid component of the plan appropriate?

33) Ref: E 2/T4/S 6/Appendix D/p. 3, and E 2/T 4/S 6/Appendix D/Table 6/p. 14

In the first reference, it is indicated that in 2013, an estimated $ 500,000 is the net cost to Guelph Hydro for connecting a 10 MW ground mounted solar photovoltaic project.

At Table 6 of the second reference, under Hanlon TS, it is indicated that a 10 MW FIT Generation would be connected to Feeder M23.

a) Did the project proponent for the 10 MW obtain a contract from the OPA? If so, what is the date the contract was signed.

Guelph Hydro's Response:

Guelph Hydro does not believe that the 10MW project proponent has yet obtained a contract from the OPA. Guelph Hydro included this project in the forecast based on consultations with the proponent.

b) Did the noted project proponent apply for connection to Guelph Hydro? If so, when is Guelph Hydro expected to complete its Connection Impact Assessment ("CIA") for that project?

Guelph Hydro's Response:

The project proponent has not yet applied for connection to Guelph Hydro.

c) Please confirm that the noted project would be connected as shown in the second reference (at Feeder M23 supplied from Hanlon TS).

Guelph Hydro's Response:

Until firm project details are known, Guelph Hydro cannot confirm if this project will be connected to Hanlon TS or Arlen MTS.

d) Did Guelph Hydro issue an Offer to Connect to that project proponent? If so when is the Connection Agreement expected to be completed?

Guelph Hydro's Response:

Guelph Hydro has not issued an offer to connect to this project proponent.

e) Does the project size require that Guelph Hydro advise Hydro One and the Independent Electricity System Operator ("IESO") of this project including its 10 MW capacity, intended connection point (the feeder designation), and the Hydro One owned transformer station to which this feeder is connected?

Guelph Hydro's Response:

Yes. The size of this project would require Guelph Hydro to advise both Hydro One and the IESO of the connection to Guelph Hydro's distribution system.

34) Ref: E 2/T4/S 6/Appendix D/p. 5 and Ref: E 2/T4/S 6/Appendix D/p. 16

In the first reference, Table 1 indicates capital investments for renewable generation connection upgrades of $50,000 for each of the years 2014 and 2015.

In the second reference, Tables 7 and 8 under Mid-Size Generation [>500 kW, ≤ 10 MW] show that there is one 3 MW project expected in service in 2014 and another project of 1.14 MW capacity expected in service in 2015.

a) Are the $50,000 capital investments in each of the two years in 2014 and 2015 triggered by the two projects noted in Reference 2; i.e., the 3 MW capacity project expected in-service in 2014 and the 1.14 MW capacity project expected in-service in 2015?

Guelph Hydro's Response:

Yes. The $50,000 capital investments in each of the two years in 2014 and 2015 are triggered by the two projects noted in Reference 2.

b) Please provide a description of the work to be carried out in 2014 and in 2015, including for each case the split between material/ equipment and labour.

Guelph Hydro's Response:

As project specifics are not known at this time (nor at the time of creation of the GEA Plan), Guelph Hydro included a high-level budgetary estimates for anticipated connection upgrade costs that may be required in order to connect the two projects identified in 2014 and 2015, that would fall under either "renewable enabling improvements" or "expansion costs".

35) Ref: E 2/T 4/S 6/Appendix D/pp. 15-16, and E 2/T 4/S 6(Appendix E)/p.3

In the first reference under section 6.2 on page 15, lines 14-18, it is indicated that at the time of writing the plan, Guelph Hydro received requests for and completed over 80 pre-FIT consultations with the following breakdown:

- Generation <= 250 kW (CAE): 90%
- Generation > 250 kW, <= 500 kW: 2%
- Generation > 500 kW, <= 10 MW: 8%

In the first reference under section 6.2, in Table 7, page 16, the number of anticipated renewable generation connections is listed for the years 2011 to 2015, broken down into four category sizes, and the corresponding MW for each of the four categories is listed in Table 8.

In the second reference, page 3, the OPA states in part that:

> "Guelph Hydro did not provide specific information on the FIT and microFit projects received to date…..To date, the OPA has received 23 capacity allocation exempt FIT applications and 148 microFIT applications in Guelph Hydro's system for a total of 5.45 MW of FIT applications and 1.041 MW of microFIT applications
> At this time, 1 capacity allocation exempt FIT contract has expired (leaving a total of 5.25 MW of FIT applications), 30 microFIT applications have already been connected and 9 microFIT applications have been terminated (leaving a total of 0.824 MW of microFIT applications to be connected."

a) Did all 80 completed pre-Fit consultations identified on page 15 of the first reference, have signed contracts from the OPA? If no, please indicate the number of projects that had signed OPA contracts under each of the three categories of generation sizes.

Guelph Hydro's Response:

At the time of the creation of Guelph Hydro's GEA Plan, Guelph Hydro did not have sufficient information confirming how many projects had signed contracts with the OPA.

At this point in time Guelph Hydro can confirm that the following numbers of projects have signed OPA contracts:

- Generation <= 250 kW (CAE): 29 Projects
- Generation > 250 kW, <= 500 kW: 0 Projects

- Generation > 500 kW, <= 10 MW: 0 Projects

b) Please indicate the anticipated in-service year for these 80 projects.

Guelph Hydro's Response:

Guelph Hydro Response:
Of the 29 projects identified in 35 (a) with signed OPA contracts, Guelph Hydro estimates the anticipated in-service dates for these projects as follows:

- 2 Projects connected in 2010
- 4 Projects estimated to be connected by the end of 2011
- 23 Projects estimated to be connected in 2012

c) Please describe in detail the forecast methodology used in producing the numbers in Tables 7 and 8 shown on page 16 of the first reference, and how those numbers reconcile with the project numbers and MW shown in reference 2, and quoted above for convenience.

Guelph Hydro's Response:

The number and size of anticipated renewable generation connections forecasted in Tables 7 and 8 was based on Guelph Hydro's knowledge of the level of interest in the FIT/microFIT programs, Pre-FIT Consultations completed to date, project applications received to date, as well as the knowledge that of the City of Guelph's Community Energy Initiative (CEI) which encourages the implementation of renewal energy projects within the City of Guelph. The forecast was prepared using the assumption that program changes over time were unknown. Guelph Hydro notes that Tables 7 and 8 are estimates of the number and size of completed connections, and do not include the number of applications received, expired, or terminated as summarized by the OPA. It is difficult to reconcile Tables 7 and 8 with the OPA figures without better knowledge of the OPA details including size and timeframes of the applications being referenced. Guelph Hydro notes that to date, 61 microFIT projects and 2 FIT projects have been connected for a total of 0.728 MW.

36) Ref: Board staff IRR #84 and Appendix Guelph_IRR_#85_GEA Rate Adder calculation

In Board staff IRR Guelph Hydro stated that "if the GEA Plan is approved as presented, Guelph Hydro will seek recovery of 100% of the OM&A costs to the 2012 test year through this filing, and proposes to recover the capital expenditures in the next rate rebasing".

a) Please clarify if Guelph Hydro is seeking to include the OM&A in the amount of $721,000 in the revenue requirement calculation for the 2012 test year or if the statement above relates to the calculation of the GEA Rate Adder provided in Appendix_Guelph_IRR_#85_GEA Rate Adder calculation.

Guelph Hydro's Response:

Guelph Hydro has corrected the GEA Rate Adder calculation Model (please see the response to TCQs #38 and #39. After Guelph Hydro has got a better understanding of the model and the regulation related the GEA Plan (e.g. O.Reg.330/09), Guelph Hydro is seeking to recover the OM&A in the amount of $721,000 through the GEA funding Rate Adder calculation (please see the response to TCQ #39 a).

b) Please explain the rationale for Guelph Hydro seeking to recovery of OM&A costs for the test year while it is proposing to defer the recovery of capital expendiure to the next rebasing application.

Guelph Hydro's Response:

Guelph Hydro misunderstood the regulatory mechanism of recovery GEA plan expenditures (see the response to TCQ #39a).

37) Ref: Board staff IRR #85 and Appendix Guelph_IRR_#85_GEA Rate Adder calculation

In the first reference Guelph Hydro stated that "Guelph has categorized the estimated anticipated $600,000 in FIT and microFIT capital connection investments as 100% Renewable Enabling Improvement ("REI") projects, which results in a direct benefit calculation as per the following table:

Average Net Fixed Assets	Direct Benefit %	2012	2013	2014	2015
Renewable Connections Capital - Expansions	17%	$ -	$ -	$ -	$ -
Renewable Connections Capital - Renewable Enabling Improvements	6%	$ -	$ 245,000	$ 504,500	$ 532,500
Feeder Automation Projects	100%	$ -	$ -	$ -	$ -
		$ -	$ 245,000	$ 504,500	$ 532,500
Direct Benefit		$ -	$ 14,700	$ 30,270	$ 31,950
Weighted Average Direct Benefit %		0.00%	6.00%	6.00%	6.00%

Please state what percentage and $ amount of this capital investment is attributed to the connection of mircoFIT projects.

Guelph Hydro's Response:

Of the $600,000 in FIT and microFIT capital connection investment, Guelph Hydro estimates that 100% or $600,000 of capital connection investment is attributed to projects larger than 10kW, or 0% / $0 is attributed to the connection of microFIT projects.

38) Ref: IRR 85, filed on September 30, 2011/page 140, Appendix Guelph_IRR_#85_GEA Rate Adder calculation

In the second reference, the spread sheet titled "Incremental Revenue Requirement Calculation" is basing the calculations on Net Fixed Assets as follows:

YEAR	NFA
2012	$245,000
2013	$504,500
2014	$532,000

In the second reference, the spread sheet titled "Weighted Average Direct Benefits" the Net Fixed Assets are shown as follows:

YEAR	NFA
2013	$245,000
2014	$504,500
2015	$532,000

a) Please prepare a revised evaluation of the spread sheet titled "Incremental Revenue Requirement Calculation" of the second reference (Appendix A) to reflect the correct amounts of the Net Fixed Assets.

Guelph Hydro's Response:

Guelph Hydro has revised the tab titled "Incremental revenue Requirement Calculation to reflect the correct amounts of the Net Fixed Assets:

YEAR	NFA
2013	$245,000
2014	$504,500
2015	$532,000

Incremental Revenue Requirement Calculation

	2011		2012		2013		2014		2015	
Net Fixed Assets		$ -		$ -		$ 245,000		$504,500		$532,500
OM&A	$ 477,000		$721,000		$ 391,000		$ 341,000		$ 306,000	
WCA	13.5%	$ 64,395	13.5%	$ 97,335	13.5%	$ 52,785	13.5%	$ 46,035	13.5%	$ 41,310
Rate Base		$ 64,395		$ 97,335		$ 297,785		$550,535		$573,810
Deemed ST Debt	4%	$ 2,576	4%	$ 3,893	4%	$ 11,911	4%	$ 22,021	4%	$ 22,952
Deemed LT Debt	56%	$ 36,061	56%	$ 54,508	56%	$ 166,760	56%	$308,300	56%	$321,334
Deemed Equity	40%	$ 25,758	40%	$ 38,934	40%	$ 119,114	40%	$220,214	40%	$229,524
ST Interest	2.46%	$ 63	2.46%	$ 96	2.46%	$ 293	2.46%	$ 542	2.46%	$ 565
LT Interest	5.26%	$ 1,898	5.26%	$ 2,869	5.26%	$ 8,778	5.26%	$ 16,229	5.26%	$ 16,915
ROE	9.58%	$ 2,468	9.58%	$ 3,730	9.58%	$ 11,411	9.58%	$ 21,097	9.58%	$ 21,988
		$ 4,429		$ 6,695		$ 20,482		$ 37,867		$ 39,468
OM&A		**$ 477,000**		**$721,000**		**$ 391,000**		**$341,000**		**$306,000**
Amortization		$ -		$ 10,000		$ 21,000		$ 25		$ -
Grossed-up PILs		$ 972		-$ 2,232		-$ 2,734		$ 7,338		$ -
Revenue Requirement		$ 482,401		$735,463		$ 429,748		$386,230		$345,468

Direct Benefit	2011	2012		2013	2014	2015
OM&A	$ 477,000	$721,000	**2011 + 2012**	$ 391,000	$341,000	$306,000
Capital	$ 5,401	$ 14,463		$ 38,748	$ 45,230	$ 39,468
Direct Benefit % on capital	0.00%	6.00%		6.00%	6.00%	6.00%
Direct Benefit on capital	$ -	$ 868		$ 2,325	$ 2,714	$ 2,368
Total Direct Benefit	$ 477,000	$721,868	$1,198,868	$ 393,325	$343,714	$308,368
Total # of Customers (excl connections)	52,253	52,253	52,253	52,253	52,253	52,253
GEA Rate Adder	$ 0.7607	$ 1.1512	$ 1.9120	$ 0.6273	$ 0.5482	$ 0.4918
Provincial Rate Protection	$ 5,401	$ 13,595	$ 18,996	$ 36,423	$ 42,516	$ 37,100
Monthly Adder Amount Paid by IESO	$ 450	$ 1,133	$ 1,583.02	$ 3,035	$ 3,543	$ 3,092

39) Ref: IRR #84 and 85 and Appendix Guelph_IRR_#85_GEA Rate Adder calculation

a) Following updates to the Incremental Revenue Requirement spread sheet in the GEA Rate Adder calculation, please re-state the GEA rate adder requested for the 2012 test year, the 2013 rate year, the 2014 rate year and the 2015 rate year.

Guelph Hydro's Response:

The proposed GEA rate adders are:

	2012 (Note 1)	2013	2014	2015
GEA Rate Adder	$ 1.9120	$ 0.6273	$ 0.5482	$ 0.4918

Note (1): 2021 GEA Rate Adder includes 2011 and 2012 recovery.

b) Please clarify if this funding adder(s) is/are incremental to a Smart Grid Rate Adder, which Guelph Hydro stated it might apply for at a later date.

Guelph Hydro's Response:

Guelph Hydro confirms that the GEA funding adders proposed in the response to IR #39a are incremental to a Smart Grid Rate Adder which Guelph Hydro may apply for at a later date.

40) Ref: IRR 85, filed on September 30, 2011/page 140, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09, June 10, 2010[EB-2009-0349]/page 3, IRR 94 filed on September 30, 2011

The Direct Benefit calculation shown on page 140 of the first reference, is based on 6% of the capital for each of the years 2013, 2014, and 2015, and does not include any up-front OMA costs necessary for the purpose of "enabling the connection of a qualifying generation facility".

At the second reference on page 3 the bullet titled "Eligible investment" costs, it states in part that:

> "Eligible investment" costs, as set out in O. Reg. 330/09 and section 79.1 (5) of the Act, are not limited to only the initial capital investment costs but also includes the up-front OM&A costs necessary for the purpose of "enabling the connection of a qualifying generation facility". However, given that section 79.1 focuses solely on the initial investment, ongoing OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery.

At the third reference, Guelph's response to IRR 94 provided percentage of time spent by each of the two new Resources (hired staff) in 2012 on the various activities including the "Renewable Generator Connection Upgrades".

a) Please prepare a revised evaluation of the direct benefits on page 140 of the first reference based on the direction outlined in the second reference where the upfront OM&A is incorporated for each qualifying generation facility.

Guelph Hydro's Response:

Guelph Hydro has revised the evaluation of the direct benefits by including the two new staff resources to be hired in 2012 at the percentages of time spent estimated at the third reference, Guelph Hydro's response to IRR 94. The direct benefits revised calculation follows:

Average Net Fixed Assets	Direct Benefit %	2012	2013	2014	2015
Renewable Connections Capital - Expansions	17%	$ -	$ -	$ -	$ -
Renewable Connections Capital - Renewable Enabling Improvements	6%	$ -	$ 245,000	$ 504,500	$ 532,500
Feeder Automation Projects	100%	$ -	$ -	$ -	$ -
OM&A	6%	$ 65,250	$ 82,650	$ 91,350	$ 104,400
		$ 65,250	$ 327,650	$ 595,850	$ 636,900
Direct Benefit		$ 3,915	$ 19,659	$ 35,751	$ 38,214
Weighted Average Direct Benefit %		6.00%	6.00%	6.00%	6.00%

41) Ref. Board staff IRR 86a)/pp.25 -28, IRR87a)/p.30, Exh. 2/Tab 4/Sch. 6 (Appendix D)/p.20 & p.21(Table), and Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010

In the first reference, in response to question a), Guelph Hydro indicated that the minimum functionality the IHD must have is displaying basic energy consumption and pricing information, and Guelph Hydro's intention is to take advantage of the existing smart meter infrastructure to expand the use of the IHD beyond the basic customer energy consumption, and stated in part that:

> Our intentions are to take advantage of the existing smart meter infrastructure, including LDC to meter communications channel, along with the Zigbee chip included in all of our smart meters, to expand the use of the IHD beyond the basic customer energy consumption and pricing information required for the CDM initiative as described above. We view this element of the program to be related to smart grid development and not strictly a CDM activity, although we acknowledge that the IHD messaging would be used to support CDM programs, whether electric or water.

Guelph Hydro in the first reference also stated in part that:

> As previously mentioned, Guelph Hydro has invested in smart meters containing a ZigBee chip. ZigBee is a two-way communications protocol similar to Bluetooth. A variety of devices will be able to use the ZigBee protocol in the home, potentially including smart appliances, electric vehicle charging systems, lighting controls, heating and cooling systems and sources of renewable energy. Guelph Hydro would like to leverage the ZigBee chip investment to enable customers to use their in-home display for a variety of different purposes including activities that are more "smart grid" related that we expect would not be funded through the OPA CDM programs:

In the third reference, the Filing Requirements on page 18 states in part that:

> "At the present time, smart grid development activities and expenditures should be limited to smart grid demonstration projects, smart grid studies or planning exercises and smart grid education and training."

Guelph Hydro has indicated that the IHD falls within the Demand Response program schedule of the OPA (2011-2014). Some DR activities fall clearly within demand management while others display more Smart Grid/Infrastructure attributes (IRR 86a).

a) Please file a copy of the OPA program schedule for the Demand Response ("DR") program that includes the use of an IHD.

Guelph Hydro's Response:

Attached please find the schedule for the DR program: "Initiative Schedule B-3 (Residential and Small Commercial Demand Response Initiative 2011-2014), supplied as Appendix Guelph_BoardStaff_TCQ_#41_a_DR_Program.

b) To clarify the boundary between CDM and Smart Grid activities please point to and file relevant documentation (OPA or other) that helps define DR/CDM vs. DR/Smart Grid.

Guelph Hydro's Response:

Guelph Hydro is unaware of relevant documentation that clearly defines the DR/CDM vs. DR/Smart Grid, but provides the following observations:

1) LDCs including Guelph Hydro have aggressive conservation targets to achieve over the 2011-2014 period;
2) The majority, or all, of the conservation savings are expected to be achieved through delivery of the province-wide OPA (Tier 1) conservation programs;
3) Any other proposed conservation programs that are potentially "duplicative" of the OPA Tier 1 programs require dialogue with the OPA and the OEB and approvals prior to commitment to the program;
4) The OPA has recently published the updated Residential Demand Response (RDR) program (previously known as "peaksaver™"), which includes the supply and installation of an In-Home Display (IHD) as part of program delivery – this is in lieu of a $25 incentive previously provided to the customer enrolling in the program;
5) The IHD is supplementary to the primary focus of the RDR program, which encourages enrollment of central air conditioning units, electric hot water heaters, and pool pumps;
6) It is unclear whether energy/demand savings will be attributed to the installation of an IHD towards an LDC's conservation target – anecdotally Guelph Hydro has heard that around 3% of a household's energy consumption savings may be attributed to these devices by virtue of the installation of the device, but at this time Guelph Hydro has no knowledge as to whether this, or any, level of energy savings has been statistically verified, or will even be acknowledged as part of the CDM program delivery;

7) The IHD can leverage the Zigbee communications chip embedded within Guelph Hydro Smart Meters, to provide near real-time energy consumption information without the need for other external communications tool;
8) Guelph Hydro's smart metering communications infrastructure investment may be further leveraged as a mechanism to provide messaging to the customer, with little incremental communications infrastructure investment, as Guelph Hydro already has a requirement for highly reliable daily smart metering transmissions (greater than 98%);
9) The Smart Metering and related communications infrastructure elements of this configuration are clearly Smart Grid related, and conceived and installed per Ontario regulation before the terminology "SmartGrid" became more prevalent;
10) The IHD on its own does not drive the DR activity required of the OPA CDM programs;
11) The IHD may be acting as a bridge between the Smart Grid and CDM worlds if there is a CDM contribution / allocation by virtue of the installation of the IHD. If this is the case, then all LDCs, including Guelph Hydro, will need to ensure that the installation of any IHD, whether through an OPA Tier1 province-wide program, a custom Tier2 or Tier 3 program, or a proposed GEA Smart Grid plan does result in proper allocation of CDM results towards the aggressive 2011-2014 CDM targets, otherwise the initiative would not be supported by the LDCs, as it does not assist in achieving the LDC's conservation goals;
12) Guelph Hydro notes that other forms of DR for business, commercial and industrial customers are covered by other OPA CDM program schedules, which is clearly in the realm of CDM;
13) Guelph Hydro notes that there are many definitions of "SmartGrid", and all definitions are not aligned. Guelph Hydro also notes that many LDCs have been undertaking activities and implementing technologies for many years on the distribution system (ie Supervisory Control and Data Acquisition System, Outage Management System, Distribution Automation, etc.) that in today's environment may be categorized as "SmartGrid", but is simply an extension or evolution of activities that have been occurring for many years. Guelph Hydro also notes that customers have the potential to implement elements of "SmartGrid" on their own through the installation of Home Automation, timers, and other more sophisticated management and control devices, so that the delineation of CDM and SmartGrid is not necessarily a clear one.

c) Please expand on the above and indicate whether the OPA program schedule for DR makes provisions for the use of devices with attributes and functionalities similar to Guelph's longer term plans for in-home display.

Guelph Hydro's Response:

As noted in a previous interrogatory response, at this time the OPA program explicitly includes the supply and installation of a demand response device (ie switch to control central air conditioning or pool pump) as well as an In-home Display to provide the customer electricity consumption information and rate information as part of the CDM program. The IHD does not provide DR functionality. Although the OPA has indicated that it will consider funding a Demand Response Thermostat (DRT) with display capability as being eligible in the DR program as both the DR device and IHD, Guelph Hydro's focus for the proposed Messaging project is designed around a stand-alone IHD without DR capability. In either scenario, the OPA CDM program clearly does not support the concept of messaging to the home as proposed in Guelph Hydro's GEA Plan.

d) Focusing your answers on the IHD functionality (ies), please outline what Guelph views as:

- Strictly CDM
- Strictly Smart Grid
- Potentially Smart Grid

Guelph Hydro's Response:

The definition of CDM for an LDC with mandated conservation targets would be driven around any activity funded by the OPA or customer rate base that results in conservation, electricity efficiency improvements or demand response that will be attributed to the LDC's share of the province-wide conservation targets. This could mean any number of potential programs, including the implementation of so-called "SmartGrid" technologies that meet the requirements for CDM attribution as outlined by the regulating authority of the day. These requirements may change as program definitions are modified over time, as new elements are added and others are removed (for example, the introduction of IHDs in the new RDR program). This may be best illustrated in examples as outlined below:

Examples of Potential IHD Messaging Functionality	"CDM" vs "SmartGrid"

Local community messaging (ie water conservation)	SmartGrid
LDC billing reminders and notifications (ie delinquency)	SmartGrid
CDM program promotion and messaging	CDM
Display basic electricity consumption	CDM as this is funded by the OPA towards LDC CDM targets
Display basic Electric Vehicle charging station information	SmartGrid, but could potentially become a CDM activity should customers be incented to discharge EV batteries into the grid at system peak

e) When does Guelph plan to expand the capabilities beyond basic energy consumption and pricing information display? (yr 3, yr 4, yr 5 of the GEA Plan?)

