OM&A EXPENSES

1. General – Accounting policies

Please confirm that PUC Distribution has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

Response
PUC Distribution has made changes to the allocation of costs between operations and capital expenses based on the consultant's (RDI) report included in the application. The consultant's report is included in Exhibit 4, pages 21 to 50. Please refer to Question 8 of these interrogatories.

2. General – Regulatory Costs

(i) Please present the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 actual, 2007 bridge year, and 2008 test year regulatory costs as shown in the table below.

(ii) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are "One-time Cost" and not expected to be incurred by the applicant during the impending two year period when the applicant is subject to 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation IRM process.

Response

Regulatory Cost Category	Ongoing or One-time Cost?	2006 Board Approved	2006 Actual	2007 (as of Dec 07)	% Change in 2007 vs 2006	2008 Forecast	% Change in 2008 vs 2007
OEB Annual Assessment	Ongoing	$112,875	$77,941	$97,909	26%	$100,800	3%
OEB Hearing Assessments (applicant initiated)							
OEB Section 30 (OEB initiated)	Ongoing		$3,847	$3,217		$10,000	211%
Expert Witness costs for regulatory matters							
Legal costs for regulatory matters	Ongoing - 2008 is estimate of average of three years	$166,629	$2,828	$62,570	2113%	$18,002	-71%
Consultant costs for regulatory matters	Ongoing - 2008 is estimate of average of three years		$6,500	$46,958	622%	$18,002	-62%
Operating expenses associated with staff resources allocated to regulatory matters	Ongoing	$29,362	$115,270	$133,741	16%	$122,485	-8%
Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)	Ongoing - travel to OEB meetings, rate notifications	$271	$13,274	$7,743	-42%	$9,067	17%
Other regulatory agency fees or assessments							
Any other costs for regulatory matters (please define)							
		$309,137	$219,659	$352,139	60%	$278,356	-21%

(iii) Please provide PUC Distribution's proposal on how it intends to recover the "One-time" costs as part of its 2008 rate application.

Response

The 2008 Forecast is the estimated average annual costs that are expected to be incurred over the three year period.

3. Ref: Exhibit 4

Exhibit 4, Page 2 of PUC Distribution's application shows 2006 Board Approved Total Operations cost of $12,705,114. However, according to the 2006 EDR model worksheet "5-1 SERVICE REVENUE REQUIREMENT" cell F17, the Board approved total is $ 9,495,354, as shown below in the following Table 1 created by Board staff.

Table 1

	Per PUC $	Per Board staff	Difference
Operation	1,496,528	1,496,528	0
Maintenance	1,793,258	1,793,258	0
Total Operation & Maintenance	3,289,786	3,289,786	0
			0
Billing and Collections	959,171	959,171	0
Community Relations	400,269	375,332	24,937
Administrative and General Expenses	2,451,253	2,215,726	235,527
Total Administrative and General	3,810,693	3,550,229	260,464
			0
Total Controllable OM&A	7,100,479	6,840,015	260,464
			0
Taxes other than income	199,669	61,448	138,221
Other Operating Costs	2,830,510		2,830,510
Total Other Operating	3,030,179	61,448	2,968,731
			0
Amortization Expenses	2,574,456	2,593,891	-19,435
			0
Total Operating Costs	12,705,114	9,495,354	3,209,760

a) Please confirm that PUC Distribution agrees with the figure of $9,495,354, as found in the 2006 EDR model worksheet “5-1 SERVICE REVENUE REQUIREMENT” cell F17. If PUC Distribution does not agree, please explain why it does not agree.

Response
PUC Distribution confirms agreement with the figure of $9,495,354 as found in the 2006 EDR model worksheet “5-1 SERVICE REVENUE REQUIREMENT” cell F17.

b) Please reconcile and explain the differences identified in Table 1 above.

Response
PUC Distribution used the Actual 2004 balances as the 2006 Board Approved.

1. **Community Relations - $24,937. The difference represents charitable donations and non-utility specific advertising which were excluded**

from the revenue requirement. In PUC's 2008 forecast the treatment was consistent and charitable donations and non-utility specific advertising has been excluded from the revenue requirement.

2. **Administrative and General Expenses - $235,527.**

$348,788 – In the Board's 2006 rate order (EB-2005-0412) general and administrative expenses were set at the 2002 amount plus one-half of the difference between the 2002 and 2004 amounts resulting in a reduction of $348,788.

($12,494) – The Board approved includes a standard distribution expense Tier 1 adjustment that represents the increase in insurance