Guelph Hydro's Response:

Guelph Hydro's high level project plans for rolling out the IHD and messaging are as follows:

1. Survey of Guelph residents / potential IHD users to better understand how they would use the display to ensure the appropriate technology is deployed within the constraints of the OPA CDM IHD funding;
2. Procurement of IHDs, selection of OPA RDR service provider;
3. Explore IHD – Smart Meter pairing requirements and security issues, and develop procedures for field installation, commissioning, troubleshooting, and Customer Information System integration, as well as developing internal protocols for regular pricing updates to the IHD;
4. Implementation of IHD back-office hardware and software solution;
5. Testing with new back-office system to understand messaging communications requirements and limitations, including any potential impact on smart metering communications system;
6. Developing protocols for basic messaging beyond consumption/pricing;
7. Implement basic messaging for LDC and potentially City of Guelph use;
8. Work with software developer to design and develop IHD custom messaging application(s);

Guelph Hydro will complete Items 1-3 as quickly as possible to ensure early roll-out of the RDR CDM program. We expect the hardware/software implementation (Item 4) in Q1-Q2 2012, ideally with the ability to complete items 5, 6 and 7 later in 2012. Custom application development and roll-out would likely not occur until 2013 at the earliest.

f) When does Guelph plan to expand the project beyond those customers participating in the OPA Demand Response program? (yr 3, yr 4, yr 5 of the GEA Plan?)

Guelph Hydro's Response:

As noted in previous interrogatory response OEB #86g, Guelph Hydro proposes to expand the project to beyond those customers participating in the OPA Demand Response program after discussions have taken place with the OPA and OEB to understand the implications of the wider roll-out of IHDs that are not delivered through the OPA Tier 1 CDM program. Should there be an energy/demand reduction attributed directly to IHD's, we cannot afford to not have this contribution be reflected towards Guelph Hydro's CDM targets. We also need to have an understanding of how IHDs can be funded outside of the OPA Tier 1 RDR CDM program.

42) Ref: IRR 86a)/pp.25 -27, IRR87a)/p.30, and Exh. 2/Tab 4/Sch. 6 (Appendix D)/p.20 & p.21(Table)

For the basic IHD minimum functionality of displaying basic energy consumption and pricing information, please indicate whether or not this can be accomplished without the installation of the back-office support installation that is estimated to cost $479,000 in 2011 as shown in the second reference.

Guelph Hydro's Response:

This is to confirm that the basic IHD minimum functionality can be accomplished without the installation of the additional back-office hardware and software. The existing smart metering AMI system has the ability to manage the pairing of smart meters and the IHD using a manual process, which Guelph Hydro believes will be functional for managing a small number of devices. For larger volumes of devices (IHDs), Guelph Hydro believes a system with better automation and device management tools will be required. The existing AMI has limited messaging capability and is not capable of delivering the IHD Messaging project as described in Guelph Hydro's GEA Plan.

a) Does the IHD system need to be integrated to interface with Guelph AMI in order to yield the desirable results (i.e., Energy consumption and pricing info. Display) that the CDM program schedule recognizes?

Guelph Hydro's Response:

It is unclear which IHD system is being referred to in the question. As noted in the response above, the basic OPA CDM energy and price information can be accomplished without the additional back-office hardware and software. However, the IHD Messaging project requires a separate hardware and software system in addition to the smart meter AMI system. The additional IHD Messaging system must be interfaced to the existing smart metering AMI to access the smart meter database and wireless field communications network.

b) If the answer is no, can additional subsequent upgrades be done to (fully take advantage of all of the IHD functionalities) allow interface with Guelph's AMI? If feasible, what are the costs of upgrades? Would these costs of upgrade far outweigh those of immediate installation?

Guelph Hydro's Response:

As noted in the response to 42a, the smart metering AMI and IHD Messaging system are two separate systems. There is no upgrade path of Guelph's AMI that incorporates the additional functionality.

c) Based on above answers, if applicable, please revise CAPEX at reference 2.

Guelph Hydro's Response:

Not applicable, refer to response 42b.

43) Ref: Board staff IRR 86a)/pp.25 -27, Board staff IRR87a)/p.30, Exh. 2/Tab 4/Sch. 6 (Appendix D)/p.20 & p.21(Table), and Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010

a) Using past residential Guelph pilots as a guide, please provide a range of residential customers involved in each pilot.

Guelph Hydro's Response:

It is unclear what past residential Guelph pilots are being referred to in this question. If this question is related to OPA CDM program delivery, these are not pilot projects, and the entire Guelph Hydro customer base is included in the appropriate target market. For example, in a residential program, the entire Guelph and Rockwood residential customer base of over 46,000 customers are targeted.

b) To help clarify between the "planned" roll-out of IHDs vs. the wider roll-out, does the OPA presently cap the number of participants in market transformation programs such as the IHD?

Guelph Hydro's Response:

To clarify, there is no "planned rollout" of IHDs as a part of the delivery of OPA CDM programs. Delivery of conservation programs by Guelph Hydro to Guelph Hydro customers, and in fact to all customers of LDCs in Ontario is a marketing and promotion exercise, funded by the OPA, to encourage customers to enroll and participate in relevant CDM programs. Guelph Hydro has no mechanism to enforce the mandatory installation of CDM measures or IHDs. Guelph Hydro's experience in enrolling residential customers in the previous demand response program over the period 2007-2010 has resulted in close to 1,300 customer enrollments, or about 3% of the residential customer base. Guelph Hydro notes that this level of program uptake is comparable to other LDCs in the region. Guelph Hydro confirms that to date Guelph Hydro has not experienced an OPA cap on the number of market participants on a CDM program. Guelph Hydro also notes that a different delivery mechanism / funding model would be required to achieve a higher IHD penetration than achieved through the CDM delivery mechanism.

c) From the evidence one presumes that the current roll-out will be delivered through the OPA CDM program, what percentage of the residential customer base is involved in this roll-out? Is the remainder percentage presumably in this wider roll-out?

Guelph Hydro's Response:

Please refer to responses to 43b, 41e and 41f for more details.

44) Ref: Board staff IRR 86a),pp.25 -27, Board staff IRR87a), p.30,

In the third reference, Guelph lists a number of possible education and messaging opportunities, which appear to include messaging related to energy consumption and pricing, conservation messaging, and other utility-related information (i.e. safety, maintenance, power outage). In addition, Guelph indicates that possible education and messaging opportunities include, among others:

- Municipal water conservation messaging and program notification;
- Municipal Emergency Services messaging and notification (ie. “Amber Alert”, Smog Day warnings, etc); and
- Other Community messaging (Earth Hour, Snow Days – school closures, road work, etc).

a) Please explain whether the IHD will be used by third parties? Please list the parties.

Guelph Hydro’s Response:

It is Guelph Hydro’s intent to make the IHD messaging system available for legitimate community use with a not-for-profit model, in order to ensure that Guelph Hydro’s brand is not damaged with experiences similar to some door to door energy retailers. Over time as the system is expanded and proven to be reliable, the system may be made accessible to third parties. Third parties originally contemplated for this project include the following:

- City of Guelph – Emergency Services;
- City of Guelph – Municipal Services – Waste & Environment;
- City of Guelph – Waterworks Department;
- City of Guelph – Recreation & Culture;
- Upper Grand District School Board;
- Wellington Catholic District School Board

b) If the answer is yes, at what point in the five year plan will these additional entities make use of the IHD?

Guelph Hydro’s Response:

Please refer to response to 41e and 41f for more detail.

c) What is the useful life of the IHD?

Guelph Hydro's Response:

Guelph Hydro has no direct experience with IHD lifespan, but estimates it may be in the 5 year to 10year timeframe, as most IHDs researched to date do offer remote firmware upgrades. Guelph Hydro anticipates that the IHD will last longer than most consumer electronics 3 year lifespan, but not likely as long as the expected 15 year lifespan of the smart meter.

d) If applicable, will Guelph charge other parties for the use of the IHD infrastructure in order to provide notification and messaging?

Guelph Hydro's Response:

At this time Guelph Hydro has conceived of this project as a not for profit community based tool, in order to protect Guelph Hydro's brand. Over time as the system is expanded and can be made available to other agencies, there may be a desire to more closely reviewing the system's operating and maintenance costs with a view to some cost recovery from the agencies using the system.

45) Ref. Board staff IRR #90, Board staff IRR #91, Exh. 2/Tab 4/Sch. 6 (Appendix D)/pp.22 – 24, and Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010, p. 19

In the fourth reference, on page 19 the Filing Requirements lists a series of six information requirements for a Smart Grit demonstration project., for example,

- *a discussion of the technology to be anticipated benefits from a successful application of the technology.*

The Filing Requirements do not mention “pilot projects” as expenses eligible for inclusion in the Smart Grid deferral accounts. While the evidence in reference 3 describes the electric vehicle project as a “Pilot” project, in reference 1 the IRR indicates that Guelph considers the project to be a demonstration project.

While the evidence and the IR provide much interesting information (e.g. a review of other demonstration projects), there is no systematic discussion of how the project meets the six requirements. For example it is not clear what “technology” is the subject of the demonstration. The evidence (reference 3) lists a number of items: electric vehicles, charging stations, home charging units, “business models”, and Zigbee chip functionality. In addition IRR 91 (reference 2) indicates that:
“the purpose in conducting the EV pilot project is to educate residents…”

a) Please provide a direct response to each of six information requirements listed in the Filing Requirements.

Guelph Hydro’s Response:

Response to be provided before the Settlement Conference.

b) Please explain how Guelph interprets the Filing Requirements as identifying the education of residents as an eligible Smart Grid expense.

Guelph Hydro’s Response:

Response to be provided before the Settlement Conference.

46) Ref. Board staff IRR 93, Exh. 2/Tab 4/Sch. 6 (Appendix D)/pp.28 – 31, and Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010

In the first reference Board staff IRR 93a), Guelph indicates that the lessons to be learned from the Smart Home Demonstration Project are all related to the responses of the community and consumers to various smart grid technologies, including EVs. In that same first reference Board staff IRR 93f), Guelph Hydro equates public education on electrical safety with public education on in-home smart grid technology and goes on to indicate that the project will assist in building a "culture of conservation".

In the third reference, the Filing Requirements state in part that the following information is required:

> a description of the formal evaluation that will be performed to assess the value of the projects.

a) Please provide a description of the formal evaluation that Guelph will perform in relation to the lessons to be drawn from the project.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

b) Please indicate how the lessons from this project are expected to differ from those of the EV pilot with respect to assessing "how much interest there is in electric vehicle charging systems".

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

c) Please indicate how this project relates to Guelph's CDM activities with respect to the "culture of conservation" and especially with regard to potential duplication of effort.

Guelph Hydro's Response:

Response to be provided before the Settlement Conference.

Appendices

Appendix Guelph_BoardStaff_TCQ_#15_l_FS_GHESI – Financial statements of GHESI, 2001-2005

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

December 31, 2001

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Auditors' Report

To the Board of Directors of
Guelph Hydro Electric Systems Inc.

We have audited the balance sheet of Guelph Hydro Electric System Inc. (the Company) as at December 31, 2001 and the statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

March 12, 2002

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GUELPH HYDRO ELECTRIC SYSTEMS INC.
Balance Sheet
December 31, 2001
(in thousands of dollars)

	2001	2000
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 17,620**	$ 19,014
Accounts receivable (Note 3)	**6,746**	7,153
Accounts receivable - unbilled revenue	**8,375**	7,810
Income tax receivable	**205**	-
Inventory	**1,427**	1,511
Due from related parties (Note 7)	**199**	92
Other	**277**	258
	34,849	35,838
FIXED ASSETS (Note 4)	**72,370**	70,162
DEFERRED CHARGES	**333**	440
	$ 107,552	$ 106,440
LIABILITIES		
CURRENT		
Accounts payable and accured liabilities	**$ 11,571**	$ 14,830
Deferred credits - accounts receivable	**1,474**	975
Customer deposits - current portion	**596**	482
Debentures - current portion (Note 5)	**646**	590
	14,287	16,877
LONG-TERM DEBT		
Debenture debt outstanding (Note 5)	**4,475**	5,094
Notes payable (Notes 1 and 8)	**36,642**	36,642
	41,117	41,736
OTHER LONG-TERM LIABILITIES		
Employee future benefits (Note 9)	**5,310**	4,884
Customer deposits - long-term portion	**824**	825
	6,134	5,709
	61,538	64,322
CONTINGENCY (Note 14)		
SHAREHOLDERS' EQUITY		
Share capital (Note 1 and Note 13)	**42,326**	42,326
Retained Earnings (Deficit)	**3,688**	(209)
	46,014	42,117
	$ 107,552	$ 106,440

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Income and Retained Earnings
Year Ended December 31, 2001
(With Comparative Figures for the Two Months Ended December 31, 2000)
(in thousands of dollars)

	2001	2000 (2 months)
SERVICE REVENUE		
Residential	$ 29,400	$ 4,935
General	66,399	11,350
Large user	14,557	2,205
Street lighting	606	94
	110,962	18,583
COST OF POWER	96,524	17,330
GROSS MARGIN ON SERVICE REVENUE	14,438	1,253
OTHER OPERATING REVENUE (Note 17)	2,280	410
NET OPERATING REVENUE	16,718	1,664
DISTRIBUTION SYSTEM EXPENSE		
Operations	911	139
Maintenance	1,315	197
ADMINISTRATIVE EXPENSE		
General administrative	2,415	322
Billing and collecting	1,240	151
Information systems	1,115	158
Community relations	41	10
DEPRECIATION	4,446	755
TOTAL EXPENSES	11,483	1,731
INCOME (LOSS) BEFORE FINANCIAL EXPENSE	5,235	(67)
FINANCIAL EXPENSE		
Interest on notes payable	738	-
Interest on debentures	489	85
Other	32	57
TOTAL FINANCIAL EXPENSES	1,259	142
INCOME (LOSS) BEFORE INCOME TAXES	3,976	(209)
INCOME TAXES	80	-
NET INCOME (LOSS)	3,897	(209)
(DEFICIT), BEGINNING OF PERIOD	(209)	-
RETAINED EARNINGS (DEFICIT), END OF PERIOD	$ 3,688	$ (209)

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Cash Flows

Year Ended December 31, 2001
(With Comparative Figures for the Two Months Ended December 31, 2000)
(in thousands of dollars)

	2001	2000 (2 months)
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss)	$ 3,897	$ (209)
Add charges to operations not requiring a current cash payment		
Depreciation	4,820	814
Amortization	119	-
Difference between employee future benefits expense and amount funded	426	-
Gain on disposal of fixed assets	(19)	(10)
	9,243	595
Net change in non-cash working capital balances related to operations (Note 12)	(2,574)	562
Net change in deferred charges and other deferred liabilities	(13)	100
	6,656	1,257
INVESTING ACTIVITIES		
Additions to fixed assets	(7,506)	(858)
Net proceeds on disposal of fixed assets	19	10
	(7,487)	(848)
FINANCING ACTIVITIES		
Cash and cash equivalents transferred in on startup	-	19,142
Debenture principal repaid	(563)	(536)
	(563)	18,606
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,394)	19,014
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,014	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 17,620	$ 19,014
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	$ 1,266	$ 275
Payment for income taxes	$ 360	$ -

(in thousands of dollars)

1. INCORPORATION AND REORGANIZATION

On October 31, 2000 Guelph Hydro Electric Systems Inc. (the Company) was incorporated under the *Business Corporations Act (Ontario)*.

The Company continues the Commission's business of distributing electricity in Guelph.

Under a City of Guelph by-law, dated October 25, 2000, the former Board of Light and Heat Commissioners of The City of Guelph (the Commission) and the City of Guelph transferred the assets, liabilities and employees associated with the distribution of electricity at book value effective November 1, 2000.

Certain regulations of section 93 of the Electricity Act 1998 (Ontario), if enacted, will permit the assets transferred to be adjusted to reflect fair market value. It is anticipated that this adjustment will take place at either the date of the transfer of assets (November 1, 2000) or the date of market opening. The adjustment will result in the issuance of further debt and equity as consideration at the ratio stipulated in the transfer by-law.

The incorporation and subsequent reorganization was required by provisions of Bill 35, *The Energy Competition Act, 1998* enacted by the Province of Ontario to introduce competition in the electricity market.

The value of net assets transferred to the Company at November 1, 2000 was estimated to be $78,968. In consideration for the transfer the Company issued long-term notes payable to the City of Guelph in the aggregate principal amount of $36,642 together with shares valued at $42,326.

Net assets transferred to the Company may be summarized as follows:

Assets		
Current	$	**33,653**
Fixed		**70,016**
Other		**432**
		104,101
Liabilities		
Current		**13,847**
Other		**11,286**
		25,133
Net assets	$	**78,968**
Financed by		
Long-term debt		**36,642**
Share capital issued		**42,326**
	$	**78,968**

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998:

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Cash and cash equivalents

Cash equivalents include short-term investments with maturities of three months or less when purchased. Total cash equivalents at the period end are $6,447 (2000 - $6,181).

Inventory

Inventory is stated at the lower of cost and net realizable value, with cost being determined on average cost basis.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Buildings and fixtures	30-60 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5-10 years
Computer equipment	5 years
Major tools	10 years
Data acquisition system	5 years
Trucks and rolling stock	4-8 years
Other capital assets	10-25 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for year ended December 31, 2001 of $1,641 (2000 - $374) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and are amortized over a period of 36 months commencing January 1, 2001.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC), for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

(in thousands of dollars)

3. ACCOUNTS RECEIVABLE

	2001	2000
Revenue	$ 5,451	$ 5,160
Miscellaneous	861	1,612
Due from City of Guelph	536	483
	6,848	7,255
Less allowance for doubtful accounts	102	102
	$ 6,746	$ 7,153

4. FIXED ASSETS

	2001			2000
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 780	$ -	$ 780	$ 780
Buildings and fixtures	9,484	262	9,221	9,409
Distribution lines - overhead	19,198	1,238	17,960	17,469
Distribution lines - underground	32,146	2,104	30,042	29,012
Distribution transformers	8,366	726	7,640	7,535
Distribution meters	4,102	313	3,789	3,750
General office equipment	265	72	193	202
Computer equipment	371	124	247	175
Major tools	270	63	207	200
Data acquisition system	1,142	309	833	388
Trucks and rolling stock	1,414	356	1,058	834
Other capital assets	463	63	400	408
	$ 78,001	$ 5,630	$ 72,370	$ 70,162

(in thousands of dollars)

5. LONG-TERM DEBT

	2001	2001
Serial debenture, averaging 6.97%, maturing in November 2003	**$ 502**	$ 741
Serial debenture, averaging 9.53%, maturing in December 2004	**2,759**	2,963
Serial debenture, averaging 6.83%, maturing in December 2005	**1,860**	1,980
	5,121	5,684
Less principal due within one year	**646**	590
	$ 4,475	$ 5,094

Principal payments required in each of the next four calendar years are as follows:

2002	**646**
2003	**664**
2004	**2,391**
2005	**1,420**
	$ 5,121

6. PENSION AGREEMENT

The Company and its employees contribute to the Ontario Municipal Employees' Retirement System (OMERS), a defined benefit pension plan for the employees of Ontario municipalities. The Company's contribution for employees' current service for the year ended December 31, 2001 was $Nil (2000 - $Nil). No premiums were paid by the employer due to the approved OMERS premium holiday.

7. RELATED PARTY TRANSACTIONS

The Company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors' and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange. The name of the insured is GHI and the Company is a named additional insured on the policy.

(in thousands of dollars)

7. RELATED PARTY TRANSACTIONS (continued)

Amounts due from (to) related parties at December 31, 2000 for transactions in the normal course of operations are as follows:

	2001	2000
Guelph Hydro Inc.	(40)	(6)
Selectpower Inc.	76	20
Fibrewired By Guelph Hydro Inc.	149	72
Wellington Electric Distribution Company Inc.	14	6
	$ 199	$ 92

8. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 7.25% phased in over a three year period, beginning March 2001. No principal payments will be required in perpetuity.

9. EMPLOYEE FUTURE BENEFITS

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2001 of $5,310 (2000 - $4,884) and the expense for the year ended December 31, 2001 was determined by actuarial valuation using a discount rate of 6.0%.

Information regarding the defined benefit plan of the Company is as follows:

	December 31, 2001
Accrued benefit liability at January 1, 2001	$ 4,884
Expense for the period ended December 31, 2001	500
Loss on accrued post-retirement benefit obligation	92
Benefits paid for the period	(166)
Projected accrued benefit obligations at December 31, 2001 as determined by the actuarial valuation using a 6% discount rate	$ 5,310

(in thousands of dollars)

9. EMPLOYEE FUTURE BENEFITS (continued)

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation – future general inflation levels, as measured by the changes in the Consumer Price Index (CPI), were assumed at 3.5% in 2001 and thereafter.

Discount (Interest) Rate – the obligation as at January 1, 2001 of the present value of future liabilities and the expense for the year ended December 31, 2001 were determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.5%. The projected liability at December 31, 2001 was determined using a discount rate of 6%.

Salary Levels – future general salary and wage levels were assumed to increase at 2% per annum.

Medical Costs – medical costs were assumed to increase at the CPI rate plus a further increase of 5.5% in 2001 graded down to 1.5% in 2004 and thereafter. These costs were downgraded by increments of 1% per year to 2005 and were assumed to increase to 5% thereafter per annum.

Dental Costs – dental costs were assumed to increase at the CPI rate plus a further increase of 1% in 2001 and thereafter.

10. OPERATING LEASE

The Company leases a computer system and related software and a business recovery site. Future minimum lease payments consist of the following amounts over the next three years:

2002	**$**	**320**
2003		**251**
2004		**26**
	$	**597**

11. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

(in thousands of dollars)

11. FINANCIAL INSTRUMENTS (continued)

Fair value

At December 31, 2001, the estimated fair market value of short-term investments, accounts receivable, accounts payable and other accrued expenses was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

It is not practicable within the constraint of cost to determine the fair value of long-term debt with sufficient reliability.

12. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2001	2000
Accounts receivable	$ **964**	$ (1,139)
Accounts receivable - unbilled revenue	**(565)**	(1,451)
Income tax receivable	**(205)**	-
Inventory of stock and material	**83**	170
Due from related parties	**(107)**	69
Other current items	**(18)**	(175)
Accounts payable and accrued liabilities	**(3,339)**	2,792
Deferred credits - accounts receivable	**499**	336
Customer deposits - current portion	**114**	(40)
	(2,574)	562

13. SHARE CAPITAL

	2001	2000
Authorized		
Unlimited number of common shares		
Issued		
1,000 common shares	$ **42,326**	$ 42,326

14. CONTINGENCY

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

15. SUBSEQUENT EVENT

The Government of Ontario has announced that the electricity market will open to competition on May 1, 2002. The Company has expended significant resources in preparation for market opening and expects to function efficiently in the new market.

Beginning May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company must provide security for Independent Electricity Market Operator (IMO) based on its usage. The security required can take several forms (i.e. credit rating, monetary payment and years of good payment history). The Company's maximum security is $22,900. The Company is currently under negotiation to purchase a financial instrument to provide the security required by the IMO.

16. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $3,065 would be recorded.

17. OPGI SETTLEMENT

The OPGI settlement relates to the settlement of a class action lawsuit between Ontario Power Generation (formerly Ontario Hydro) and Ontario's local distribution companies. The claim and settlement related to the cost of power charge in previous years. The settlement of $402 is included in other operating revenue.

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

December 31, 2002

Deloitte & Touche LLP
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Deloitte & Touche

Auditors' Report

To the Board of Directors of
Guelph Hydro Electric Systems Inc.

We have audited the balance sheet of Guelph Hydro Electric Systems Inc. (the Company) as at December 31, 2002 and the statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 4, 2003

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GUELPH HYDRO ELECTRIC SYSTEMS INC.
Balance Sheet
December 31, 2002
(in thousands of dollars)

	2002	2001
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 10,895**	$ 17,620
Accounts receivable (Note 3)	**9,428**	6,746
Accounts receivable - unbilled revenue	**13,706**	8,375
Income tax receivable	**49**	205
Inventory	**1,188**	1,427
Due from related parties (Note 8)	**882**	199
Other	**166**	277
	36,314	34,849
FIXED ASSETS (Note 4)	**72,478**	72,370
REGULATORY ASSETS (Note 5)	**2,697**	-
DEFERRED CHARGES	**174**	333
	$ 111,663	$ 107,552
LIABILITIES		
CURRENT		
Accounts payable and accured liabilities	**$ 12,518**	$ 11,571
Deferred credits - accounts receivable	**1,108**	1,474
Customer deposits - current portion	**683**	596
Debentures - current portion (Note 6)	**664**	646
	14,973	14,287
LONG-TERM DEBT		
Debenture debt outstanding (Note 6)	**3,811**	4,475
Notes payable (Notes 9)	**36,642**	36,642
	40,453	41,117
OTHER LONG-TERM LIABILITIES		
Employee future benefits (Note 10)	**5,648**	5,310
Customer deposits - long-term portion	**966**	824
	6,614	6,134
	62,040	61,538
CONTINGENCY (Note 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	**42,326**	42,326
Retained earnings	**7,297**	3,686
	49,623	46,012
	$ 111,663	$ 107,550

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Income and Retained Earnings
Year Ended December 31, 2002
(in thousands of dollars)

	2002	2001
SERVICE REVENUE		
Residential	**$ 35,436**	$ 29,400
General	**75,040**	66,387
Large user	**16,583**	14,557
Street lighting	**527**	617
	127,586	110,961
Service revenue adjustment	**105**	-
	127,691	110,961
COST OF POWER	**108,679**	96,524
GROSS MARGIN ON SERVICE REVENUE	**19,012**	14,437
OTHER OPERATING REVENUE	**1,412**	2,280
NET OPERATING REVENUE	**20,424**	16,717
DISTRIBUTION SYSTEM EXPENSE		
Operations	**1,007**	911
Maintenance	**1,597**	1,315
ADMINISTRATIVE EXPENSE		
General administrative	**2,783**	2,415
Billing and collecting	**1,202**	1,240
Information systems	**1,159**	1,115
Community relations	**115**	41
DEPRECIATION	**4,655**	4,446
TOTAL EXPENSES	**12,518**	11,483
INCOME BEFORE FINANCIAL EXPENSE	**7,906**	5,234
FINANCIAL EXPENSE		
Interest on notes payable	**1,623**	738
Interest on debentures	**440**	489
Other	**120**	32
TOTAL FINANCIAL EXPENSES	**2,183**	1,259
INCOME BEFORE INCOME TAXES	**5,723**	3,975
INCOME TAXES	**2,113**	80
NET INCOME	**3,611**	3,895
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	**3,686**	(209)
RETAINED EARNINGS, END OF YEAR	**$ 7,297**	$ 3,686

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Cash Flows
Year Ended December 31, 2002
(in thousands of dollars)

	2002	2001
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss)	**$ 3,611**	$ 3,895
Add charges to operations not requiring a current cash payment		
Depreciation	**5,052**	4,820
Amortization	**160**	119
Difference between employee future benefits expense and amount funded	**338**	426
Gain on disposal of fixed assets	**(93)**	(19)
	9,068	9,241
Net change in non-cash working capital balances related to operations (Note 13)	**(7,525)**	(2,574)
Net change in regulatory assets	**(2,697)**	-
Net change in deferred charges and other deferred liabilities	**141**	(14)
	(1,013)	6,653
INVESTING ACTIVITIES		
Additions to fixed assets	**(5,158)**	(7,503)
Net proceeds on disposal of fixed assets	**93**	19
	(5,065)	(7,483)
FINANCING ACTIVITIES		
Cash and cash equivalents transferred in on startup	**-**	-
Debenture principal repaid	**(646)**	(563)
	(646)	(563)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(6,724)**	(1,395)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**17,619**	19,014
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 10,895**	$ 17,619
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	**$ 2,183**	$ 1,266
Payment for income taxes	**$ 2,162**	$ 360

1. NATURE OF OPERATIONS

Guelph Hydro Electric Systems Inc. (the Company), is a wholly-owned subsidiary of Guelph Hydro Inc., and was incorporated October 31, 2000 under the *Business Corporations Act (Ontario).*

The principal activity of the Company is to provide electrical power distribution throughout the City of Guelph.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998:

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Cash and cash equivalents

Cash equivalents include short-term investments with maturities of three months or less when purchased. Total cash equivalents at the year end are $116 (2001 - $6,447).

Inventory

Inventory is stated at the lower of cost and net realizable value, with cost being determined on average cost basis.

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Buildings and fixtures	30-60 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5-10 years
Computer equipment	5 years
Major tools	10 years
Data acquisition system	5 years
Trucks and rolling stock	4-8 years
Other capital assets	10-25 years

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for year ended December 31, 2002 of $2,564 (2000 - $1,641) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and are amortized over a period of 36 months commencing January 1, 2001.

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

3. ACCOUNTS RECEIVABLE

	2002	2001
Revenue	**$ 8,045**	$ 5,451
Miscellaneous	**1,345**	861
Due from City of Guelph	**200**	536
	9,590	6,848
Less allowance for doubtful accounts	**162**	102
	$ 9,428	$ 6,746

(in thousands of dollars)

4. FIXED ASSETS

	2002			2001
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 780	$ -	$ 780	$ 780
Buildings and fixtures	9,489	487	9,001	9,221
Distribution lines - overhead	20,767	2,369	18,398	17,960
Distribution lines - underground	33,917	3,963	29,954	30,042
Distribution transformers	8,936	1,351	7,585	7,640
Distribution meters	4,483	596	3,887	3,789
General office equipment	347	144	203	193
Computer equipment	595	261	334	247
Major tools	330	116	214	207
Data acquisition system	1,303	602	701	833
Trucks and rolling stock	1,753	680	1,073	1,058
Other capital assets	463	114	349	400
	$ 83,163	$ 10,684	$ 72,478	$ 72,370

5. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2002	2001
Pre-market opening energy variance	$ 815	$ -
Retail settlement variance	1,882	-
	$ 2,697	$ -

The introduction of Bill 210 in November 2002 has deferred future rate increases until 2006. Management believes that it is probable that regulatory assets will be recovered through future rates, although uncertainty has been heightened with current legislation, Bill 210. Management has performed an analysis of the impact on future rates and is confident that future rate increases will be sufficient to realize all of these costs. If in a future decision, the regulator determines that the existing regulatory treatment is no longer acceptable, the regulatory assets would be charged to operations.

(in thousands of dollars)

6. LONG-TERM DEBT

	2002	2001
Serial debenture, averaging 6.97%, maturing in November 2003	$ 251	$ 502
Serial debenture, averaging 9.53%, maturing in December 2004	2,504	2,759
Serial debenture, averaging 6.83%, maturing in December 2005	1,720	1,860
	4,475	5,121
Less principal due within one year	664	646
	$ 3,811	$ 4,475

Principal payments required in each of the next four calendar years are as follows:

2003	664
2004	2,391
2005	1,420
	$ 4,475

7. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2002 was $Nil (2001 - $Nil). No premiums were paid, by the employer or employees in 2001 due to the legislated OMERS premium holiday which is in effect until December 31, 2002.

(in thousands of dollars)

8. RELATED PARTY TRANSACTIONS

The Company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors' and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange. The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2002	2001
Guelph Hydro Inc.	$ **87**	$ (40)
Selectpower Inc.	**140**	76
Fibrewired By Guelph Hydro Inc.	**514**	149
Wellington Electric Distribution Company Inc.	**140**	14
	$ **882**	$ 199

9. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83% (2001 2.42%). No principal payments will be required in perpetuity.

10. EMPLOYEE FUTURE BENEFITS

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2002 of $5,648 (2000 - $5,310) and the expense for the year ended December 31, 2002 was determined by actuarial valuation using a discount rate of 6.0%.

(in thousands of dollars)

10. EMPLOYEE FUTURE BENEFITS (continued)

Information regarding the defined benefit plan of the Company is as follows:

	December 31, 2002	December 31, 2001
Accrued benefit liability at January 1, 2002	$ 5,310	4,884
Expense for the period ended December 31, 2002	500	500
Loss on accrued post-retirement benefit obligation	-	92
Benefits paid for the period	162	(166)
Projected accrued benefit obligations at December 31, 2002 as determined by the actuarial valuation using a 6% discount rate	$ 5,648	$ 5,310

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation – future general inflation levels, as measured by the changes in the Consumer Price Index (CPI), were assumed at 3.5% in 2001 and thereafter.

Discount (Interest) Rate – the obligation as at January 1, 2002 of the present value of future liabilities and the expense for the year ended December 31, 2002 were determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 2.5%. The projected liability at December 31, 2002 was determined using a discount rate of 6%.

Salary Levels – future general salary and wage levels were assumed to increase at 2% per annum.

Medical Costs – medical costs were assumed to increase at the CPI rate plus a further increase of 5.5% in 2001 graded down to 1.5% in 2004 and thereafter. These costs were downgraded by increments of 1% per year to 2005 and were assumed to increase to 5% thereafter per annum.

Dental Costs – dental costs were assumed to increase at the CPI rate plus a further increase of 1% in 2001 and thereafter.

(in thousands of dollars)

11. OPERATING LEASE

The Company leases a computer system and related software and a business recovery site. Future minimum lease payments consist of the following amounts over the next three years:

2003	**$**	**286**
2004		**237**
2005		**160**
	$	**683**

12. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2002, the estimated fair market value of short-term investments, accounts receivable, accounts payable and other accrued expenses was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

It is not practicable within the constraint of cost to determine the fair value of long-term debt with sufficient reliability.

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to Independent Electricity Market Operators based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $22,900.

(in thousands of dollars)

13. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2002	2001
Accounts receivable	$ (2,683)	$ 964
Accounts receivable - unbilled revenue	(5,331)	(565)
Income tax receivable	155	83
Inventory of stock and material	240	(107)
Due from related parties	(683)	(205)
Other current items	112	(18)
Accounts payable and accrued liabilities	944	(3,339)
Deferred credits - accounts receivable	(366)	499
Customer deposits - current portion	87	114
	(7,525)	(2,574)

14. SHARE CAPITAL

	2002	2001
Authorized		
Unlimited number of common shares		
Issued		
1,000 common shares	$ 42,326	$ 42,326

15. CONTINGENCY

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

16. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $6,756 (2001 – $3,065) would be recorded.

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

December 31, 2003

Deloitte

Deloitte & Touche LLP
55 King Street West
Suite 700
Kitchener ON N2G 4W1
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Auditors' Report

To the Shareholder of
Guelph Hydro Electric Systems Inc.

We have audited the balance sheet of Guelph Hydro Electric Systems Inc. (the Company) as at December 31, 2003 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 2, 2004

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GUELPH HYDRO ELECTRIC SYSTEMS INC.

Balance Sheet

December 31, 2003
(in thousands of dollars)

	2003	2002
ASSETS		
CURRENT		
Cash and cash equivalents	$ 20,193	$ 10,895
Accounts receivable (Note 3)	6,844	9,428
Accounts receivable - unbilled revenue	12,633	13,706
Income taxes receivable	-	49
Inventory	1,359	1,188
Due from related parties (Note 8)	1,064	882
Other	305	166
	42,398	36,314
FIXED ASSETS (Note 4)	71,988	72,478
REGULATORY ASSETS (Note 5)	2,874	2,697
DEFERRED CHARGES	-	174
	$ 117,260	$ 111,663
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 11,326	$ 12,518
Income taxes payable	356	-
Deferred credits - accounts receivable	2,881	1,108
Customer deposits - current portion	740	683
Debentures - current portion (Note 6)	3,055	664
	18,358	14,973
LONG-TERM DEBT		
Debentures (Note 6)	1,420	3,811
Notes payable (Notes 9)	36,642	36,642
	38,062	40,453
OTHER LONG-TERM LIABILITIES		
Employee future benefits (Note 10)	6,399	5,648
Customer deposits	1,213	965
	7,612	6,614
	64,032	62,040
CONTINGENCY AND COMMITMENTS (Notes 11, 15 and 17)		
SHAREHOLDER'S EQUITY		
Share capital (Note 14)	42,326	42,326
Retained earnings	10,902	7,297
	53,228	49,623
	$ 117,260	$ 111,663

APROVED BY THE BOARD

.... Director

.... Director

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Income and Retained Earnings

Year Ended December 31, 2003
(in thousands of dollars)

	2003	2002
SERVICE REVENUE		
Residential	$ 36,184	$ 35,436
General	76,374	75,041
Large user	16,572	16,583
Street lighting	573	527
	129,703	127,587
Service revenue adjustment	9	105
	129,712	127,692
COST OF POWER	109,690	108,679
GROSS MARGIN ON SERVICE REVENUE	20,022	19,013
OTHER OPERATING REVENUE	1,445	1,412
NET OPERATING REVENUE	21,467	20,425
DISTRIBUTION SYSTEM EXPENSE		
Operations	895	1,007
Maintenance	1,809	1,597
ADMINISTRATIVE EXPENSE		
General administrative	3,329	2,783
Billing and collecting	1,360	1,202
Information systems	1,128	1,159
Community relations	40	115
DEPRECIATION	4,437	4,655
TOTAL EXPENSES	12,998	12,518
INCOME BEFORE FINANCIAL EXPENSE AND INCOME TAXES	8,469	7,907
FINANCIAL EXPENSE		
Interest on notes payable	1,771	1,623
Interest on debentures	396	440
Other	131	120
TOTAL FINANCIAL EXPENSE	2,298	2,183
INCOME BEFORE INCOME TAXES	6,171	5,724
INCOME TAXES	2,567	2,113
NET INCOME	3,605	3,611
RETAINED EARNINGS, BEGINNING OF YEAR	7,297	3,686
RETAINED EARNINGS, END OF YEAR	$ 10,902	$ 7,297

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Cash Flows
Year Ended December 31, 2003
(in thousands of dollars)

	2003	2002
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income	$ 3,605	$ 3,611
Add charges to operations not requiring a current cash payment		
Depreciation	4,777	5,052
Amortization	191	160
Difference between employee future benefits expense and amount funded	751	338
Gain on disposal of fixed assets	-	(93)
	9,324	9,068
Net change in non-cash working capital balances related to operations (Note 13)	4,208	(7,525)
Net change in regulatory assets	(177)	(2,697)
Net change in deferred charges and deferred credits - accounts receivable	230	141
	13,585	(1,013)
INVESTING ACTIVITIES		
Additions to fixed assets	(4,287)	(5,158)
Net proceeds on disposal of fixed assets	-	93
	(4,287)	(5,065)
FINANCING ACTIVITIES		
Debenture principal repaid	-	(646)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,298	(6,724)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,895	17,619
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 20,193	$ 10,895
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	$ 2,100	$ 2,183
Payment for income taxes	$ 2,161	$ 2,162

1. NATURE OF OPERATIONS

Guelph Hydro Electric Systems Inc., is a wholly-owned subsidiary of Guelph Hydro Inc., and was incorporated October 31, 2000 under the *Business Corporations Act (Ontario).*

The principal activity of the Company is to provide electrical power distribution throughout the City of Guelph.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the *Ontario Energy Board Act, 1998.*

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Cash and cash equivalents

Cash equivalents include short-term investments with maturities of three months or less when purchased. Total cash equivalents at the year-end are $73 (2002 - $116).

Inventory

Inventory is stated at the lower of cost and net realizable value, with cost being determined on average cost basis.

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Buildings and fixtures	30-60 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5-10 years
Computer equipment	5 years
Major tools	10 years
Data acquisition system	5 years
Trucks and rolling stock	4-8 years
Other capital assets	10-25 years

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2003 of $2,194 (2002 - $2,564) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and have been amortized over a period of 36 months ending in 2003.

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Company, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

3. ACCOUNTS RECEIVABLE

Revenue	$ **5,668**	$ 8,045
Miscellaneous	**1,275**	1,009
Due from City of Guelph	**74**	536
	7,017	9,590
Less allowance for doubtful accounts	**173**	162
	$ **6,844**	$ 9,428

(in thousands of dollars)

4. FIXED ASSETS

	2003			2002
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 780	$ -	$ 780	$ 780
Buildings and fixtures	9,489	715	8,774	9,000
Distribution lines - overhead	22,044	3,482	18,562	18,398
Distribution lines - underground	35,485	5,754	29,731	29,954
Distribution transformers	9,780	1,868	7,912	7,585
Distribution meters	4,721	888	3,833	3,887
General office equipment	399	199	200	203
Computer equipment	713	384	329	334
Major tools	392	172	220	214
Data acquisition system	1,399	894	505	701
Trucks and rolling stock	1,782	951	831	1,073
Other capital assets	466	155	311	349
	$ 87,450	$ 15,462	$ 71,988	$ 72,478

5. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2003	2002
Pre-market opening energy variance	$ 815	$ 815
Retail settlement variance	2,059	1,882
	$ 2,874	$ 2,697

The introduction of Bill 210 in November 2002 deferred future rate increases until 2006. In December 2003, Bill 4 was introduced which allows for the application to the OEB for possible recovery of these costs.

(in thousands of dollars)

6. DEBENTURES

	2003	2002
Serial debenture, averaging 6.97%, matured in November 2003, repaid in January 2004	$ 251	$ 251
Serial debenture, averaging 9.53%, maturing in December 2004	2,504	2,504
Serial debenture, averaging 6.83%, maturing in December 2005	1,720	1,720
	4,475	4,475
Less principal due within one year	3,055	664
	$ 1,420	$ 3,811

Principal payments required are as follows:

2004	$ 3,055
2005	1,420
	$ 4,475

7. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2003 was $118 (2002 - $Nil). Premiums paid in 2003 were at a reduced rate following a premium holiday that ended December 31, 2002.

8. RELATED PARTY TRANSACTIONS

The Company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

(in thousands of dollars)

8. RELATED PARTY TRANSACTIONS (continued)

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2003	2002
Guelph Hydro Inc.	$ 170	$ 87
Selectpower Inc.	208	140
Fibrewired By Guelph Hydro Inc.	574	514
Wellington Electric Distribution Company Inc.	112	140
	$ 1,064	$ 882

9. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83% (2002 - 4.83%). No principal payments will be required in perpetuity.

10. EMPLOYEE FUTURE BENEFITS

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2003 of $6,399 (2002 - $5,648) and the expense for the year ended December 31, 2003 were determined by actuarial valuation using a discount rate of 5.5% (2002 – 6.0%).

Information regarding the defined benefit plan of the Company is as follows:

	2003	2002
Accrued benefit liability at January 1	$ 5,648	$ 5,310
Adjustment with respect to 2002*	281	-
Expense for the period ended December 31	625	500
Loss on accrued post-retirement benefit obligation	21	-
Benefits paid for the year	(176)	(162)
Projected accrued benefit obligations at December 31 as determined by the actuarial valuation using a 5.5% discount rate	$ 6,399	$ 5,648

* A full valuation was performed as at January 1, 2002 but the resulting adjustments were not accounted for in 2002.

(in thousands of dollars)

10. EMPLOYEE FUTURE BENEFITS (continued)

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation – future general inflation levels, as measured by the changes in the Consumer Price Index (CPI), were assumed at 2.2% in 2003 and thereafter.

Discount (Interest) Rate – the obligation as at January 1, 2003 of the present value of future liabilities and the expense for the year ended December 31, 2003 were determined using a discount rate of 5.5%.

Salary Levels – future general salary and wage levels were assumed to increase at 3.5% per annum.

Medical Costs – medical costs were assumed to increase at 12.5% for 2003, 10.0% for 2004, 7.5% for 2005 and 5.0% thereafter.

Dental Costs – dental costs were assumed to increase at 4.5% per year.

11. COMMITMENTS

The Company leases a computer system and related software and a business recovery site. Future minimum lease payments consist of the following amounts:

2004	$	259
2005		345
2006		345
2007		97
	$	1,046

(in thousands of dollars)

12. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2003, the estimated fair market value of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and other accrued liabilities was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

It is not practicable within the constraint of cost to determine the fair value of the debentures with sufficient reliability. The fair value of the notes payable cannot be determined as then the notes have no specific repayment terms and no maturity dates.

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity Market Operator based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $22,900.

13. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2003	2002
Accounts receivable	$ **2,584**	$ (2,683)
Accounts receivable - unbilled revenue	**1,073**	(5,331)
Income taxes receivable	**406**	155
Inventory of stock and material	**(171)**	240
Due from related parties	**(182)**	(683)
Other current items	**(139)**	112
Accounts payable and accrued liabilities	**(1,192)**	944
Deferred credits - accounts receivable	**1,773**	(366)
Customer deposits - current portion	**56**	87
	$ **4,208**	$ (7,525)

(in thousands of dollars)

14. SHARE CAPITAL

	2003	2002
Authorized		
Unlimited number of common shares		
Issued		
1,000 common shares	**$ 42,326**	$ 42,326

15. CONTINGENCY

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association (formerly the Municipal Electric Association) is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

16. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $7,088 (2002 – $6,756) would be recorded.

17. GUARANTEES

The Company has a Connection and Cost Recovery Agreement with Hydro One Networks Inc. (Networks) for the supply of two additional breaker positions at the Campbell TS (transformer station). The cost for the connection ($599) is a debt owed to Networks that will be forgiven provided that the Company meets or exceeds the specified load requirements and the incremental transformation connection revenue received by Networks. The Company expects to meet the conditions of the guarantee and does not anticipate any future payments to Networks.

18. SUBSEQUENT EVENT

The Company has initiated an expansion to the Southgate building. The new wing will allow the relocation of the Administration and Engineering staff and consolidate all Guelph Hydro Electric staff in one location. Construction of the $6.5 million addition is scheduled to begin in the fall of 2004 with completion in the fall of 2005.

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

December 31, 2004

Deloitte.

Deloitte & Touche LLP
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Canada

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Auditors' Report

To the Shareholder of
Guelph Hydro Electric Systems Inc.

We have audited the balance sheet of Guelph Hydro Electric Systems Inc. (the Company) as at December 31, 2004 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 22, 2005

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GUELPH HYDRO ELECTRIC SYSTEMS INC.
Balance Sheet
December 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 18,721**	$ 20,193
Accounts receivable (Note 4)	**10,535**	6,844
Accounts receivable - unbilled revenue	**14,003**	12,633
Inventory	**1,209**	1,359
Due from related parties (Note 9)	**2,814**	1,064
Other	**143**	305
	47,425	42,398
FIXED ASSETS (Note 5)	**71,849**	71,988
REGULATORY ASSETS (Note 6)	**702**	2,874
	$ 119,976	$ 117,260
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 13,143**	$ 11,326
Income taxes payable	**862**	356
Deferred credits - accounts receivable	**2,307**	2,881
Customer deposits - current portion	**1,075**	740
Debentures - current portion (Note 7)	**1,420**	3,055
	18,807	18,358
LONG-TERM DEBT		
Debentures (Note 7)	**-**	1,420
Notes payable (Notes 10)	**36,642**	36,642
	36,642	38,062
OTHER LONG-TERM LIABILITIES		
Employee future benefits (Note 11)	**6,889**	6,399
Customer deposits - long-term portion	**1,169**	1,213
	8,058	7,612
	63,507	64,032
CONTINGENCY (Note 16)		
SHAREHOLDER'S EQUITY		
Share capital (Note 15)	**42,326**	42,326
Retained earnings	**14,143**	10,902
	56,469	53,228
	$ 119,976	$ 117,260

APPROVED BY THE BOARD

.... Director

.... Director

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Income and Retained Earnings
Year Ended December 31, 2004
(in thousands of dollars)

	2004	2003
SERVICE REVENUE		
Residential	$ 34,894	$ 36,184
General	74,104	76,375
Large user	18,303	16,572
Street lighting	569	573
	127,870	129,704
Service revenue adjustment	-	9
	127,870	129,713
COST OF POWER	108,050	109,690
GROSS MARGIN ON SERVICE REVENUE	19,820	20,023
OTHER OPERATING REVENUE	1,493	1,445
NET OPERATING REVENUE	21,313	21,468
DISTRIBUTION SYSTEM EXPENSES		
Operations	824	895
Maintenance	1,722	1,809
ADMINISTRATIVE EXPENSES		
General administrative	2,924	3,329
Billing and collecting	1,554	1,360
Information systems	1,277	1,128
Community relations	44	40
DEPRECIATION	5,002	4,437
	13,347	12,998
INCOME BEFORE FINANCIAL EXPENSES AND INCOME TAXES	7,966	8,470
FINANCIAL EXPENSES		
Interest on notes payable	1,771	1,771
Interest on debentures	316	396
Other	79	131
TOTAL FINANCIAL EXPENSES	2,166	2,298
INCOME BEFORE INCOME TAXES	5,800	6,172
INCOME TAXES	2,559	2,567
NET INCOME	3,241	3,605
RETAINED EARNINGS, BEGINNING OF YEAR	10,902	7,297
RETAINED EARNINGS, END OF YEAR	$ 14,143	$ 10,902

GUELPH HYDRO ELECTRIC SYSTEMS INC.
Statement of Cash Flows
Year Ended December 31, 2004
(in thousands of dollars)

	2004	2003
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income	**$ 3,241**	$ 3,605
Add charges to operations not requiring a current cash payment		
Depreciation	**5,377**	4,777
Amortization	**-**	174
Difference between employee future benefits expense and amount funded	**490**	751
	9,108	9,307
Net change in non-cash working capital balances related to operations (Note 14)	**(4,415)**	4,208
Net change in regulatory assets	**2,172**	(177)
Net change in customer deposits - long-term portion	**(44)**	247
	6,821	13,585
INVESTING ACTIVITY		
Additions to fixed assets	**(5,238)**	(4,287)
FINANCING ACTIVITY		
Debenture principal repaid	**(3,055)**	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,472)**	9,298
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,193**	10,895
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 18,721**	$ 20,193
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	**$ 2,187**	$ 2,100
Payment for income taxes	**$ 2,043**	$ 2,161

1. NATURE OF OPERATIONS

Guelph Hydro Electric Systems Inc. (the Company), is a wholly-owned subsidiary of Guelph Hydro Inc., and was incorporated October 31, 2000 under the *Business Corporations Act (Ontario).*

The principal activity of the Company is to provide electrical power distribution throughout the City of Guelph.

2. CHANGES IN ACCOUNTING POLICIES

Impairment of long-lived assets

As of January 1, 2004, the Company prospectively adopted the recommendations of CICA Handbook Section 3063 "Impairment of long-lived assets". These recommendations require that an impairment loss on long-lived assets to be held and used be recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. The adoption of these recommendations had no impact on the results of operations for 2004.

Asset retirement obligations

On January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3110 "Asset retirement obligations". The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations. Basically, the liability represents the fair value of the obligations. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. The adoption of these recommendations had no impact on the results of operations for 2004.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the *Ontario Energy Board Act, 1998:*

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Company is regulated by the OEB and any rate adjustments require OEB approval.

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Cash and cash equivalents

Cash equivalents include short-term investments with maturities of three months or less when purchased. Total cash equivalents at the year-end are $73 (2003 - $73).

Inventory

Inventory is stated at the lower of cost and net realizable value, with cost being determined on average cost basis.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Buildings and fixtures	30-60 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5-10 years
Computer equipment	5 years
Major tools	10 years
Data acquisition system	5 years
Trucks and rolling stock	4-8 years
Other capital assets	10-25 years

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2004 of $2,663 (2003 - $2,194) have been charged to capital assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charges

Deferred charges are recorded at cost and have been amortized over a period of 36 months ending in 2003.

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Company, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

(in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2004	2003
Revenue	$ 10,167	$ 6,792
Miscellaneous	201	151
Due from City of Guelph	355	74
	10,723	7,017
Less allowance for doubtful accounts	188	173
	$ 10,535	$ 6,844

5. FIXED ASSETS

	2004			2003
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 780	$ -	$ 780	$ 780
Buildings and fixtures	9,856	942	8,914	8,774
Distribution lines - overhead	23,924	4,794	19,130	18,562
Distribution lines - underground	36,664	7,927	28,737	29,731
Distribution transformers	10,305	2,397	7,908	7,912
Distribution meters	5,309	1,200	4,109	3,833
General office equipment	382	250	132	200
Computer equipment	830	523	307	329
Major tools	465	57	408	220
Data acquisition system	1,551	1,147	404	505
Trucks and rolling stock	2,156	1,234	922	831
Other capital assets	424	326	98	311
	$ 92,646	$ 20,797	$ 71,849	$ 71,988

(in thousands of dollars)

6. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2004	2003
Pre-market opening energy variance	$ 816	$ 816
Retail settlement variance	(114)	2,058
	$ 702	$ 2,874

Beginning April 1, 2004, the Minister of Energy allowed electricity distributors to recover the first part of their regulatory assets in the 2004 rates. This recovery is for a portion of the Retail settlement variance costs incurred by distributors from transmission utilities and the Independent Electricity Market Operator (IMO). The recovery is for costs expensed in prior years as well as costs included in regulatory assets. In 2004 the Company recovered $1,376 of which $1,105 was a reduction of the regulatory assets and $271 was included in income. Regulatory asset accounts are used to recover/collect amounts that have been under/over collected from customers through electricity rates. In 2004, the Company recovered a portion of the retail settlement costs and over collected the transmission and connections component of the rates, creating a regulatory settlement liability. The amount of any under/over collection will be adjusted through future rate submissions.

7. DEBENTURES

	2004	2003
Serial debenture, averaging 6.97%, maturing in November 2003	$ -	$ 251
Serial debenture, averaging 9.53%, maturing in December 2004	-	2,504
Serial debenture, averaging 6.83%, maturing in December 2005	1,420	1,720
	1,420	4,475
Less principal due within one year	1,420	3,055
	$ -	$ 1,420

8. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2004 was $368 (2003 - $118). Premiums paid in 2003 were at a reduced rate following a premium holiday that ended December 31, 2002.

(in thousands of dollars)

9. RELATED PARTY TRANSACTIONS

The Company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties. During the year, the Company earned revenues of $292 related to these services.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. During the year, the Company incurred expenses of $21 related to these services. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2004	2003
Guelph Hydro Inc.	$ **1,800**	$ 170
1615151 Ontario Inc.	**12**	-
Selectpower Inc.	**282**	208
Fibrewired By Guelph Hydro Inc.	**565**	574
Wellington Electric Distribution Company Inc.	**155**	112
	$ **2,814**	$ 1,064

10. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83%. No principal payments will be required in perpetuity.

(in thousands of dollars)

11. EMPLOYEE FUTURE BENEFITS

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2004 of $6,889 (2003 - $6,399) and the expense for the year ended December 31, 2004 were determined by actuarial valuation using a discount rate of 5.5 %.

Information regarding the defined benefit plan of the Company is as follows:

		2004		2003
Accrued benefit liability at January 1, 2004	$	**6,399**	$	5,648
Adjustment with respect to 2002*		**-**		281
Expense for the period ended December 31, 2004		**664**		625
Loss on accrued post-retirement benefit obligation		**16**		21
Benefits paid for the period		**(190)**		(176)
Accrued benefit liability at December 31, 2004	$	**6,889**	$	6,399

* Full valuation was performed as at January 1, 2002 but the resulting adjustments were not accounted for in 2002.

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation – future general inflation levels, as measured by the changes in the Consumer Price Index (CPI), were assumed at 2.2% in 2002 and thereafter.

Discount (Interest) Rate – the obligation as at January 1, 2002 of the present value of future liabilities and the expense for the year ended December 31, 2004 were determined using a discount rate of 5.5%.

Salary Levels – future general salary and wage levels were assumed to increase at 3.5 % per annum.

Medical Costs – medical costs were assumed to increase at 12.5 % for 2003, 10.0 % for 2004, 7.5 % for 2005 and 5.0% thereafter.

Dental Costs – dental costs were assumed to increase at 4.5 % per year.

(in thousands of dollars)

12. COMMITMENTS

The Company leases a computer system and related software and a business recovery site. Future minimum lease payments consist of the following amounts over the next four years:

2005	**$**	**430**
2006		**430**
2007		**42**
2008		**42**
	$	**944**

13. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2004, the estimated fair market value of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and other accrued liabilities was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

It is not practicable within the constraint of cost to determine the fair value of the debentures with sufficient reliability. The fair value of the notes payable cannot be determined as the notes have no specific repayment terms and no maturity dates.

Line of Credit

Guelph Hydro Electric Services Inc. has a $5,000 revolving demand facility by way of Royal Bank prime loans at RBC prime less 0.5% or overdrafts at RBC prime less 0.5% or BAs with a fee of 1.25% per annum. There are no draws against this line.

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity Market Operator based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $22,000.

(in thousands of dollars)

14. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2004	2003
Accounts receivable	$ **(3,691)**	$ 2,584
Accounts receivable - unbilled revenue	**(1,370)**	1,073
Inventory	**150**	(171)
Due from related parties	**(1,750)**	(182)
Other current assets	**162**	(139)
Accounts payable and accrued liabilities	**1,817**	(1,192)
Income taxes payable	**506**	406
Deferred credits - accounts receivable	**(574)**	1,773
Customer deposits - current portion	**335**	56
	$ **(4,415)**	$ 4,208

15. SHARE CAPITAL

	2004	2003
Authorized		
Unlimited number of common shares		
Issued		
1,000 common shares	$ **42,326**	$ 42,326

16. CONTINGENCY

An action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The action has not yet been certified as a plaintiff or defendant class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

17. FUTURE INCOME TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $8,610 (2003 – $7,088) would be recorded.

18. GUARANTEES

The Company has a Connection and Cost Recovery Agreement with Hydro One Networks Inc. (Networks) for the supply of two additional breaker positions at the Campbell transformer station. The cost of the connection ($599) is a debt owed to Networks that will be forgiven provided that the Company meets or exceeds the specific load requirements and the incremental transformation connection revenue received by Networks. The Company expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

19. SUBSEQUENT EVENTS

The Company has designed an addition to the Southgate building. The new wing will allow the relocation of the Information Systems, Engineering, Finance, Customer Call Centre and Executive employees and consolidate all Guelph Hydro Electric Inc. staff in one location. Construction of the $6.7 million addition is scheduled to begin in the spring of 2005 with completion in the spring of 2006.

On March 1, 2005, the Company entered in to a Connection and Cost Recovery Agreement with Hydro One Networks Inc. (Networks) to install a new metalclad to the 2 existing idle windings at Cedar TS (transformer station) with 8 new feeder positions. The cost of the connection ($4,039) is a debt owed to Networks that will be forgiven provided that the Company meets or exceeds the specific load requirements and the incremental transformer connection revenue received by Networks. The Company expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Year ended December 31, 2005
(Expressed in thousands of dollars)

KPMG LLP
Chartered Accountants
20 Erb Street West
Marsland Centre 3rd Floor
Waterloo ON N2L 1T2

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Guelph Hydro Electric Systems Inc. (the "Company") as at December 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2004 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Waterloo, Canada
March 6, 2006

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Balance Sheet

December 31, 2005, with comparative figures for 2004
(Expressed in thousands of dollars)

	2005	2004
Assets		
Current assets:		
Cash	$ 6,572	$ 18,721
Accounts receivable (note 2)	9,058	10,535
Unbilled revenue	12,248	14,003
Inventory	1,274	1,209
Income taxes recoverable	1,086	-
Due from related parties (note 9)	-	2,814
Other current assets	262	143
	30,500	47,425
Property, plant and equipment (note 3)	76,442	71,849
Regulatory assets (note 4)	3,644	702
	$ 110,586	$ 119,976
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 16,471	$ 13,143
Income taxes payable	-	862
Deferred credits - account receivable	2,269	2,307
Customer deposits - current portion	1,278	1,075
Due to related parties (note 9)	546	-
Current portion of debentures (note 5)	-	1,420
	20,564	18,807
Long-term debt:		
Notes payable (note 6)	36,642	36,642
Other long-term liabilities:		
Employee future benefits (note 8)	7,342	6,889
Customer deposits - long-term portion	1,048	1,169
	8,390	8,058
Shareholder's equity:		
Share capital (note 12)	42,326	42,326
Retained earnings	2,664	14,143
	44,990	56,469
Commitments (note 10)		
Contingencies and guarantees (notes 13 and 15)		
Subsequent events (note 16)		
	$ 110,586	$ 119,976

See accompanying notes to financial statements.

On behalf of the Board:

_________________ Director   _________________ Director

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2005, with comparative figures for 2004
(Expressed in thousands of dollars)

	2005	2004
Service revenue:		
Residential	$ 42,295	$ 34,894
General	88,514	74,104
Large user	21,453	18,303
Street lighting	618	569
	152,880	127,870
Cost of power	132,980	108,050
	19,900	19,820
Other operating revenue	1,887	1,493
Net operating revenue	21,787	21,313
Expenses:		
Operations	793	824
Maintenance	1,643	1,722
General and administrative	3,574	2,968
Billing and collection	1,612	1,554
Information systems	1,150	1,277
Depreciation	4,944	5,002
	13,716	13,347
Earnings before financial expenses and income taxes	8,071	7,966
Financial expenses:		
Interest on notes payable	2,438	1,771
Interest on debentures	106	316
Other	164	79
	2,708	2,166
Earnings before provision for payments in lieu of corporate taxes	5,363	5,800
Provision for payments in lieu of corporate taxes	1,142	2,559
Net earnings	4,221	3,241
Retained earnings, beginning of year	14,143	10,902
Dividends	(15,700)	-
Retained earnings, end of year	$ 2,664	$ 14,143

See accompanying notes to financial statements.

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004
(Expressed in thousands of dollars)

	2005	2004
Cash provided by (applied to):		
Operations:		
Net earnings	$ 4,221	$ 3,241
Items not involving cash:		
Depreciation	5,282	5,377
Difference between employee future benefit expense and amount funded	453	490
Gain on disposal of property, plant and equipment	(43)	-
Change in non-cash operating working capital	7,953	(4,415)
Net change in regulatory assets	(2,942)	2,172
Net change in customer deposits – long-term portion	(121)	(44)
	14,803	6,821
Investments:		
Purchase of property, plant and equipment	(9,875)	(5,238)
Proceeds from disposal of property, plant and equipment	43	-
	(9,832)	(5,238)
Financing:		
Dividends	(15,700)	-
Debenture principal repaid	(1,420)	(3,055)
	(17,120)	(3,055)
Decrease in cash	(12,149)	(1,472)
Cash, beginning of year	18,721	20,193
Cash, end of year	$ 6,572	$ 18,721
Supplemental cash flow information:		
Interest paid	$ 2,681	$ 2,187
Payments in lieu of corporate taxes	2,487	2,043

See accompanying notes to financial statements.

Guelph Hydro Electric Systems Inc. (the "Company") is a wholly-owned subsidiary of Guelph Hydro Inc., and was incorporated October 31, 2000, under the Business Corporations Act (Ontario). The principal activity of the Company is to provide electrical power distribution throughout the City of Guelph.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998:

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) Regulation:

Guelph Hydro Electric Systems Inc. is regulated by the OEB and any rate adjustments require OEB approval.

(c) Cash and cash equivalents:

Cash equivalents include short-term investment with maturities of three months or less when purchased.

(d) Revenue recognition:

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

(e) Inventory:

Inventory is valued at the lower of cost and replacement cost, with cost being determined on an average cost basis.

(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis using the following rates:

Buildings and fixtures	30 - 60 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5 - 10 years
Computer equipment	5 years
Major tools	10 years
Data acquisition system	5 years
Trucks and rolling stock	4 - 8 years
Other capital assets	10 - 25 years

(g) Impairment of long-lived assets:

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(h) Contributions in aid of construction:

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2005 of $2,496 (2004 - $2,663) have been charged to capital assets.

(i) Regulatory assets:

Regulatory assets result from the provincially approved rates of the Ontario Energy Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

(j) Employee future benefits:

The Company accrues its obligation under employee benefit plans and the related costs, net of plan assets.

(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(k) Payments in lieu of corporate taxes:

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

The Company, regulated by the Ontario Energy Board, provides for payments in lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

(l) Asset retirement obligations:

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the assets useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

2. Accounts receivable:

	2005	2004
Revenue	$ 9,830	$ 10,167
Miscellaneous	(1,229)	201
Due from City of Guelph	576	355
	9,177	10,723
Less allowance for doubtful accounts	119	188
	$ 9,058	$ 10,535

(Expressed in thousands of dollars)

3. Property, plant and equipment:

		Cost		Accumulated amortization		2005 Net book value		2004 Net book value
Land	$	780	$	-	$	780	$	780
Buildings and fixtures		9,909		1,168		8,741		8,914
Distribution lines - overhead		25,777		6,344		19,433		19,130
Distribution lines - underground		37,671		9,463		28,208		28,737
Distribution transformers		11,014		3,175		7,839		7,908
Distribution meters		5,865		1,554		4,311		4,109
General office equipment		385		288		97		132
Computer equipment		863		656		207		307
Major tools		523		274		249		408
Data acquisition system		1,625		1,404		221		404
Trucks and rolling stock		2,053		1,161		892		922
Other capital assets		483		238		245		98
Construction-in-progress		5,219		-		5,219		-
	$	102,167	$	25,725	$	76,442	$	71,849

4. Regulatory assets:

The regulatory assets, as follows, arose as a result of the rate-setting process:

		2005		2004
Pre-market opening energy variance	$	816	$	816
Retail settlement variance		2,828		(114)
	$	3,644	$	702

Beginning April 1, 2004, the Minister of Energy allowed electricity distributors to recover the first part of their regulatory assets in the 2004 rates. This recovery is for a portion of the Retail settlement variance costs incurred by distributors from transmission utilities and the Independent Electricity System Operator (IESO). The recovery is for costs expensed in prior years as well as costs included in regulatory assets. In 2005, the Company recovered $1,246, of which $959 was a reduction of the regulatory assets and $287 was included in income. Regulatory asset accounts are used to recover/collect amounts that have been under/over collected from customers through electricity rates. The amount of any under/over collection will be adjusted through future rate submissions.

4. Regulatory assets (continued):

In 2005, the Ontario Energy Board awarded local distribution companies an increase in their distribution rates which was to be invested in conservation and demand management (C&DM) initiatives between April 2005 and September 2007. The amount of $1,157 was to be received by Guelph Hydro Electric Systems Inc. starting in April 2005. At December 31, 2005, $867 of this amount had been received, $258 was recognized as revenue since it had been spent on C&DM initiatives and the balance of $609 has been included in regulatory assets. Management believes that these unspent funds should not be recognized as revenue until the C&DM performance requirements are satisfied. For accounting purposes, this revenue has been deferred and will be recognized in the same period the C&DM expenditures are incurred.

(a) 2006 rate application:

In August 2005, the Company filed with the OEB its Electricity Distribution Rate Application for 2006 distribution rates effective May 1, 2006. The 2006 Rate Application allows the Company to earn a return on equity up to 9% after tax. A final decision from the OEB regarding the 2006 Rate Application is expected in April 2006.

(b) Impact of rate regulation on the financial statements:

(i) Pre-market opening energy electricity variance:

The $816 balance in the pre-market opening variance account represents the difference between the cost of power based on time-of-use (TOU) rates, and the amounts billed to non-TOU customers charged at an average rate for the same period starting January 1, 2001 and ending on April 30, 2002 (the date of opening of the competitive electricity market in Ontario). The Company has deferred these expenditures in accordance with the criteria set out in the Accounting Procedures Handbook for Electric Distribution Utilities. In the absence of rate regulation these amounts would have been expensed under the rules of Canadian Generally Accepted Accounting Principles (GAAP).

(ii) Final instalment of the market adjusted revenue requirement:

In 2005, the Company received approval from the OEB to increase distributions rates to recover $1,157 representing the third and final adjustment necessary to achieve a market-based rate of return. The OEB has imposed a condition that the funds are to be spent on C&DM initiatives between April 2005 and September 2007. As at December 31, 2005, $609 had been received but not spent on C&DM initiatives. These funds have been included in regulatory assets and will be recognized as revenue in the same period in which the related C&DM expenditures are incurred. In the absence of rate regulation these amounts would have been recognized as revenue in the same period that electrical distribution services were provided to customers.

(Expressed in thousands of dollars)

4. Regulatory assets (continued):

(c) Regulated asset recoveries:

Ontario's local electricity distribution companies incurred a variety of costs in preparation for the competitive market which opened in May 2002. In addition to these costs, they incurred other costs associated with regulatory directives related to market restructuring and the ongoing competitive market. All of these costs for retail settlements, power purchases and market readiness were recorded in deferral accounts and are expected to be eligible for recovery through rates in accordance with the OEB's review and audit guidelines and rate setting procedures.

In August 2005, the Company filed an application with the OEB for review and recovery of its regulatory assets. The OEB is reviewing the regulatory asset applications to ensure that the claimed amounts are reasonable and related to serving customers. Amounts that the Board finds to be prudently incurred will be recovered in distribution rates over three years. Final recovery will commence May 1, 2006. These distributors will continue to collect the interim recovery provision reflected in their rates.

5. Debentures:

	2005	2004
Serial debenture, averaging 6.83%, maturing in December 2005	$ -	$ 1,420
Less principal due with one year	-	1,420
	$ -	$ -

6. Notes payable:

Notes payable are due to the City of Guelph and bear interest at 7.25% the maximum recoverable interest rate allowed to local distribution companies by the OEB.

To March 31, 2005, the Company paid interest at 4.83% based on having received 2/3 of the allowed distribution rate increase. From April 1, 2005 to December 31, 2005, the Company paid interest at 7.25% following the inclusion of the final portion of the allowed distribution rate increase.

There are no principal repayment terms or specified maturity date.

(Expressed in thousands of dollars)

7. Pension agreement:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting has been used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2005 was $386 (2004 - $410).

8. Employee future benefits:

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2005 of $7,342 (2004 - $6,889) and the expense for the year ended December 31, 2005 was determined by actuarial valuation using a discount rate of 5.0% (2004 - 5.5%).

Information regarding the defined benefit plan of the Company is as follows:

	2005	2004
Accrued benefit liability at January 1	$ 6,889	$ 6,399
Expense for the period ended December 31	630	664
Loss on accrued post-retirement benefit obligation	-	16
Benefits paid for the period	(177)	(190)
Accrued benefit obligation at December 31	$ 7,342	$ 6,889

(Expressed in thousands of dollars)

8. Employee future benefits (continued):

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index (CPI), were assumed at 2.0% in 2002, and thereafter.

Discount (interest) rate - the obligation as at January 1, 2002, of the present value of future liabilities and the expense for the year ended December 31, 2005, were determined using a discount rate of 5.0% (2004 - 5.5%).

Salary levels - future general salary and wage levels were assumed to increase at 3.1% (2004 - 3.5%) per annum.

Medical costs - medical costs were assumed to increase at 11% for 2006, 10% for 2007, 9% for 2008, 8% for 2009, 7% for 2010, 6% for 2011, and 5% thereafter.

Dental costs - dental costs were assumed to increase at 11% for 2006, 10% for 2007, 9% for 2008, 8% for 2009, 7% for 2010, 6% for 2011, and 5% thereafter.

9. Related party transactions:

The Company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties. During the year, the Company earned revenues of $262 related to these services.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. During the year, the Company incurred expenses of $21 related to these services. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2005	2004
Demand loan from Guelph Hydro Inc., bearing interest at prime less 0.5%, with no fixed terms of repayment	$ (3,068)	$ -
Guelph Hydro Inc.	1,185	1,800
Ecotricity Guelph Inc.	69	12
Selectpower Inc.	381	282
Fibrewired By Guelph Hydro Inc.	-	565
Wellington Electric Distribution Company Inc.	887	155
	$ (546)	$ 2,814

(Expressed in thousands of dollars)

10. Commitments:

The Company leases a computer system and related software and a business recovery site. Future commitments for lease payments consist of the following amounts over the next two years:

		Leases
2005	$	376
2006		91
	$	467

11. Financial instruments:

(a) Fair value of financial assets and financial liabilities:

As December 31, 2005, the estimated fair market value of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities was equal to the book value given the short-term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

The fair value of the notes payable cannot be determined as the notes have no specific repayment terms and no maturity dates.

(b) Credit risk:

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

(c) Irrevocable letter of credit:

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the IESO based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $22,000.

(Expressed in thousands of dollars)

12. Share capital:

		2005		2004
Authorized:				
Unlimited number of common shares				
Issued:				
1,000 common shares	$	42,326	$	42,326

13. Contingencies:

(a) An action claiming $500 million in restitutionary payments, plus interest, was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the defendant class consisting of all municipal elective utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The action has not yet been certified as a plaintiff or defendant class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

(b) Guelph Hydro Inc. has been named in a legal action as a result of an automobile accident where a streetlight was out at the time of the accident. The plaintiffs are suing the drivers of the two vehicles involved in the accident, the Corporation of the City of Guelph and Guelph Hydro Inc. for a total of $1,000,000.

14. Income taxes:

Future income taxes:

If the liability method of accounting for income taxes was used for rate-regulated subsidiaries, a future tax asset of $8,726 (2004 - $8,610) would be recorded.

As prescribed by a regulatory rate order, tax expense is recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. The Company has not recognized future income taxes, as it is expected that when these amounts become payable, they will be recovered through future rate revenues. Generally accepted accounting principles require the recognition of future income tax liabilities and future tax assets in the absence of rate regulation.

15. Guarantees:

The Company has a Connection and Cost Recovery Agreement with Hydro One Networks Inc. ("Networks") for the supply of two additional breaker positions at the Campbell transformer station. The cost of the connection ($599) is a debt owed to Networks that will be forgiven provided that the Company meets or exceeds the specific load requirement and the incremental transformation connection revenue received by Networks. The Company expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

The Company has another Connection and Cost Recovery Agreement with Networks to install a new metal clad to the two existing idle windings at Cedar TS (transformer station) with eight new feeder positions. The cost of the connection ($4,039) is a debt owed to Networks that will be forgiven provided that the Company meets or exceeds the specific load requirements and the incremental transformer connection revenue received by Networks. The Company expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

16. Subsequent events:

(i) In February 2006, the Company guaranteed lines of credit issued by Guelph Hydro Inc. through a general security agreement on all property of the Company. The Company has also guaranteed loans and lines of credit for Ecotricity Guelph Inc. and Selectpower Inc. At December 31, 2005, Ecotricity Guelph Inc. had a balance of $5,900 owing on its facilities. At December 31, 2005, Selectpower Inc. had a nil balance.

(ii) Guelph Hydro Electric Systems Inc. (GHESI) and Wellington Electric Distribution Company (WEDCO) have applied for and have been granted permission to merge. The merger is effective March 31, 2006. The merged company will carry on business under the name of Guelph Hydro Electric Systems Inc. The merger will reduce regulatory filing requirements and provide economies of scale.

17. Comparative figures:

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

Appendix Guelph_BoardStaff_TCQ_#15_l_FS_WEDCO - Financial statements of WEDCO, 2001-2005

Financial Statements of

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

December 31, 2001

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Deloitte & Touche

Auditors' Report

To the Board of Directors of
Wellington Electric Distribution Company Inc.

We have audited the balance sheet of Wellington Electric Distribution Company Inc. (the Company) as at December 31, 2001 and the statements of loss and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

March 12, 2002

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WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Balance Sheet
December 31, 2001
(in thousands of dollars)

	2001	2000
ASSETS		
CURRENT		
Cash on hand and in bank	$ 900	$ 828
Accounts receivable (Note 3)	167	173
Accounts receivable - unbilled revenue	73	68
Income taxes receivable	9	-
Inventory	15	7
Development charge deposits	-	44
Other current assets	2	10
	1,166	1,130
FIXED ASSETS (Note 4)	1,134	1,202
DEFERRED CHARGES	73	101
	$ 2,373	$ 2,433
LIABILITIES		
CURRENT		
Accounts payable and accruals	$ 174	$ 257
Deferred credits - accounts receivable	4	4
Customer deposits - current portion	14	8
Due to related parties (Note 7)	18	7
Development charge fund	44	44
	254	320
LONG-TERM DEBT		
Notes payable (Note 5)	1,048	1,048
OTHER LONG-TERM LIABILITIES		
Customer deposits - long-term portion	32	25
	32	25
	1,334	1,393
SHAREHOLDERS' EQUITY		
Share capital (Note 1 and Note 8)	1,048	1,048
Deficit	(9)	(8)
	1,039	1,040
	$ 2,373	$ 2,433

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Loss and Deficit
Year ended December 31, 2001
(With Comparative Figures for the Two Months Ended December 31, 2000)
(in thousands of dollars)

	2001	2000 (2 months)
SERVICE REVENUE		
Residential	**$ 985**	$ 166
General	**292**	52
Street lighting	**13**	2
	1,290	220
COST OF POWER	**1,009**	200
GROSS MARGIN ON SERVICE REVENUE	**281**	20
OTHER OPERATING REVENUE	**88**	18
NET OPERATING REVENUE	**369**	38
DISTRIBUTION SYSTEM EXPENSE		
Maintenance	**66**	4
ADMINISTRATIVE EXPENSE		
General administrative	**121**	15
Billing and collecting	**63**	10
Community relations	**5**	2
DEPRECIATION	**91**	15
TOTAL EXPENSES	**346**	46
INCOME BEFORE FINANCIAL EXPENSE	**23**	(8)
FINANCIAL EXPENSE		
Interest on notes payable	**(21)**	-
INCOME (LOSS) BEFORE TAXES	**2**	(8)
INCOME TAXES	**3**	-
NET LOSS	**(1)**	(8)
DEFICIT, BEGINNING OF PERIOD	**(8)**	-
DEFICIT, END OF PERIOD	**$ (9)**	$ (8)

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Cash Flows
Year Ended December 31, 2001
(With Comparative Figures for the Two Months Ended December 31, 2000)
(in thousands of dollars)

	2001	2000 (2 months)
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net loss	$ (1)	$ (8)
Add charges to operations not requiring a current payment		
Depreciation and amortization	123	15
	122	7
Net change in non-cash working capital balances related to operations (Note 9)	(25)	50
Net change in deferred charges and other deferred liabilities	(2)	(2)
	95	55
INVESTING ACTIVITIES		
Additions to fixed assets	(23)	-
	(23)	-
FINANCING ACTIVITIES		
Cash and cash equivalents transferred in on startup		
- from Township of Guelph/Eramosa Hydro-Electric Commission	-	688
- from The Board of Light and Heat Commissioners City of Guelph	-	2,000
- paid to the Township of Guelph/Eramosa	-	(1,915)
	-	773
INCREASE IN CASH	72	828
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	828	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 900	$ 828
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	$ 21	$ -
Payment for income taxes	$ 12	$ -

(in thousands of dollars)

1. INCORPORATION AND ORGANIZATION

On October 31, 2000 Wellington Electric Distribution Company Inc. (the Company) was incorporated under the Business Corporations Act (Ontario). Wellington Electric Distribution Company Inc. continues the former Eramosa Hydro's business of distributing electricity in Village of Rockwood.

Guelph City Council approved a by-law effective November 1, 2000, merging certain assets and businesses of the former Board of Light and Heat Commission of the City of Guelph and Guelph-Eramosa Hydro-Electric Commission (Eramosa Hydro) into the Wellington Electric Distribution Company Inc, which is a subsidiary of Guelph Hydro Inc., which itself is wholly-owned by the Corporation of the City of Guelph.

The Company has issued to the City of Guelph (the City) common shares valued at $1,048 and notes payable valued at $1,048 as consideration for the transfer of assets as described in the above by-law.

Certain regulations of section 93 of the Electricity Act 1998 (Ontario), if enacted, will permit the assets transferred to be adjusted to reflect fair market value. It is anticipated that this adjustment will take place at either the date of the transfer of assets (November 1, 2000) or the date of market opening. The adjustment will result in the issuance of further debt and equity as consideration at the ratio stipulated in the transfer by-law.

The incorporation and subsequent reorganization was required by provisions of Bill 35, *The Energy Competition Act, 1998* enacted by the Province of Ontario to introduce competition in the electricity market.

Net assets transferred to the Company may be summarized as follows:

Assets		
Current	$	**2,002**
Other		**101**
		2,103
Liabilities		
Current		**7**
Net assets	$	**2,096**
Financed by		
Long-term debt	$	**1,048**
Share capital issued		**1,048**
	$	**2,096**

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles for municipal electrical utilities in Ontario as required by the Ontario Energy Board (OEB) and reflect the following policies as set forth in the OEB's Accounting Procedures Handbook.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Cash flow statement

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, with a term to maturity of 90 days or less at acquisition. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the Cash Flow Statement and disclosed separately.

Inventory

Inventory is valued at the lower of cost and replacement cost. Cost is determined on an average cost basis.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Distribution station	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	10 years
Computer equipment	5 years

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for year ended December 31, 2001 of Nil (2000 - $Nil) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and are amortized over a period of 36 months commencing January 1, 2001.

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC), for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

3. ACCOUNTS RECEIVABLE

	2001	2000
Revenue	**$ 133**	$ 155
Miscellaneous	**39**	20
	172	175
Less allowance for doubtful accounts	**5**	2
	$ 167	$ 173

(in thousands of dollars)

4. FIXED ASSETS

	2001			2000
	Cost	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Distribution station	**$ 224**	**$ 12**	**$ 212**	$ 222
Distribution lines - overhead	**185**	**16**	**169**	181
Distribution lines - underground	**534**	**50**	**484**	524
Distribution transformers	**213**	**17**	**196**	209
Distribution meters	**74**	**6**	**68**	64
Computer and office equipment	**7**	**2**	**5**	2
	$ 1,237	**$ 103**	**$ 1,134**	$ 1,202

Capital assets of $23 (2000 - $1,214) have been recorded as additions during the year.

5. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 7.25% phased in over a three year period, beginning March 2001. No principal payments will be required in perpetuity.

6. PENSION AGREEMENT

The Company and its employees contribute to the Ontario Municipal Employees' Retirement System (OMERS), a defined benefit pension plan for the employees of Ontario municipalities. The Company's contribution for employees' current service for the year ended December 31, 2001 was $Nil (2000 - $Nil). No premiums were paid by the employer due to the approved OMERS premium holiday.

(in thousands of dollars)

7. RELATED PARTY TRANSACTIONS

Guelph Hydro Electric Systems Inc., a subsidiary of the parent company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors' and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange. The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties at December 31, 2001 for transactions in the normal course of operations are as follows:

	2001	2000
Due to Guelph Hydro Inc. (parent company)	**$ 4**	$ 2
Due to Guelph Hydro Electric Systems Inc. (subsidiary of parent company)	**14**	5
	$ 18	$ 7

8. SHARE CAPITAL

	2001	2000
Authorized		
Unlimited number of common shares		
Issued		
1,000,000 common shares	**$ 1,048**	$ 1,048

(in thousands of dollars)

9. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2001	2000
Accounts receivable	$ 9	$ (37)
Accounts receivable - unbilled revenue	(5)	(16)
Income taxes receivable	(9)	-
Inventory	(8)	(0)
Other current items	52	(5)
Accounts payable and accrued liabilities	(82)	100
Customer deposits - current portion	6	1
Due to related parties	11	7
	$ (25)	$ 50

10. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2001, the estimated fair market value of short-term investments, accounts receivable, accounts payable and other accrued expenses was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

11. CONTINGENCY

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

12. SUBSEQUENT EVENT

The Government of Ontario has announced that the electricity market will open to competition on May 1, 2002. The Company has expended significant resources in preparation for market opening and expects to function efficiently in the new market.

Beginning May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company must provide security for Independent Electricity Market Operator (IMO) based on its usage. The security required can take several forms (i.e. credit rating, monetary payment and years of good payment history). The Company's maximum security is $100. The Company is currently under negotiation to purchase a financial instrument to provide the security required by the IMO.

13. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $70 would be recorded.

14. COMPARATIVE BALANCES

Certain comparative balances for 2000 have been reclassified to conform to the presentation adopted for the 2001 fiscal year.

Financial Statements of

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

December 31, 2002

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Auditors' Report

To the Board of Directors of
Wellington Electric Distribution Company Inc.

We have audited the balance sheet of Wellington Electric Distribution Company Inc. (the Company) as at December 31, 2002 and the statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 4, 2002

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WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Balance Sheet
December 31, 2002
(in thousands of dollars)

	2002	2001
ASSETS		
CURRENT		
Cash on hand and in bank	**$ 1,104**	$ 900
Accounts receivable (Note 3)	**54**	167
Accounts receivable - unbilled revenue	**225**	73
Income taxes receivable	**-**	9
Inventory	**7**	15
Other current assets	**3**	2
	1,393	1,166
FIXED ASSETS (Note 4)	**1,063**	1,134
REGULATORY ASSETS (Note 5)	**85**	-
DEFERRED CHARGES	**41**	73
	$ 2,582	$ 2,373
LIABILITIES		
CURRENT		
Accounts payable and accruals	**$ 180**	$ 174
Income taxes payable	**32**	-
Deferred credits - accounts receivable	**13**	4
Customer deposits - current portion	**12**	14
Due to related parties (Note 8)	**152**	18
Development charge fund	**44**	44
	433	254
LONG-TERM DEBT		
Notes payable (Note 6)	**1,048**	1,048
OTHER LONG-TERM LIABILITIES		
Customer deposits - long-term portion	**28**	32
	28	32
	1,509	1,334
CONTINGENCIES (NOTE 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**1,048**	1,048
Retained earnings (deficit)	**25**	(9)
	1,073	1,039
	$ 2,582	$ 2,373

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Income and Retained Earnings
Year ended December 31, 2002
(in thousands of dollars)

	2002	2001
SERVICE REVENUE		
Residential	**$ 1,184**	$ 985
General	**332**	292
Street lighting	**13**	13
	1,529	1,290
COST OF POWER	**1,115**	1,009
GROSS MARGIN ON SERVICE REVENUE	**414**	281
OTHER OPERATING REVENUE	**59**	88
NET OPERATING REVENUE	**473**	369
DISTRIBUTION SYSTEM EXPENSE		
Maintenance	**66**	66
ADMINISTRATIVE EXPENSE		
General administrative	**119**	121
Billing and collecting	**52**	63
Community relations	**5**	5
DEPRECIATION	**91**	91
TOTAL EXPENSES	**333**	346
INCOME BEFORE FINANCIAL EXPENSE	**140**	23
FINANCIAL EXPENSE		
Interest on notes payable	**46**	21
INCOME BEFORE TAXES	**94**	2
INCOME TAXES	**60**	3
NET INCOME (LOSS)	**34**	(1)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	**(9)**	(8)
RETAINED EARNINGS (DEFICIT), END OF YEAR	**$ 25**	$ (9)

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Cash Flows
Year Ended December 31, 2002
(in thousands of dollars)

	2002	2001
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss)	**$ 34**	$ (1)
Add charges to operations not requiring a current payment		
Depreciation and amortization	**124**	123
	158	122
Net change in non-cash working capital balances related to operations (Note 10)	**146**	(25)
Net change in regulatory assets	**(85)**	-
Net change in deferred charges and other deferred liabilities	**5**	(2)
	224	95
INVESTING ACTIVITIES		
Additions to fixed assets	**(20)**	(23)
INCREASE IN CASH AND CASH EQUIVALENTS	**204**	72
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**900**	828
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,104**	$ 900
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	**$ 46**	$ 21
Payment for income taxes	**$ 28**	$ 12

1. NATURE OF OPERATIONS

Wellington Electric Distribution Company Inc. a subsidiary of Guelph Hydro Inc., which itself is wholly-owned by the Corporation of the City of Guelph (the Company) was incorporated October 31, 2000 under the Business Corporations Act (Ontario).

The principal business activity of the Company is to provide electrical power distribution in the Village of Rockwood.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998:

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Cash flow statement

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, with a term to maturity of 90 days or less at acquisition. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the Cash Flow Statement and disclosed separately.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory is valued at the lower of cost and replacement cost. Cost is determined on an average cost basis.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Distribution station	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5 years
Computer equipment	5 years

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for year ended December 31, 2002 of $Nil (2001 - $Nil) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and are amortized over a period of 36 months commencing January 1, 2001.

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

3. ACCOUNTS RECEIVABLE

	2002	2001
Revenue	$ 58	$ 133
Miscellaneous	3	39
	61	172
Less allowance for doubtful accounts	7	5
	54	167

(in thousands of dollars)

4. FIXED ASSETS

	2002			2001
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Distribution station	$ 224	$ 23	$ 201	$ 212
Distribution lines - overhead	186	30	156	169
Distribution lines - underground	552	28	524	484
Distribution transformers	213	98	115	196
Distribution meters	74	10	64	68
Computer and office equipment	7	4	3	5
	$ 1,256	$ 193	$ 1,063	$ 1,134

5. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2002	2001
Pre-market opening energy variance	$ 31	$ -
Retail settlement variance	54	-
	$ 85	$ -

The introduction of Bill 210 in November 2002 has deferred future rate increases until 2006. Management believes that it is probable that regulatory assets will be recovered through future rates, although uncertainty has been heightened with current legislation, Bill 210. Management has performed an analysis of the impact on future rates and is confident that future rate increases will be sufficient to realize all of these costs. If in a future decision, the regulator determines that the existing regulatory treatment is no longer acceptable, the regulatory assets would be charged to operations.

6. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83% (2001 – 2.42%). No principal payments will be required in perpetuity.

(in thousands of dollars)

7. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2002 was $Nil (2001 - $Nil). No premiums were paid, by the employer or employees due to the legislated OMERS premium holiday which is in effect until December 31, 2002.

8. RELATED PARTY TRANSACTIONS

Guelph Hydro Electric Systems Inc., a subsidiary of the parent company performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors' and will negotiate on behalf of its subsidiaries other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange. The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due to related parties for transactions in the normal course of operations are as follows:

	2002	2001
Due to Guelph Hydro Inc. (parent company)	$ **12**	$ 4
Due to Guelph Hydro Electric Systems Inc. (subsidiary of parent company)	**140**	14
	$ **152**	$ 18

(in thousands of dollars)

9. SHARE CAPITAL

	2002	2001
Authorized		
Unlimited number of common shares		
Issued		
1,000,000 common shares	$ 1,048	$ 1,048

10. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2002	2001
Accounts receivable	$ 113	$ 9
Accounts receivable - unbilled revenue	(152)	(5)
Income taxes receivable	41	(9)
Inventory	7	(8)
Other current items	(1)	52
Accounts payable and accrued liabilities	6	(82)
Customer deposits - current portion	(3)	6
Due to related parties	134	11
	$ 146	$ (25)

11. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2002, the estimated fair market value of short-term investments, accounts receivable, accounts payable and other accrued expenses was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

It is not practicable within the constraint of cost to determine the fair value of long-term debt with sufficient reliability.

11. FINANCIAL INSTRUMENTS (continued)

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to Independent Electricity Market Operators based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $100.

12. CONTINGENCIES

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

On March 12, 2003 a Hydro One 44,000 volt phase conductor contacted the company's phase conductor. This placed a high voltage surge on customers connected to the distribution phase resulting in damage to customers electrical equipment. Customers have filed an insurance claim and these have been forwarded to Hydro One, the liable party. In management's judgment, no financial loss will result as a result of this incident.

13. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $34 (2001 - $70) would be recorded.

Financial Statements of

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

December 31, 2003

Deloitte

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Auditors' Report

To the Shareholder of
Wellington Electric Distribution Company Inc.

We have audited the balance sheet of Wellington Electric Distribution Company Inc. (the Company) as at December 31, 2003 and the statements of loss and deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 2, 2004

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WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Balance Sheet
December 31, 2003
(in thousands of dollars)

	2003	2002
ASSETS		
CURRENT		
Cash	$ 1,014	$ 1,104
Accounts receivable (Note 3)	154	54
Accounts receivable - unbilled revenue	111	225
Income taxes receivable	29	-
Inventory	5	7
Other current assets	5	3
	1,318	1,393
FIXED ASSETS (Note 4)	1,018	1,063
REGULATORY ASSETS (Note 5)	86	85
DEFERRED CHARGES	-	41
	$ 2,422	$ 2,582
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 141	$ 180
Income taxes payable	-	32
Deferred credits - accounts receivable	12	13
Customer deposits - current portion	15	12
Due to related parties (Note 8)	125	152
Development charge fund	44	44
	337	433
LONG-TERM DEBT		
Notes payable (Note 6)	1,048	1,048
OTHER LONG-TERM LIABILITY		
Customer deposits	28	28
	1,413	1,509
CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	1,048	1,048
Retained earnings (deficit)	(39)	25
	1,009	1,073
	$ 2,422	$ 2,582

APPROVED BY THE BOARD

.... Director

.... Director

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Loss and Deficit
Year ended December 31, 2003
(in thousands of dollars)

	2003	2002
SERVICE REVENUE		
Residential	$ 1,273	$ 1,184
General	339	332
Street lighting	16	13
	1,628	1,529
COST OF POWER	1,208	1,115
GROSS MARGIN ON SERVICE REVENUE	420	414
OTHER OPERATING REVENUE	70	59
NET OPERATING REVENUE	490	473
DISTRIBUTION SYSTEM EXPENSE		
Maintenance	70	66
ADMINISTRATIVE EXPENSE		
General administrative	206	121
Billing and collecting	115	49
Community relations	4	5
DEPRECIATION	92	91
TOTAL EXPENSES	487	332
INCOME BEFORE FINANCIAL EXPENSE AND INCOME TAXES	3	141
FINANCIAL EXPENSE		
Interest on notes payable	52	47
INCOME (LOSS) BEFORE INCOME TAXES	(49)	94
INCOME TAXES	15	60
NET INCOME (LOSS)	(64)	34
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	25	(9)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ (39)	$ 25

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Cash Flows
Year Ended December 31, 2003
(in thousands of dollars)

	2003	2002
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss)	$ (64)	$ 34
Add charges to operations not requiring a current payment		
Depreciation and amortization	133	124
	69	158
Net change in non-cash working capital balances related to operations (Note 10)	(114)	146
Net change in regulatory assets	(1)	(85)
Net change in customer deposits	3	5
	(43)	224
INVESTING ACTIVITY		
Additions to fixed assets	(47)	(20)
NET 'INCREASE (DECREASE) IN CASH	(90)	204
CASH, BEGINNING OF YEAR	1,104	900
CASH, END OF YEAR	$ 1,014	$ 1,104
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	$ 52	$ 46
Payment for income taxes	$ 76	$ 28

1. **NATURE OF OPERATIONS**

Wellington Electric Distribution Company Inc., a subsidiary of Guelph Hydro Inc., was incorporated on October 31, 2000 under the *Business Corporations Act* (Ontario).

The principal business activity of the Company is to provide electrical power distribution in the Village of Rockwood.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the *Ontario Energy Board Act*, 1998.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Inventory

Inventory is valued at the lower of cost and replacement cost. Cost is determined on an average cost basis.

Fixed assets

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Distribution station	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5 years
Computer equipment	5 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2003 of $93 (2002 - $Nil) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and have been amortized over a period of 36 months ending in 2003.

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

(in thousands of dollars)

3. ACCOUNTS RECEIVABLE

	2003	2002
Revenue	$ 162	$ 58
Miscellaneous	4	3
	166	61
Less allowance for doubtful accounts	12	7
	$ 154	$ 54

4. FIXED ASSETS

	2003			2002
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Distribution station	$ 224	$ 33	$ 191	$ 201
Distribution lines - overhead	202	42	160	158
Distribution lines - underground	584	146	438	454
Distribution transformers	213	44	169	183
Distribution meters	74	16	58	63
Computer and office equipment	7	5	2	4
	$ 1,304	$ 286	$ 1,018	$ 1,063

5. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2003	2002
Pre-market opening energy variance	$ 31	$ 31
Retail settlement variance	55	54
	$ 86	$ 85

The introduction of Bill 210 in November 2002 deferred future rate increases until 2006. However, in December 2003, Bill 4 was introduced which allows for the application to the OEB for possible recovery of these costs.

6. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83% (2002 – 4.83%). No principal payments will be required in perpetuity.

(in thousands of dollars)

7. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2003 was $1 (2002 - $Nil). Premiums paid by the employer and employees in 2003 were at a reduced rate beginning January 2003, following a premium holiday.

8. RELATED PARTY TRANSACTIONS

Guelph Hydro Electric Systems Inc., a sister company, performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and negotiates on behalf of its subsidiaries for corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2003	2002
Due from FibreWired Inc. (sister company)	$ **(4)**	$ -
Due to Guelph Hydro Inc.	**17**	12
Due to Guelph Hydro Electric Systems Inc.	**112**	140
	$ **125**	$ 152

(in thousands of dollars)

9. SHARE CAPITAL

	2003	2002
Authorized		
Unlimited number of common shares		
Issued		
1,000,000 common shares	$ **1,048**	$ 1,048

10. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2003	2002
Accounts receivable and other	$ **(102)**	$ 112
Accounts receivable - unbilled revenue	**114**	(152)
Income taxes receivable/payable	**(61)**	41
Inventory	**2**	7
Accounts payable and accrued liabilities	**(39)**	6
Deferred credits - accounts receivable	**(1)**	(3)
Due to related parties	**(27)**	134
	$ **(114)**	$ 146

11. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2003, the estimated fair market value of cash, accounts receivable, accounts payable and accrued liabilities was equal to the book value given the short term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

The fair value of the notes payable cannot be determined as the notes have no specified repayment terms and no maturity date.

11. FINANCIAL INSTRUMENTS (continued)

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity Market Operator based on its estimated usage. The security obtained was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $100.

12. CONTINGENCIES

A class action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Associations (formerly the Municipal Electric Association) is undertaking the defence of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

On March 12, 2003 a Hydro One 44,000 volt phase conductor contacted the Company's phase conductor. This placed a high voltage surge on customers connected to the distribution phase resulting in damage to customers' electrical equipment. Customers have filed an insurance claim which has been forwarded to Hydro One, the liable party. In management's judgment, no financial loss will result as a result of this incident.

13. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $60 (2002 - $34) would be recorded.

Financial Statements of

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

December 31, 2004

Deloitte.

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Canada

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Auditors' Report

To the Shareholder of
Wellington Electric Distribution Company Inc.

We have audited the balance sheet of Wellington Electric Distribution Company Inc. (the Company) as at December 31, 2004 and the statements of loss and deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 22, 2005

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WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Balance Sheet
December 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
CURRENT		
Cash	**$ 1,158**	$ 1,014
Accounts receivable (Note 4)	**58**	154
Accounts receivable - unbilled revenue	**224**	111
Income taxes receivable	**21**	29
Inventory	**4**	5
Other	**1**	5
	1,466	1,318
FIXED ASSETS (Note 5)	**1,055**	1,018
REGULATORY ASSETS (Note 6)	**126**	86
	$ 2,647	$ 2,422
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 302**	$ 141
Deferred credits - accounts receivable	**28**	12
Customer deposits - current portion	**17**	15
Due to related parties (Note 9)	**180**	125
Development charge fund	**44**	44
	571	337
LONG-TERM DEBT		
Notes payable (Note 7)	**1,048**	1,048
OTHER LONG-TERM LIABILITIES		
Customer deposits - long-term portion	**11**	28
	1,630	1,413
CONTINGENCY (Note 13)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**1,048**	1,048
Deficit	**(31)**	(39)
	1,017	1,009
	$ 2,647	$ 2,422

APPROVED BY THE BOARD

.... Director

.... Director

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

Statement of Loss and Deficit

Year ended December 31, 2004
(in thousands of dollars)

	2004	2003
SERVICE REVENUE		
Residential	**$ 1,204**	$ 1,273
General	**321**	339
Street lighting	**15**	16
	1,540	1,628
COST OF POWER	**1,105**	1,208
GROSS MARGIN ON SERVICE REVENUE	**435**	420
OTHER OPERATING REVENUE	**70**	70
NET OPERATING REVENUE	**505**	490
DISTRIBUTION SYSTEM EXPENSE		
Maintenance	**56**	70
ADMINISTRATIVE EXPENSE		
General administrative	**204**	206
Billing and collecting	**110**	115
Community relations	**2**	4
DEPRECIATION	**72**	92
	444	487
INCOME BEFORE FINANCIAL EXPENSE AND INCOME TAXES	**61**	3
FINANCIAL EXPENSE		
Interest on notes payable	**53**	52
INCOME (LOSS) BEFORE INCOME TAXES	**8**	(49)
INCOME TAXES	**-**	15
NET INCOME (LOSS)	**8**	(64)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	**(39)**	25
DEFICIT, END OF YEAR	**$ (31)**	$ (39)

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.
Statement of Cash Flows
Year Ended December 31, 2004
(in thousands of dollars)

	2004	2003
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss)	$ 8	$ (64)
Add charges to operations not requiring a current payment		
Depreciation and amortization	72	133
	80	69
Net change in non-cash working capital balances related to operations (Note 11)	228	(114)
Net change in regulatory assets	(40)	(1)
Net change customer deposits	(16)	3
	252	(43)
INVESTING ACTIVITY		
Additions to fixed assets	(108)	(47)
NET INCREASE (DECREASE) IN CASH	144	(90)
CASH, BEGINNING OF YEAR	1,014	1,104
CASH, END OF YEAR	$ 1,158	$ 1,014
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	$ 51	$ 52
Payment for income taxes	$ 32	$ 76

1. NATURE OF OPERATIONS

Wellington Electric Distribution Company Inc. (the Company), a subsidiary of Guelph Hydro Inc., was incorporated on October 31, 2000 under the *Business Corporations Act* (Ontario).

The principal business activity of the Company is to provide electrical power distribution in the Village of Rockwood.

2. CHANGES IN ACCOUNTING POLICIES

Impairment of long-lived assets

As of January 1, 2004, the Company prospectively adopted the recommendations of CICA Handbook Section 3063 "Impairment of long-lived assets". These recommendations require that an impairment loss on long-lived assets to be held and used be recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. The adoption of these recommendations had no impact on the results of operations for 2004.

Asset retirement obligations

On January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3110 "Asset retirement obligations". The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations. Basically, the liability represents the fair value of the obligations. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. The adoption of these recommendations had no impact on the results of operations for 2004.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the *Ontario Energy Board Act*, 1998.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

Regulation

The Corporation is regulated by the OEB and any rate adjustments require OEB approval.

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

Inventory

Inventory is valued at the lower of cost and replacement cost. Cost is determined on an average cost basis.

Fixed assets

Fixed assets are recorded at cost. Depreciation is calculated on a straight-line basis over the useful service life as follows:

Distribution station	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
Office equipment	5 years
Computer equipment	5 years

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Contributions in aid of construction

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2004 of $211 (2003 - $93) have been charged to capital assets.

Deferred charges

Deferred charges are recorded at cost and have been amortized over a period of 36 months ending in 2003.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulatory assets

Regulatory assets result from the provincially approved rate of the Ontario Electricity Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

Payment in lieu of income taxes

Under the *Electricity Act, 1998*, the Corporation is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Corporation, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

(in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2004	2003
Revenue	$ 76	$ 162
Miscellaneous	3	4
	79	166
Less allowance for doubtful accounts	21	12
	$ 58	$ 154

5. FIXED ASSETS

	2004			2003
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Distribution station	$ 224	$ 44	$ 180	$ 191
Distribution lines - overhead	271	59	212	160
Distribution lines - underground	625	171	454	438
Distribution transformers	213	58	155	169
Distribution meters	74	21	53	58
Computer and office equipment	7	6	1	2
	$ 1,414	$ 359	$ 1,055	$ 1,018

6. REGULATORY ASSETS

The regulatory assets, as follow, arose as a result of the rate-setting process:

	2004	2003
Pre-market opening energy variance	$ 31	$ 31
Retail settlement variance	95	55
	$ 126	$ 86

Beginning April 1, 2004, the Minister of Energy allowed electricity distributors to recover the first part of their regulatory assets in the 2004 rates. This recovery is for a portion of the Retail Settlement Variance costs incurred by distributors from transmission utilities and the Independent Electricity System Operator (IESO). The recovery is for costs expensed in prior years as well as costs included in regulatory assets. In 2004, the Company recovered $20 of which $16 was a reduction of the regulatory assets and $4 was included in income. The remainder of the Retail Settlement Variance and the pre-market opening costs that are approved will be recovered over a four-year period.

(in thousands of dollars)

7. NOTES PAYABLE

Notes payable are due to the City of Guelph and bear interest at 4.83% (2003 – 4.83%). No principal payments will be required in perpetuity.

8. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2004 was $3 (2003 - $1). Premiums paid by the employer and employees in 2003 were at a reduced rate beginning January 2003, following a premium holiday.

9. RELATED PARTY TRANSACTIONS

Guelph Hydro Electric Systems Inc., a sister company, performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties. During the year, the Company incurred expenses of $129 for these services.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and negotiates on behalf of its subsidiaries for corporate programs such as risk management. During the year, the Company incurred expenses of $18 for these services. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due from (to) related parties for transactions in the normal course of operations are as follows:

	2004	2003
Due to (from) FibreWired Inc. (sister company)	$ **1**	$ (4)
Due to Selectpower Inc. (sister company)	**6**	-
Due to Guelph Hydro Inc.	**18**	17
Due to Guelph Hydro Electric Systems Inc.	**155**	112
	$ **180**	$ 125

(in thousands of dollars)

10. SHARE CAPITAL

	2004	2003
Authorized		
Unlimited number of common shares		
Issued		
1,000,000 common shares	**$ 1,048**	$ 1,048

11. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS

	2004	2003
Accounts receivable	**$ 96**	$ (100)
Accounts receivable - unbilled revenue	**(113)**	114
Income taxes receivable	**8**	(61)
Inventory	**1**	2
Other current assets	**4**	(2)
Accounts payable and accrued liabilities	**161**	(39)
Deferred credits - accounts receivable	**16**	(1)
Due to related parties	**55**	(27)
	$ 228	$ (114)

12. FINANCIAL INSTRUMENTS

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

Fair value

At December 31, 2004, the estimated fair market value of cash, accounts receivable, accounts payable and accrued liabilities was equal to the book value given the short-term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

The fair value of the notes payable cannot be determined as the notes have no specified repayment terms and no maturity date.

12. FINANCIAL INSTRUMENTS (continued)

Irrevocable letter of credit

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity System Operator based on its estimated usage. The security obtained is in the form of a $90 irrevocable letter of credit from a financial institution.

13. CONTINGENCY

An action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The action has not yet been certified as either a plaintiff or defendant class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

14. FUTURE INCOMES TAXES

If the liability method of accounting for income taxes were used, a future tax asset of $66 (2003 - $68) would be recorded.

Financial Statements of

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

Year ended December 31, 2005
(Expressed in thousands of dollars)

KPMG LLP
Chartered Accountants
20 Erb Street West
Marsland Centre 3rd Floor
Waterloo ON N2L 1T2

Telephone (519) 747-8800
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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Wellington Electric Distribution Company Inc. (the "Company") as at December 31, 2005 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2004 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Waterloo, Canada
March 10, 2006

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

Balance Sheet
(In thousands of dollars)

December 31, 2005, with comparative figures for 2004

		2005		2004
Assets				
Current assets:				
Cash	$	942	$	1,158
Accounts receivable (note 2)		378		58
Accounts receivable - unbilled revenue		114		224
Income tax recoverable		10		21
Inventory		3		4
Other		2		1
		1,449		1,466
Property, plant and equipment (note 3)		1,219		1,055
Regulatory assets (note 4)		117		126
	$	2,785	$	2,647
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	413	$	302
Deferred credits - accounts receivable		15		28
Customer deposits - current portion		24		17
Due to related parties (note 7)		911		180
Development charge fund		44		44
		1,407		571
Long-term debt:				
Notes payable (note 5)		1,048		1,048
Other long-term liabilities:				
Customer deposits - long-term portion		9		11
Shareholder's equity:				
Share capital (note 9)		1,048		1,048
Deficit		(727)		(31)
		321		1,017
Contingency (note 10)				
	$	2,785	$	2,647

On behalf of the Board:

______________________ Director

______________________ Director

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

Statement of Loss and Deficit
(In thousands of dollars)

Year ended December 31, 2005

		2005		2004
Service revenue:				
Residential	$	1,545	$	1,204
General		431		321
Street lighting		7		15
		1,983		1,540
Cost of power		1,555		1,105
Gross margin on service revenue		428		435
Other operating revenue		75		70
Net operating revenue		503		505
Expenses:				
Operations		35		35
Maintenance		44		21
General and administrative		231		206
Billing and collection		93		110
Depreciation		98		72
		501		444
Income before financial expense and provision for payments in lieu of corporate taxes		2		61
Financial expense:				
Interest on notes payable		53		53
Income (loss) before provision for payments in lieu of corporate taxes		(51)		8
Provision for payments in lieu of corporate taxes		5		-
Net earnings (loss)		(46)		8
Deficit, beginning of the year		(31)		(39)
Dividends		(650)		-
Deficit, end of year	$	(727)	$	(31)

WELLINGTON ELECTRIC DISTRIBUTION COMPANY INC.

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2005

		2005		2004
Cash provided by (applied to):				
Operations:				
Net earnings (loss)	$	(46)	$	8
Add charges to operations not requiring a current payment				
Depreciation		98		72
Change in non-cash operating working capital:				
Balances related to operations		630		228
Net change in regulatory assets		9		(40)
Net change customer deposits		5		(16)
		696		252
Financing:				
Dividends		(650)		-
Investing:				
Additions to property, plant and equipment		(262)		(108)
Increase (decrease) in cash		(216)		144
Cash, beginning of year		1,158		1,014
Cash, end of year	$	942	$	1,158
Supplemental cash flow information:				
Interest paid	$	51	$	51
Income taxes paid		9		32

Wellington Electric Distribution Company Inc. ("the Company"), a subsidiary of Guelph Hydro Inc., was incorporated October 31, 2000 under the Business Corporations Act (Ontario). The principal activity of the Company is to provide electrical power distribution throughout the Village of Rockwood.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998:

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) Regulation:

Wellington Electric Distribution Company Inc. is regulated by the OEB and any rate adjustments require OEB approval.

(c) Revenue recognition:

Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

(d) Inventory:

Inventory is valued at the lower of cost and replacement cost, with cost being determined on average cost basis.

1. Significant accounting policies (continued):

(e) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Property, plant and equipment are amortized on a straight-line basis using the following rates:

Distribution station	30 years
Distribution lines	25 years
Distribution transformers	25 years
Distribution meters	25 years
General office equipment	5 years
Computer equipment	5 years

(f) Impairment of long-lived assets:

Long-lived assets are tested recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(g) Contributions in aid of construction:

Contributions in aid of construction are recorded as an offset to capital assets. Capital contributions for the year ended December 31, 2005 of $619 (2004 - $211) have been charged to capital assets.

(h) Regulatory assets:

Regulatory assets result from the provincially approved rates of the Ontario Energy Board and represent differences between costs incurred and those collected through rates. Regulatory assets on the balance sheet at year-end relate primarily to retail settlement variance accounts and pre-market opening cost of power variances. These assets will be recognized for rate-setting and financial statement purposes only to the extent allowed by the regulator.

(i) Employee future benefits:

The Company accrues its obligation under employee benefit plans and the related costs, net of plan assets.

(In thousands of dollars)

1. Significant accounting policies (continued):

(j) Payment in lieu of income taxes:

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation, for the period commencing October 1, 2001. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

The Company, regulated by the Ontario Energy Board, provides for payments-in-lieu of corporate income taxes using the taxes payable method instead of the liability method.

Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income taxes are expected to be reflected in future rates and, accordingly, are not recognized in the financial information.

(k) Asset retirement obligations:

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development or normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the assets useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to it's fair value as a result of the passage of time is charged to earnings.

2. Accounts receivable:

	2005	2004
Revenue	$ 141	$ 76
Miscellaneous	263	3
	404	79
Less allowance for doubtful accounts	26	21
	$ 378	$ 58

(In thousands of dollars)

3. Property, plant and equipment:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Distribution station	$ 224	$ 54	$ 170	$ 180
Distribution lines - overhead	273	76	197	212
Distribution lines - underground	696	217	479	454
Distribution transformers	275	72	203	155
Distribution meters	201	31	170	53
Computer and office equipment	7	7	-	1
	$ 1,676	$ 457	$ 1,219	$ 1,055

4. Regulatory assets:

The regulatory assets, as follows, arose as a result of the rate-setting process:

	2005	2004
Pre-market opening energy variance	$ 31	$ 31
Retail settlement variance	86	95
	$ 117	$ 126

Beginning April 1, 2004, the Minister of Energy allowed electricity distributors to recover the first part of their regulatory assets in the 2004 rates. This recovery is for a portion of the Retail settlement variance costs incurred by distributors from transmission utilities and the Independent Electricity System Operator (IESO). The recovery is for costs expensed in prior years as well as costs included in regulatory assets. In 2005, the Company recovered $26 of which $20 was a reduction of the regulatory assets and $6 was included in income. The remainder of the Retail Settlement Variance and the pre-market opening costs that are approved will be recovered over a four-year period.

4. Regulatory assets (continued):

In 2005, the Ontario Energy Board awarded local distribution companies an increase in their distribution rates which was to be invested in conservation and demand management (C&DM) initiatives between April 2005 and September 2007. The amount of $24 was to be received by Wellington Electric Distribution Company Inc. starting in April 2005. At December 31, 2005, $16 of this amount had been received, $2 was recognized as revenue since it had been spent on C&DM initiatives and the balance of $14 has been included in regulatory assets. Management believes that these unspent funds should not be recognized as revenue until the C&DM performance requirements are satisfied. For accounting purposes, this revenue has been deferred and will be recognized in the same period the C&DM expenditures are incurred.

(a) 2006 rate application:

In October 2005, the Company filed with the OEB its Electricity Distribution Rate Application for 2006 distribution rates effective May 1, 2006. The 2006 Rate Application allows the Company to earn a return on equity up to 9% after tax. A final decision from the OEB regarding the 2006 Rate Application is expected in April 2006.

(b) Impact of rate regulation on the financial statements:

(i) Pre-market opening energy electricity variance:

The $31 balance in the pre-market opening variance account represents the difference between the cost of power based on time-of-use (TOU) rates, and the amounts billed to non-TOU customers charged at an average rate for the same period starting January 1, 2001 and ending on April 30, 2002 (the date of opening of the competitive electricity market in Ontario). The Company has deferred these expenditures in accordance with the criteria set out in the Accounting Procedures Handbook for Electric Distribution Utilities. In the absence of rate regulation, these amounts would have been expensed under the rules of Canadian Generally Accepted Accounting Principles (GAAP).

(ii) Final instalment of the Market Adjusted Revenue Requirement:

In 2005, the Company received approval from the OEB to increase distribution rates to recover $24 representing the third and final adjustment necessary to achieve a market-based rate of return. The OEB has imposed a condition that the funds are to be spent on initiatives between April 2005 and September 2007. As at December 31, 2005, $14 had been received but not spent on C&DM initiatives. These funds have been included in regulatory assets and will be recognized as revenue in the same period in which the related C&DM expenditures are incurred. In the absence of rate regulation, these amounts would have been recognized as revenue in the same period that electrical distribution services were provided to customers.

4. Regulatory assets (continued):

(c) Ontario's local electricity distribution companies incurred a variety of costs in preparation for the competitive market which opened in May 2002. In addition to these costs, they incurred other costs associated with regulatory directives related to market restructuring and the ongoing competitive market. All of these costs for retail settlements, power purchases and market readiness were recorded in deferral accounts and are expected to be eligible for recovery through rates in accordance with the OEB's review and audit guidelines and rate setting procedures.

In October 2005, the Company filed an application with the OEB for review and recovery of its regulatory assets. The OEB is reviewing the regulatory asset applications to ensure that the claimed amounts are reasonable and related to serving customers. Amounts that the Board finds to be prudently incurred will be recovered in distribution rates over three years. Final recovery will commence May 1, 2006. These distributors will continue to collect the interim recovery provision reflected in their rates.

5. Notes payable:

Notes payable are due to the City of Guelph and bear interest at 4.83% (2004 - 4.83%). No principal payments will be required in perpetuity.

6. Pension agreement:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution plan accounting has been used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2005 was $3 (2004 - $3).

(In thousands of dollars)

7. Related party transactions:

Guelph Hydro Electric Systems Inc., a sister company, performs billing and collecting of revenues, building and maintenance of fixed assets, payment of purchases and all related government remittances, engineering, information services, and accounting, financial reporting and treasury for related parties. During the year, the Company incurred expenses of $129 for these services.

Guelph Hydro Inc. (GHI), the Company's parent, provides overall business planning through its Board of Directors and negotiates on behalf of its subsidiaries for corporate programs such as risk management. During the year, the Company incurred expenses of $18 for these services. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). The name of the insured is GHI and the Company is a named additional insured on the policy.

Amounts due to related parties for transactions in the normal course of operations are as follows:

	2005	2004
Due to Fibre Wired Inc. (sister company)	$ -	$ (1)
Due to Selectpower Inc. (sister company)	(6)	(6)
Due to Guelph Hydro Inc. (parent company)	(18)	(18)
Due to Guelph Hydro Electric Systems Inc. (sister company)	(887)	(155)
	$ (911)	$ (180)

8. Financial instruments:

(a) Credit risk:

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk.

(b) Fair value:

As December 31, 2005, the estimated fair market value of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities was equal to the book value given the short-term nature of the items. As there is no secondary market for customer deposits, the calculation of a fair value with appropriate reliability is impractical.

The fair value of the notes payable cannot be determined as the notes have no specific repayment terms and no maturity date.

(c) Irrevocable letter of credit:

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity System Operator based on its estimated usage. The security was in the form of an irrevocable letter of credit from a financial institution. The Company's maximum security is $90.

(In thousands of dollars)

9. Share capital:

		2005		2004
Authorized:				
Unlimited number of common shares				
Issued:				
100,000 common shares	$	1,048	$	1,048

10. Contingency:

An action claiming $500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal elective utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The action has not yet been certified as a plaintiff or defendant class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

11. Income taxes:

If the liability method of accounting for income taxes were used for rate-regulated subsidiaries, a future tax asset of $86 (2004 - $66) would be recorded.

As prescribed by a regulatory rate order, income tax expense is recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. The Company has not recognized future income taxes, as it is expected that when these amounts become payable, they will be recovered through future rate revenues. Generally accepted accounting principles require the recognition of future income tax liabilities and future tax assets in the absence of rate regulation.

12. Subsequent events:

Guelph Hydro Electric Systems Inc. (GHESI) and Wellington Electric Distribution Company (WEDCO) have applied for and been granted permission to merge. The merger is effective March 31, 2006. The merged company will carry on business under the name of Guelph Hydro Electric Systems Inc. The merger will reduce regulatory filing requirements and provide economies of scale.

Appendix Guelph_BoardStaff_TCQ_#41_a_DR_Program – OPA Program Schedule for the Demand Response

Residential Program –
Residential and Small Commercial Demand Response Initiative Schedule "B-3"

To Master CDM Program Agreement

RESIDENTIAL AND SMALL COMMERCIAL DEMAND RESPONSE 2011 - 2014

RECITALS:

1. The Initiative in this Schedule is the Residential and Small Commercial Demand Response Initiative (the "**Initiative**"), and this Schedule is an Initiative Schedule.

2. The LDC has Registered for the Residential Program and the Initiative in this Schedule is a Registered Initiative.

3. The objectives of the Initiative are to enhance the reliability of the IESO-Controlled Grid by accessing and aggregating specified residential and small commercial end uses for the purpose of load reduction, increasing consumer awareness of the importance of reducing summer demand and providing consumers their current electricity consumption and associated cost.

4. To accomplish the above objectives, the Initiative will provide Participants with Load Control Devices and Customer Information Displays in return for permitting the OPA and/or LDC to control the demand associated with specified end uses. Prior Participants and Continuing Participants will also be offered a Customer Information Display if they agree to sign the (new) Participant Agreement which will supersede the (old) participant agreement under the Prior Program. This Initiative also includes service, repair and replacement of Load Control Devices and Continuing Load Control Devices.

5. The LDCs, through their relationship with Residential and Small Commercial Distribution Consumers, will encourage such Distribution Consumers to participate in this Initiative, and install and maintain Load Control Devices and In-Home Displays.

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Schedule, capitalized terms that are not otherwise defined in this Schedule shall have the respective meanings attributed to them in the Master Agreement and the following terms shall have the following meanings in this Schedule:

> "**Activation Period**" means the period of time during which Curtailment is to occur specified in the LDC Activation Notice.

> "**Aggregation Operator"** means the Person(s) providing Aggregation Services to the OPA.

"**Aggregation Services"** means the services required to effect Load Control of Load Control Devices including receiving instructions from the Dispatch Administrator.

"**Business Hour**" means any 60 minute period occurring between 7:00 and 21:00 hours on a Business Day.

"**Continuing Participant**" means a participant of a Prior Program whose participant agreement from such Prior Program continues to be in effect. For clarity, after a Continuing Participant enters into a (new) Participant Agreement, he or she is subsequently referred to as a "Participant".

"**Continuing Load Control Device**" means a Load Control Device provided to a Continuing Participant under the Prior Program.

"**Control System**" means each of (i) the Cooper Power Systems (previously known as Canon Technologies Yukon®) load control management software; (ii) the Comverge PowerCAMP™ load control management software; and (iii) Tantalus TuNet System, and such additional systems designated by the OPA from time to time.

"Curtailment" means the exercise of Load Control.

"**Customer Information Display"** means a device and associated technology that is capable, at a minimum, of retrieving and displaying estimated cost and electricity usage information. An example for a Customer Information Display is an in-home display.

"**Device Removal / Deactivation Report**" means the report required pursuant to Section 5.2.

"**Dispatch Administrator**" means the Person who provides Dispatch Services to the OPA.

"**Dispatch Services**" means services required to effect Load Control of Load Control Devices in the service areas of one or more Local Distribution Companies, including that of the LDC, whether directly or through an Aggregation Operator.

"**Eligibility Criteria**" has the meaning provided in Exhibit "A".

"**Eligible End Use Appliance"** is an appliance identified in Section 2 of Exhibit "A".

"**Eligible Person"** means a Person that satisfies the criteria in Section 1 of Exhibit "A".

"**Grouping**" means the Load Control Devices and Continuing Load Control Devices in a defined geographic region within an LDC's service area.

"**Initiative**" has the meaning provided in Recital 1 to this Schedule.

"**LDC Activation Notice**" is the notice provided by the LDC pursuant to Stage Three in Exhibit "F".

"Load Control" means the ability to control and dispatch the electricity demand of one or more Eligible End Use Appliances through a Load Control Device connected to such appliance(s) during a given period.

"Load Control Device" means a device, including in the form of a relay-based switch or programmable thermostat, installed at a premise and connected to one or more Eligible End Use Appliances for the purpose of Load Control that is capable of receiving a signal dispatched to control the appliance(s) to which it is connected.

"Opt Out Request" means a request by a Participant, made in writing, by telephone or via the internet, prior to the commencement of the Activation Period requesting that Load Control in respect of a Load Control Device located at its premises not be initiated for a defined period, such period not to exceed 48 hours.

"**Participant Agreement**" means the agreement in the form of Exhibit "B", pursuant to which the Participant agrees to participate in this Initiative.

"**Participant"** means a Person who has satisfied the Eligibility Criteria, has agreed to the Participant Agreement, which has not been terminated, and who has not issued a Termination Request.

"**Prior Participant**" means a participant from a Prior Program where the participant agreement for that participant under the Prior Program is no longer in effect. For clarity, after a Prior Participant enters into a (new) Participant Agreement, he or she is subsequently referred to as a "Participant".

"Prior Program" means (A) the residential and small commercial demand response programs offered pursuant to (i) a Master CDM Program Agreement between the LDC and the OPA in 2007 (the actual date varies by LDC), and (ii) the Amended and Restated Master CDM Agreement between the LDC and the OPA dated as of January 31, 2008, for certainty, as amended and extended to August 31, 2011; and (B) if applicable, a residential and/or small commercial demand response program funded by third tranche CDM spending during the period from 2005 to 2008.

"Project Completion Report" means the report required pursuant to Section 5.1.

"**Schedule**" means this Schedule "B-3" and the exhibits attached hereto.

"**Small Commercial Distribution Consumer"** means a Distribution Consumer whose account with the LDC has the service classification "General Service less than 50 kW" or the equivalent.

"Termination Request" means a request made in writing or by telephone by a Participant that Load Control in respect of a Load Control Device located at its premises cease permanently.

1.2 Section References

Unless otherwise indicated, any reference in this Schedule to an article, section, subsection, paragraph or Exhibit refers to the article, section, subsection, paragraph of or exhibit to this Schedule.

1.3 Exhibits

The following exhibits are hereby attached to and incorporated into and are to be read together with this Schedule and shall form part of this Schedule:

Exhibit “A” – Eligibility Criteria

Exhibit “B” –Participant Agreement

Exhibit “C” - Load Control Device and Customer Information Display Functional Requirements

Exhibit “D” - Project Completion Report

Exhibit “E” – Device Removal / Deactivation Report

Exhibit “F” – LDC Initiated DR Curtailment Protocol

ARTICLE 2
GENERAL OBLIGATIONS

2.1 LDC General Obligations

For the purposes of implementing and managing the Initiative, in addition to the other obligations set forth in the Master Agreement and this Schedule, the LDC’s obligations are as follows:

(a) identifying and recruiting Residential Distribution Consumers and Small Commercial Distribution Consumers to participate in the Initiative, including but not limited to, through local marketing activities;

(b) assisting Residential Distribution Consumers and Small Commercial Distribution Consumers to understand the Initiative and the Eligibility Criteria; and

(c) assisting Residential Distribution Consumers and Small Commercial Distribution Consumers with technical or other related inquiries and complaints in respect of the Initiative.

2.2 OPA General Obligations

For the purposes of implementing the Initiative and supporting the LDC's obligations in respect of the Initiative, in addition to the other obligations set forth in the Master Agreement and this Schedule, the OPA's obligations are as follows:

(a) providing guidelines for the functions to be performed by the Aggregation Operator(s) and Dispatch Administrator;

(b) ensuring that the Aggregation Operator(s) and Dispatch Administrator complete their respective obligations set forth in this Schedule;

(c) responding to all inquiries and complaints regarding the Aggregation Operator(s) and Dispatch Administrator;

(d) assisting the LDC, when reasonably requested by such LDC within the context of each of the LDC's and OPA's respective roles in delivering the Initiative, in the LDC's response to the inquiries and complaints received from the Distribution Consumers relating to or arising out of the Initiative, provided that the LDC remains responsible for dealing with such inquiries or complaints; and

(e) directing all Distribution Consumer inquiries and complaints relating to or arising out of the Initiative in respect of the LDC's service area (except if such inquiries and complaints relate to the Aggregation Operator(s) or Dispatch Administrator) to the LDC for resolution.

ARTICLE 3
APPLICATION PROCESS, INSTALLATION, SERVICING & ASSET OWNERSHIP

3.1 Application Process

(a) The LDC shall manage the application process, including making the Participant Agreement, without modification from the form and substance provided in this Schedule, available to each Residential Distribution Consumer and Small Commercial Distribution Consumer upon request.

(b) Prior to enrolling a Distribution Consumer in the Initiative and installing a Load Control Device and Customer Information Display at the Distribution Consumer's premises, the LDC shall confirm that all Eligibility Criteria are met and shall ensure that the Participant Agreement has been fully completed and that the Distribution Consumer has evidenced its agreement (including appropriately executed where a paper copy of the Participant Agreement is used) to the terms and conditions of the Participant Agreement, in the form attached hereto as Exhibit "B", without modification or amendment. The OPA acknowledges that in confirming the Eligibility Criteria in Section 1(b) of Exhibit "A", the LDC will rely upon information provided by the Distribution Consumer.

3.2 **Participants under Prior Program**

(a) If the LDC participated in the Prior Program then for any Continuing Participants, the LDC shall:

(i) inform Continuing Participants that they are eligible to receive a Customer Information Display if they enter into the (new) Participant Agreement to supersede the participant agreement under the Prior Program and, if such Continuing Participant does enter into a Participant Agreement, subject to Section 3.3(e), install a Customer Information Display at the said Continuing Participant's premises pursuant to Section 3.3;

(ii) with respect to Continuing Participants who have not entered into the (new) Participant Agreement, allow the OPA, through the Aggregation Operator and Dispatch Administrator, to continue to exercise Curtailment of Continuing Load Control Devices, subject to the terms and conditions of the Prior Program; and

(iii) provide to the Aggregation Operator and the OPA promptly, and in any event by no later than two months, following this Schedule becoming effective a list of all Continuing Participants together with information reasonably requested by the Aggregation Operator or OPA and in a format reasonably requested by the OPA regarding each Continuing Participant and/or Continuing Load Control Device so that the Aggregation Operator may exercise Curtailment of the Continuing Load Control Devices of the Continuing Participants. For certainty, this Schedule becomes effective either: (i) if the LDC was Registered for the Consumer Program prior to the Notice of Additional Initiative being issued, the Schedule becomes effective pursuant to the Change Terms; or (ii) if the LDC had not already Registered for the Consumer Program prior to the Notice of Additional Initiative being issued, the Schedule becomes effective upon the LDC Registering for the Consumer Program.

(b) If Section 3.2(a) applies to the LDC, the LDC represents and warrants that each Continuing Participant included on the list provided to the Aggregation Operator and the OPA pursuant to Section 3.2(a)(iii) consented to the collection, use and disclosure of its name, address, telephone number, email address and other personally identifiable information by the LDC and the OPA, and consented to the operation of its Continuing Load Control Device by the OPA, which consents continue to apply to this Initiative.

(c) If the LDC participated in the Prior Program then for any Prior Participants, the LDC shall inform Prior Participants that they are eligible to receive a Customer Information Display if they enter into the (new) Participant Agreement, and, if such Prior Participant does enter into a Participant Agreement, subject to Section 3.3(e), install a Customer Information Display at the said Prior Participant's premises pursuant to Section 3.3. The LDC shall ensure that Prior

Participants are not included in the list of Continuing Participants provided pursuant to Section 3.2(a)(iii) so that Prior Participant's existing load control devices are not the subject of Load Control unless and until a Prior Participant enters into a (new) Participant Agreement.

3.3 **Installation of Load Control Devices and Customer Information Displays**

(a) Subject to the LDC having enrolled a Participant in the Initiative pursuant to Section 3.1 and the LDC complying with the remaining provisions of this Section 3.3, the LDC shall use Commercially Reasonable Efforts to install at the Participant's premises: (i) the Load Control Device(s) on the Eligible End Use Appliances selected by the Participant in the Participant Agreement; and (ii) a Customer Information Display.

(b) If, after using Commercially Reasonable Efforts, the LDC is unable to install any Load Control Device, the LDC shall notify the Participant that it was unable to install any Load Control Device and the LDC shall terminate the Participant Agreement.

(c) If, after using Commercially Reasonable Efforts, the LDC is able to install the Load Control Device(s) but is unable to install the Customer Information Display, the LDC may offer to allow the Participant to continue to participate in the Initiative without receiving a Customer Information Display.

(d) The LDC shall not install a Load Control Device on an Eligible End Use Appliance that is not in good working condition or if the installation of the Load Control Device cannot be completed in a safe manner or where there is a risk of damage to the Eligible End Use Appliance or the Participant's premises.

(e) The LDC shall not install a Customer Information Display for a Continuing Participant unless it has first confirmed that each Continuing Load Control Device is capable of Curtailment and the Continuing Participant agrees to the (new) Participant Agreement. The LDC shall not install a Customer Information Display for a Prior Participant unless it has first confirmed that the existing load control device is capable of Curtailment and the Prior Participant agrees to the (new) Participant Agreement. If the existing load control device of a Prior Participant is not capable of Curtailment the LDC may install a (new) Load Control Device and receive the Participant Based Funding Amount for the new Load Control Device. If the Continuing Load Control Device of a Continuing Participant is not capable of Curtailment the LDC shall service, repair or replace such Continuing Load Control Device pursuant to Section 3.4.

(f) If the LDC installed a Comverge / White-Rogers IF88 model thermostat load control device under a Prior Program, other than a program funded by third tranche CDM spending, the LDC may replace the Comverge / White Rogers load control device with a new Load Control Device if the Prior Participant or Continuing Participant, as applicable, agrees to the new Participant Agreement. In such circumstances, the OPA shall pay the Participant Based Funding Amount applicable to the installation of a new Load Control Device in accordance with Article 6 less $30. The LDC shall be responsible for its costs for removing the Comverge / White Rogers thermostat and, if the new Load Control Device is not a thermostat, providing a replacement thermostat.

(g) Each Load Control Device and Customer Information Display installed pursuant to this Initiative must meet the minimum requirements for such devices provided in Exhibit "C".

(h) The LDC shall not procure a Load Control Device for use in this Initiative that cannot be controlled by a Control System without obtaining the prior written consent of the OPA, such consent not to be unreasonably withheld or delayed. For certainty, it will not be unreasonable for the OPA to withhold its consent due to the cost of adding a new Control System or otherwise may have a detrimental impact on the delivery of the Initiative.

(i) Load Control Device inventory shall be managed on a "first in first out" basis.

(j) The LDC shall ensure that each installed Load Control Device and Customer Information Display is installed according to manufacturer's specifications and is tested and proven to be functioning properly in accordance with the minimum requirements for such devices provided in Exhibit "C" and, with respect to Load Control Devices, capable of being remotely dispatched to enable the Curtailment of the associated Eligible End Use Appliance, including having adequate signal strength from the paging network for this purpose.

(k) The Parties acknowledge that title to the Load Control Device and Customer Information Display installed at a Participant's premises shall pass from the LDC to the Participant upon installation thereof. In the event that the transfer of title to the Load Control Device and Customer Information Display is or becomes subject to Applicable Taxes, the OPA agrees to reimburse the LDC for Applicable Taxes that the LDC is required to pay and has actually paid under the *Excise Tax Act* (Canada) solely as a result of the transfer of title of the Load Control Device and Customer Information Display. For certainty, it is the LDC's responsibility to determine if the transfer of title to the Load Control Device and/or Customer Information Display is subject to Applicable Taxes and any interest or penalties incurred by the LDC for failing to pay such tax shall be the sole responsibility of the LDC.

3.4 **Load Control Device and Customer Information Display Servicing**

(a) Until December 31, 2014, the LDC shall service, repair or replace a malfunctioning Load Control Device or malfunctioning Continuing Load Control Device upon becoming aware of such malfunction, including through communication from the OPA or a Participant, in order to ensure continued functioning of the Load Control Device or Continuing Load Control Device for the purpose of enabling the Curtailment of the Eligible End Use Appliance.

(b) Until December 31, 2014, the LDC shall service, repair or replace a malfunctioning Customer Information Display upon the reasonable request of a Participant unless the LDC determines that such malfunction is the fault of the Participant.

ARTICLE 4
PARTICIPANT MANAGEMENT, DISPATCH AND AGGREGATOR SERVICES

4.1 Participant Management

The LDC shall:

(a) upon the receipt of an Opt Out Request from a Participant or a Continuing Participant notify the Aggregation Operator of the Opt Out Request the same Business Day if the Opt Out Request is received prior to 5:00pm and on the next Business Day if received after 5:00pm or on a non-Business Day if: (i) the Opt Out Request is not requesting a Load Control Device to be taken out of operation for a continuous period that exceeds 48 hours; (ii) the Participant or Continuing Participant has not previously issued two Opt Out Requests during the calendar year; and (iii) the Opt Out Request is received by the LDC at least two days prior to the day the Load Control Device is requested to be taken out of operation;

(b) upon a Participant or Continuing Participant moving out of their premises, use Commercially Reasonable Efforts to enrol the new owner or occupant of the premises in the Initiative; and

(c) provide advance notice to Participants of a change in electricity pricing, using Commercially Reasonable Efforts to provide it no less than 14 days in advance of such change, to enable the Participant to update its Customer Information Display, which notice will include instructions on how to update the Customer Information Display.

4.2 Dispatch and Aggregation Services

(a) Subject to Section 4.2(b), the OPA shall contract with an Aggregation Operator to provide Aggregation Services in relation to the Load Control Devices and Continuing Load Control Devices installed in the LDC's service area. For certainty, the OPA may retain more than one Aggregation Operator.

(b) The LDC may, during the period from September 1, 2011 to September 15, 2011, select an Aggregation Operator that is under contract with the OPA. Failing a selection by the LDC, or if the LDC Registered for this Initiative after September 15, 2011, the OPA's province-wide Aggregation Operator shall provide Aggregation Services in the LDC's service area.

(c) If the LDC wishes to change the Aggregation Operator operating in its service area, it may do so by providing the OPA sixty (60) days advance notice and will do so at its own cost and risk. If the LDC changes the Aggregation Operator operating in its service area it shall ensure that: (i) all Load Control Devices and Continuing Load Control Devices installed prior to such change occurring continue to be capable of Load Control by the new Aggregation Operator, (ii) any work required to comply with this obligation will be at the LDC's own cost and risk, and (iii) the ability to exercise Load Control of Load Control Devices and Continuing Load Control Devices during the period from May 1 to September 30 will not be affected by such change.

(d) The LDC shall cooperate with the Aggregation Operator to ensure that the Load Control Devices installed by the LDC can be remotely dispatched by the Aggregation Operator. The LDC shall provide to the Aggregation Operator all necessary and appropriate information to enable the exercise of Curtailment of Load Control Devices and Continuing Load Control Devices in its service area.

(e) The OPA shall ensure that the terms pursuant to which the Aggregation Operator is engaged include the obligation by the Aggregation Operator to provide notice to the LDC of a Curtailment.

(f) The OPA shall, through the Dispatch Administrator or Aggregation Operator, as the case may be, have the right to operate and dispatch each Load Control Device and Continuing Load Control Device in accordance with the terms and conditions of the Participant Agreement or the Prior Program's participant agreement, as applicable.

(g) Curtailment in respect of every Load Control Device and Continuing Load Control Device shall be initiated only by the Dispatch Administrator.

(h) An LDC initiated Curtailment in its service area shall be initiated pursuant to the process provided in Exhibit "F".

ARTICLE 5
DATA REQUIREMENTS

5.1 **Project Completion Report**

(a) The LDC shall complete and provide to the OPA and Aggregation Operator a Project Completion Report containing the information set out in Exhibit "D" and in the format requested by the OPA (i) within seven (7) Business Days of the installation of a Load Control Device at the premises of a Participant (or a Prior Participant becoming a Participant if a (new) Load Control Device is not installed) during the period from May 1 to September 30; and (ii) monthly during the remainder of the year.

(b) The LDC shall complete and provide to the OPA monthly a Project Completion Report containing the information set out in Exhibit "D" and in the format requested by the OPA for a Continuing Participant that has become a Participant (by signing a new Participant Agreement) and that has had a Customer Information Display installed.

(c) If the LDC is an Aggregation Operator under contract with the OPA for the LDC's service area, the LDC is not obligated to provide the unique serial number of the Load Control Device required to configure the Control System as part of its Project Completion Report. If the LDC ceases to be an Aggregation Operator under contract with the OPA for the LDC's service area, it shall provide to the OPA the unique serial number for each Load Control Device and Continuing Load Control Device installed in its service area no later than seven (7) Business Days after the date it ceases to be an Aggregation Operator for its service area.

5.2 **Device Removal / Deactivation Report**

(a) During the period from May 1 to September 30, the LDC shall complete and provide to the OPA and the Aggregation Operator a Device Removal / Deactivation Report containing the information set out in Exhibit "E" and in the format requested by the OPA within seven (7) Business Days of (i) the removal of a Load Control Device from a Participant's premises, or (ii) termination of the participation of a Participant in the Initiative, including due to a Termination Request.

(b) The LDC shall complete and provide to the OPA and the Aggregation Operator a Device Removal / Deactivation Report containing the information set out in Exhibit "E" and in the format requested by the OPA during the period from May 1 to September 30 within fifteen (15) Business Days of a Participant moving out of the premises where the Load Control Device was installed.

(c) During the period from October 1 to April 30, the LDC shall complete a Device Removal / Deactivation Report containing the information set out in Exhibit "E" and in the format requested by the OPA after: (i) the removal of a Load Control Device from a Participant's premises, or (ii) termination of the participation of a Participant in the Initiative, including due to a Termination Request or a Participant moving out of the premises where the Load Control Device was installed and, within 15 days of the beginning of each month during said period commencing in November, the LDC shall provide to the OPA and the Aggregation Operator all such reports completed during the preceding month.

5.3 **Operation Log and Information to Support Load Control**

If the LDC chooses to have Load Control Devices or Continuing Load Control Devices controlled on the basis of hierarchical Grouping of Participants to facilitate local Curtailment in relation to feeder or station peaking, the LDC shall provide additional information to the Aggregation Operator, the Dispatch Administrator and the OPA on the basis of hierarchical Grouping of Participants to facilitate local Load Control in relation to feeder or station peaking.

ARTICLE 6
PAYMENT TO LDC

6.1 **Participant Based Funding Amount**

The LDC may, subject to the invoicing provisions of Section 4.6 of the Master Agreement, invoice the OPA for the following Participant Based Funding Amounts:

(a) the actual cost incurred by the LDC, without fee or mark-up, to acquire and install one Load Control Device and one Customer Information Display at a Participant's premises up to a maximum average amount per Participant per Billing Period of $415;

(b) the actual cost incurred by the LDC, without fee or mark-up, to acquire and install a Load Control Device (for certainty, as an additional Load Control Device to that installed pursuant to Section 6.1(a) or where a Customer Information Display is not also installed) at a Participant's premises up to a maximum average amount per Participant per Billing Period of $215;

(c) the actual cost incurred by the LDC, without fee or mark-up, to acquire and install a Customer Information Display (for certainty, where a Load Control Device is not installed at the same time) at a Continuing Participant's premises up to a maximum average amount per Continuing Participant per Billing Period of $220;

(d) an annual maintenance fee to be used to service, repair and replace the devices indicated below calculated as follows:

(i) $3.33 upon the installation of a Load Control Device as the annual maintenance fee for the Load Control Device for the year in which it is installed and $3.33 for each subsequent year of the Term thereafter if the Load Control Device is not deactivated or removed as of January 1 of the year for which the maintenance fee is requested;

(ii) $3.33 upon the installation of a Customer Information Display as the annual maintenance fee for the Customer Information Display for the year in which it is installed and $3.33 for each subsequent year of the Term thereafter if the Load Control Device installed at the same premises as the Customer Information Display is not deactivated or removed as of January 1 of the year for which the maintenance fee is requested;

(iii) $3.33 upon a Prior Participant entering into a (new) Participant Agreement as the annual maintenance fee for the load control device installed under the Prior Program for the year in which the Prior Participant becomes a Participant and $3.33 for each subsequent year of the Term thereafter if the load control device is not deactivated or removed as of January 1 of the year for which the maintenance fee is requested; and

(iv) $3.33 for each Continuing Load Control Device included on the list provided by the LDC pursuant to Section 3.2(a)(iii) as the annual maintenance fee for each Continuing Load Control Device included on such list for the year in which the list was provided and $3.33 for each subsequent year of the Term thereafter if the Continuing Load Control Device is not deactivated or removed as of January 1 of the year for which the maintenance fee is requested.

For certainty, the amounts above are exclusive of Applicable Taxes. Each invoice for amounts referred to in Sections 6.1(a), (b) and (c) must be accompanied by supporting evidence of the actual costs incurred by the LDC for such invoiced amounts. The LDC may not invoice for an amount referred to in Sections 6.1(a), (b) and (c) or the initial annual maintenance fee referred to in Sections 6.1(d)(i), (ii) and (iii) unless and until the LDC has provided a Project Completion Report required by Section 5.1. The LDC must issue an invoice annually for the annual maintenance fees contemplated in Section 6.1(d).

6.2 **Payment to LDC**

The OPA shall pay the LDC for the amounts specified under Section 3.3(k) and this Article 6, subject to any reduction due to Section 3.3(f), in accordance with Section 4.6 of the Master Agreement.

Exhibit "A"
ELIGIBILITY CRITERIA

To be eligible to participate in this Initiative the Distribution Consumer must meet the Participant Eligibility Criteria and the end uses in respect of which such Person is applying must meet the End Use Eligibility Criteria described below (collectively, the "**Eligibility Criteria**"):

1. **Participant Eligibility Criteria**

To be an Eligible Person under this Initiative, the Person must:

(a) be either a Residential Distribution Consumer or a Small Commercial Distribution Consumer located in the LDC's service area;

(b) be the owner or the lessee of the Facility in relation to which the Distribution Consumer has submitted an Application, and if the Distribution Consumer is a lessee it must have the authority to install the Load Control Device and Customer Information Display either as a condition of its lease or with the written consent/authorization of the owner of the Facility; and

(c) have a customer account with the LDC.

2. **End Use Eligibility Criteria**

The following are Eligible End Use Appliances:

(a) central air conditioner including an air source heat pump (which, for certainty, does not include a ground source heat pump);

(b) electric water heater; and

(c) swimming pool pump.

Exhibit "B"
Participant Agreement

RESIDENTIAL AND SMALL COMMERCIAL DEMAND RESPONSE

PARTICIPANT AGREEMENT

Participant Name:

(if a corporation, insert corporate legal name):____________________(**"Participant"**).

Participant Location: Street Address:

Postal Code:

Tenant/Lessee or Owner (check one)

What equipment are you enrolling in the program? (check as many as appropriate)

Central Air Conditioner

Electric Water Heater

Swimming Pool Pump

Are you a current *peaksaver*® (or SmartStat) participant? YES or NO

Are you interested in having a Customer Information Display installed YES or NO

Are you a Residential or Commercial Customer (check one)

What business type are you (if Commercial)? (please print)

References to "you" or "your" in this agreement are references to the Participant.

You have applied to participate in the Residential and Small Commercial Demand Response Initiative (the "**Initiative**") offered by [LDC], your local electricity distributor (the "**LDC**"). Alternatively, you may already be a participant in the prior version of this Initiative marketed as ***peaksaver®*** (or SmartStat) and are applying to receive a free Customer Information Display. This agreement is entered into between you and the LDC and will govern your participation in the Initiative.

If the LDC accepts your agreement, you will be entitled to receive one or more devices ("**Device**"), in the form of a relay-based control device, installed in or on your premises that from time to time adjusts how much electricity one or more enrolled items of equipment will use. If accepted as a new participant or as a continuing participant from the prior program, you will be entitled to receive a Customer Information Display that will display your electricity consumption and electricity cost information (subject to you programming the current electricity cost information into the Customer Information Display). You may also experience the benefits resulting from potentially reduced electricity usage during certain periods of the year. You will also have certain obligations.

In consideration of the installation of one or more Devices in your home or small business and/or your receipt of a free Customer Information Display, you agree to the following terms and conditions:

1. You represent and warrant that you are either a residential electricity distribution customer or a small commercial electricity distribution customer of the LDC and that the person signing this agreement is:

    (a) an individual 18 years or older and is the owner of the premises;

    (b) an individual 18 years or older and is the tenant or lessee of the premises and has the authority to install the Device(s) and Customer Information Display either as a condition of your lease or has the written consent or authorization of the owner of the premises; or

    (c) if the Participant is a corporation, authorized to bind the corporation which is the owner of the premises or lessee of the premises with the authority to install the Device(s) and Customer Information Display either as a condition of its lease or it has written consent or authorization of the owner of the premises.

    You further represent that each appliance to which a Load Control Device is to be connected or attached is and shall be in good working order, and has been and will continue to be maintained and inspected at reasonable intervals.

2. You agree to permit the Device(s) and Customer Information Display to be installed in or on the equipment and at the location indicated above by the LDC and/or the LDC's contractors. If the LDC determines at its sole discretion that a Device cannot be installed, including for safety or access reasons or lack of funds, this agreement will terminate without payment or liability by either party.

3. You agree that the LDC will, pursuant to an agreement with the Ontario Power Authority (the **"OPA"**), allow the OPA and/or the OPA's contractors to control each Device installed in or on your premises by interrupting power to the equipment to which the Device is connected for not more than four hours per day during certain periods of the year. This may mean that, in the case of a Device attached to an air conditioner, there may be an increase in the temperature in your premises; in the case of a Device attached to a water heater, there may be reduction in the availability of hot water; and in the case of a Device attached to a swimming pool pump, the swimming pool pump will be inoperative. You further acknowledge and agree that no person or entity except the OPA or a person or entity designated by the OPA shall have the right to control or dispatch the Devices and exercise load control and you further agree not to authorize anyone else to control any Devices installed in or on your premises.

4. You agree not to move, remove, tamper with, disable or damage the Device(s) that are installed in or on your premises. You also agree not to remove, disable or damage the Customer Information Display. Any failure to comply with these obligations will be at your sole risk for any damage that may result including damage to the equipment or your premises or injury to any person.

5. You agree to allow a representative of your LDC to have reasonable access to your premises in order to inspect, test, repair, replace and service the Devices and Customer Information Display as the LDC deems necessary.

6. You may submit a request in writing or by telephone to the LDC to terminate your participation in the Initiative and have the Device(s) cease operation. The LDC will comply with such request within at least ten (10) business days.

7. On two days advance notice, you may request by phone, in writing or by internet (if available) to the LDC that the electricity use of your equipment not be adjusted for a period not to exceed 48 hours. You may make this opt-out request no more than twice per year.

8. You agree and acknowledge that: (i) the LDC's contractor is independent of the LDC and that the LDC makes no representation, warranty, endorsement or recommendation of any kind with regard to the "Initiative"; (ii) the LDC does not guarantee energy cost savings or other benefits arising from this Initiative; (iii) the Customer Information Display may not display real time consumption and costing information; and (iv) neither the LDC, the OPA, nor their respective successors, assignors, affiliates, employees, agents, officers, directors, service providers and such affiliates, respective officers, directors or employees or any of their heirs, successors or assigns (collectively, the "**Initiative Operators**") will be liable for any loss, damage or injury to persons or property, including without limitation any economic loss, loss of good will, loss of profit or any direct, indirect, special or consequential damages, and any costs or losses, expenses, fees, liabilities, allegations, causes of action, suits, proceedings, debts, penalties and demands arising therefrom or connected therewith of any nature or kind whatsoever arising from or related to the installation of the Device(s) or Customer Information Display, or the interruption of power to any equipment to which a Device is connected, the Initiative or any matter related to this agreement, including, without limitation, any acts or omissions of any Initiative Operator and you hereby release the Initiative Operators of, from and against any and all of the foregoing. You agree to indemnify the Initiative Operators if you or any member of your family, customer, occupant or guest seeks damages against any of them for any reason that is connected with this agreement, the Device(s) or Customer Information Display. The maximum liability of the Initiative Operators for any matter, claim or damage in connection with this agreement, the Device(s) or the Customer Information Display is limited to $250.

9. You agree to participate in any follow up surveys, studies, audits, evaluations or verifications conducted by the LDC or the OPA or their agents or service providers in connection with the Initiative. This Section 9 shall survive the termination of this agreement.

10. You consent to the collection, use, disclosure and other handling of any information provided by you to the Initiative Operators, including personal information such as your name, address, telephone number, email address and records showing historical energy use and consumption (collectively the foregoing is referred to as "**Participant Information**") by the Initiative Operators for purposes relating to the operation, administration or assessment of the Initiative, and in connection with any reporting activities relating to the Initiative, which such use will include, without limitation: (i) sharing of Participant Information among the Initiative Operators; (ii) use by the Initiative Operators of the Participant Information provided by you to conduct, analyze and report on the results of the Initiative and to conduct surveys and modify the Initiative based on such surveys; and (iii) disclosure to the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Ministry of Energy or the Ontario Environmental Commissioner and/or their respective successors. You hereby acknowledge that the Participant Information may be accessible to third parties under the *Freedom of Information and Protection of Privacy Act (Ontario)* or the *Municipal Freedom of Information and Protection of Privacy Act (Ontario)*. This Section 10 shall survive the termination of this agreement.

11. You transfer and assign, or to the extent transfer or assignment is not permitted, hold in trust for, or in favour of, the LDC in its capacity as agent for and on behalf of the OPA, and not for the LDC's own benefit, all right, title and interest in and to all benefits or entitlements associated with the electricity savings or demand savings attributable to a Device, and the right to quantify and register these, including without limitation, any energy efficiency certificate, renewable energy certificate, credit, reduction right, offset, allocated pollution right, emission reduction allowance (collectively, the "**Environmental Attributes**"). Until the OPA notifies you otherwise, the LDC, in its capacity as agent, shall be entitled, unilaterally and without your consent, to deal with such Environmental Attributes on behalf of the OPA in any manner the LDC determines. You acknowledge that the OPA may direct you in the same manner as the LDC and that until the OPA

notifies you otherwise the LDC may direct you to take such actions and do all such things necessary to certify, obtain, qualify and register with the relevant authorities or agencies such Environmental Attributes for the purpose of transferring, assigning, or holding in trust, such Environmental Attributes to and for the OPA and you shall comply with such directions, and you will be entitled to reimbursement of the cost of complying with such direction, provided that the LDC, acting reasonably, has approved such cost in writing prior to the cost being incurred by you. This Section 11 shall survive the termination of this agreement.

12. As between you and the LDC, the LDC does not own nor will it own the Devices or Customer Information Display installed on or in your premises and title to the Devices and the Customer Information Display shall at all times be and remain with you. Nothing in this Agreement or otherwise shall have the effect of passing title to the Devices or Customer Information Display to the LDC.

13. You acknowledge and agree that: (i) you have independently assessed the risk of installing Devices or Customer Information Display in or on your premises and you accept such risk; (ii) the Devices and Customer Information Display have been selected and obtained through normal commercial channels, and the LDC makes no representation or warranty, express, implied, statutory or otherwise, including any representation or warranty as to merchantability, design, capabilities, suitability, durability or fitness for use or for a particular purpose, with regard to the Devices and Customer Information Display or any part thereof or the installation thereof or otherwise; (iii) the energy cost savings and other benefits described in connection with the Initiative are based on estimates, and actual results may differ; and (iv) the Devices and Customer Information Display are intended for use only as directed and improper use may result in injury or damage.

14. The LDC shall not be in default, and shall not be deemed to be in default, of this agreement by reason of delay or the failure or inability to perform its obligations hereunder where the said delay, failure or inability is due solely to any cause which is unavoidable or beyond the reasonable control of the LDC, including without limitation any act of God or other cause which frustrates the performance of this agreement.

15. Subject to earlier termination rights herein, this agreement shall remain in effect for as long as there is an operational Device at your premises or until you move from the premises where a Device is located. In the event a Device cannot be installed at your premises, this agreement shall terminate. If you breach any of your obligations in this contract, the LDC may terminate this agreement. The LDC may terminate this agreement at any time and for any reason by sending you a notice.

16. This agreement shall be interpreted under Ontario law. You may not assign this agreement. This agreement may be amended by the LDC with thirty (30) days notice to you.

17. Except as provided in Sections 3, 8, 9, 10, 11 and this Section 17, this agreement is solely for the benefit of:

    (a) the LDC, and its successors and assigns, with respect to your obligations under this agreement, and

    (b) you, and your successors with respect to the obligations of the LDC under this agreement;

    and this agreement will not be deemed to confer upon or give to any other person any claim or other right or remedy. You appoint the LDC as the trustee for the OPA and the other Initiative Operators of the applicable provisions set out in this agreement, including Sections 3, 8, 9, 10, and this Section 17. The LDC is the OPA's agent for the purpose of Section 11.

Signature: ______________________________

Date:___________________________________

Exhibit "C"

Load Control Device and Customer Information Display Functional Requirements

A. Load Control Device Requirements

Load Control Devices installed pursuant to this Initiative must have the following minimum functional requirements:

1. **Communications:** Minimum one-way communication over one-way radio frequency networks directly to the Load Control Device where a single broadcast can address one or more Load Control Devices resulting in efficient communications and targeted Load Control.
   a. Supports redundant service providers so that the service providers can be remotely changed without a visit to the Load Control Device.
   b. Over-the-air (OTA) programming of addressing, plus individual control or override.

2. **Operating Requirements for Load Control Device that is a relay based switch**:
   a. **Power Source**: 240 VAC (+10% -20%) and 24, 120 and 208 VAC as optional, Frequency 60 Hz (±2%)
   b. **Temperature**: -40º F to 185º F (-40º C to +85º C).
   c. **Relative Humidity**: 0 to 95% non-condensing.
   d. **Relay Control**:
      i. 5 A at 120 VAC resistive, Form C or;
      ii. 30 A at 240 VAC resistive, Form B
   e. **Housing**: NEMA 3R injection-moulded, UV-stabilized gray polycarbonate plastic. Rain-tight per UL916.
   f. **Wiring**: Pre-wired with six foot leads with wire size suitable for contact capacity of relay to facilitate installation.

3. **Load Control Commands**:
   Load Control Device must be:
   a. Remotely and locally programmable
   b. Group addresses remotely or locally re-assignable

   Load Control Device must be able to receive the following two types of commands:
   a. Control the load for a user-specified time period, and then automatically restores. This command allows up to 240 minutes of control with 1 to 240 minutes of beginning and/or ending control time to minimize the creation of new load peaks.
   b. Initiate a sequence of control/restore cycle that allows for a cycle period of 1 to 240 minutes and 1 to 100% cycling control for Load Control Devices. Load Control Device automatically randomize initially, and then restore upon completion of a cycle count. Control percentages or periods may be changed in mid-cycle with a smooth transition into the new sequence.

4. **Cold Load Pickup**:
To minimize feeder inrush following power outages, the Load Control Device must include a cold load pickup feature that can be enabled or disabled for the connected load.

5. **Propagation Test Commands**:
Load Control Device test command must be able to verify reception of a signal by turning on a receiver LED.

6. **Fail-Safe Operation**:
In case of any abnormality, the Load Control Device must reset and the connected load should be returned to its normal state.

7. Compliant with Laws and Regulations
Load Control Device must comply with applicable Laws and Regulations including ETL, CSA and ULC.

B. Customer Information Display Requirements

Each Customer Information Display installed pursuant to this Initiative must have the following minimum functional requirements. In procuring Customer Information Displays, the LDC shall procure devices that, in the LDC's sole and absolute discretion, have the greatest value to ratepayers over the Term and not simply the lowest cost alternative, subject to Section 6.1 of the Schedule.

1. Customer Information Display may use one of the following for electricity consumption data acquisition:
    a. Integrating with the LDC's Advanced Metering Infrastructure network;
    b. Communicating with a ZigBee® smart energy profile equipped meter;
    c. Eavesdropping on the Advanced Metering Infrastructure transmission; or
    d. Other solutions that meet or exceed these minimum requirements and display electricity consumption data and prices.
2. Customer Information Display must have data accuracy at 95% or better.
3. Display Screen:
    a. Numeric elements of the display may be in analog and/or digital format;
    b. Wall mounting or table top;
4. Functionality:
    a. Provide instantaneous or near real time display;
    b. Displays shall be of whole home, electricity hourly demand in power (Watt) units (and for greater certainty volt-amp readings having less than unity power factor are not acceptable), current hourly cost of energy using OEB established consumer time of use power rates and a data refresh rate of no more than 60 seconds.
    c. Must permit the manual or remote updating of the IHD to input the most current seasonal OEB consumer time of use power rates for automated use in establishing the current cost of energy in cents.

5. Security and Privacy: Security features that prevent unauthorized access to Participant information.
6. Independent Testing Requirements: Customer Information Display vendors at their cost must have the devices tested for performance and functionality by an independent test laboratory. Some of the examples of testing required include:
   a. Communications: Radio transmission must be able to communicate within broad range of household conditions.
   b. Accuracy;
   c. Reliability;
   d. Comply with applicable Laws and Regulations and meet with all mandatory safety and other requirements including ETL, CSA or ULC certified, if applicable.

7. Products must provide ease of installation, setup and operation as required for both the Participant and LDC.
8. Power supply: 120Vac (directly or through a plug-in charger).
9. Provide a minimum one year, full replacement warranty.
10. Provide a detailed, intuitive user guide or operating manual in both English and French as a minimum.

Exhibit "D"

PROJECT COMPLETION REPORT

Project Completion Report

Date of Report:_______________

Installation Data		**Type of Information**
LDC Name	Required	
LDC Participant Identifier (may be SDP ID)	Required	
Date of Installation	Required	
Participant's name	Required	
Participant's address	Required	
Participant's Postal Code	Required	
Participant by type – Commercial or Residential	Required	C/R
Commercial business type	Required	
Participant's LDC account number		
Type of Participant	Required	New/Continuing Participant/Prior Participant
Technology Vendor and model		
Type and manufacturer of Load Control Device installed	Required	
Type and manufacturer of Customer Information Display installed	Required	Customer Information Display
Unique serial number of Load Control Device required to configure control system	Required	
Type of Appliance(s) connected	Required	AC/EWH/PP
Central Air Conditioner	Requested	Estimated Height, Length & Width (in centimetres) Or Estimated Height and Diameter (in centimetres)
Electric Water Heater	Requested	Size in gallons
Swimming Pool Pump	Requested	Size of pump in horsepower
Does customer have a programmable thermostat?	Requested	Yes / No
Is the Participant a legacy (Prior Program) peaksaver participant?	Requested	Yes/No
How big is the building (home or business)?	Requested	Estimated Length & Width (in meters) & # of storeys
Tenant or Owner (as indicated on the Participant Agreement	Required	Tenant / Owner
Legal Name of Installation Service Provider	Required	
Service Delivery Point Identification Number (SDP ID) (as and when available)	Requested	Yes / No
For a Continuing Participant or Prior Participant who is signing up for a Customer Information Display: Was the Continuing Load Control Device or existing load control device working?	Required	Yes/No
For a Continuing Participant or Prior Participant who is signing up for a Customer Information Display,	Required	Repaired or Replaced

where the Continuing Load Control Device or existing load control device is not working, action taken?		

Note: All information and data referred to in the Project Completion Report, whether or not provided to the OPA, is OPA Property.

Exhibit "E"

DEVICE REMOVAL / DEACTIVATION REPORT

Device Removal / Deactivation Report

Date of Report:_______________

Detailed Removal / Deactivation Data	Type of Information
LDC Name	
LDC Participant Identifier (may be SDP ID)	
Action requested	Removal / Termination Request
Why was action requested?	Moving/Don't want to participate in Initiative/other

Exhibit "F"
LDC INITIATED DR CURTAILMENT PROTOCOL

There are seven stages to the LDC Initiated DR Curtailment Protocol – LDC Standby Notice to Dispatch Administrator, Dispatch Administrator Standby Notice to Aggregation Operator, LDC Activation Notice to Dispatch Administrator, Dispatch Administrator Activation Notice to Aggregation Operator, Aggregation Operator Activation Notice, Activation Confirmation and Activation Completion Confirmation.

Conventions:

A 24 hour clock will be used in this protocol.

Eastern Prevailing Time (EPT) will be used year round. EPT is either Eastern Standard Time or Eastern Daylight Savings Time, as in effect from time to time.

Hours for potential Curtailment:

Curtailment may be requested:

Date Range or Month	Days	Hours
May 1 to September 30	Business Days only	12:00 to 19:00

Notification:

The LDC Standby Notice (as discussed below) may be issued on a non-Business Day – for example, the LDC Standby Notice could be issued on a Sunday for a Monday Curtailment or on a holiday for a Curtailment on the following Business Day.

Dispatch Administrator Contact Information:

The Dispatch Administrator contact information for notices under this protocol shall be provided by the OPA to the LDC from time to time.

Stage One - LDC Standby Notice to Dispatch Administrator

This notice is the process by which the LDC informs the Dispatch Administrator that Curtailment may be requested during a specified future period and, if applicable, in specified Groupings. The notice may be provided for a Curtailment to occur during the next day (referred to as the day-ahead), or the current day (referred to as the day-at-hand). The notice shall be provided using the form of LDC Standby Notice attached as Appendix 1 to this Exhibit.

Day-ahead notification may not be issued by the LDC later than 17:00.

Day-at-hand notification may not be given by the LDC (i) earlier than 8:00, (ii) later than 12:00, and (iii) less than three hours prior to the Activation Period.

The LDC Standby Notice may only be issued by the LDC by (i) email, and (ii) phone call to a contact specified for the Dispatch Administrator.

The LDC Standby Notice must specify the period during which Curtailment is requested.

The Dispatch Administrator will issue confirmation of receipt of the LDC Standby Notice to the LDC:

(i) if the LDC Standby Notice is issued on a Business Day, within one Business Hour of receipt;

(ii) if the LDC Standby Notice is issued on a non-Business Day, not later than 8:00 on the next following Business Day;

by email to the email address specified by the LDC in the LDC Standby Notice.

The Dispatch Administrator will reject a LDC Standby Notice:

(i) if the requested Curtailment is for the same day as a province wide Standby Notice (whether issued before or after the LDC Standby Notice); or

(ii) if it does not comply with the curtailment parameters.

Stage Two – Dispatch Administrator Standby Notice to Aggregation Operator

Upon receipt of a valid LDC Standby Notice, the Dispatch Administrator will notify the Aggregation Operator that Curtailment may be required during the period specified in the LDC Standby Notice.

Stage Three – LDC Activation Notice to Dispatch Administrator

This notice is the process by which the LDC confirms to the Dispatch Administrator that Curtailment is being requested. Upon the issuance of the LDC Activation Notice by the LDC the LDC will not have the ability to cancel the requested Curtailment. The notice shall be provided using the form of LDC Activation Notice attached as Appendix 2 to this Exhibit.

The LDC Activation Notice may only be issued to the Dispatch Administrator on the day of the Activation Period (i) not earlier than 8:00, (ii) not later than 13:00, and (iii) not less than two hours prior to the commencement of the Activation Period.

The LDC Activation Notice must specify the period during which Curtailment is requested and, if applicable, the Groupings in which the Curtailment is requested.

The Dispatch Administrator will reject a LDC Activation Notice:

(iii) if the requested Curtailment is for the same day as a province wide Standby Notice (whether issued before or after the LDC Activation Notice); or

(iv) if it does not comply with the Participant Agreement.

Stage Four – Dispatch Administrator Activation Notice to Aggregation Operator

This notice is the process by which the Dispatch Administrator informs the Aggregation Operator that Curtailment must occur.

Activation Notice will be given by the Dispatch Administrator (i) not earlier than 8:00, (ii) not later than 14:00, and (iii) not less than one hour prior to the commencement of the Activation Period.

Stage Five – Aggregation Operator Activation Notice

The Aggregation Operator Activation Notice is a notice given by the Aggregation Operator to an LDC to confirm to the LDC that Curtailment will occur within its service area during the time period specified in the applicable Dispatch Administrator Activation Notice to the Aggregation Operator.

The Aggregation Operator Activation Notice will be issued by the Aggregation Operator to the affected LDC within one Business Hour of receipt by the Aggregation Operator of the applicable Dispatch Administrator Activation Notice and will confirm the details of the Curtailment.

Stage Six – Activation Confirmation

Activation Confirmation is the process by which the Aggregation Operator confirms that Curtailment has commenced pursuant to a Dispatch Administrator Activation Notice.

Activation Confirmation will be issued by the Aggregation Operator within one Business Hour of the commencement of the Activation Period.

The Activation Confirmation will be given by the Aggregation Operator:

(v) to the Dispatch Administrator; and

(vi) to the LDC by email to the email address specified by such LDC in the LDC Activation Notice.

Stage Seven – Activation Completion Confirmation

Activation Completion Confirmation is the process by which the Aggregation Operator confirms that Curtailment has occurred and that the Activation Period has ended.

Activation Completion Confirmation will be issued no more than one Business Hour after the end of the Activation Period.

The Activation Completion Confirmation will be issued by the Aggregation Operator:

(vii) to the Dispatch Administrator; and

(viii) to the LDC by email to the email address specified by the LDC in the LDC Activation Notice.

Appendix 1 to LDC Initiated DR Curtailment Protocol

Form of LDC Standby Notice

1) Name of LDC: _____________________

2) Email address of LDC: _______________

3) Phone number of LDC: _______________

4) Date of Notice (dd/mm/yyyy): __________

5) Type of Notice (check one box only):

    a. day at hand LDC Standby Notice ☐
    b. day ahead LDC Standby Notice ☐

6) Request for Standby Notice:
    a. On Date (dd/mm/yyyy): _________
    b. Standby Start time (EPT): ________
    c. Standby Stop time (EPT): ________

7) List of Groupings in the LDC's service area requested for standby (if provided to the Aggregation Operator):

8) Name of Aggregation Operator for LDC: _________________

Appendix 2 to LDC Initiated DR Curtailment Protocol

Form of LDC Activation Notice

1) Name of LDC: ______________________

2) Email address of LDC: ________________

3) Phone number of LDC: ________________

4) Date of Notice (dd/mm/yyyy): __________

5) Request for Activation Notice:
    a. On Date (dd/mm/yyyy): ____________
    b. Activation Start time (EPT): ________
    c. Activation Stop time* (EPT): ________

*Maximum of 4 hours per event

6) List of Groupings in the LDC's service area requested for Curtailment (if provided to the Aggregation Operator):

7) Name of Aggregation Operator for LDC: ______________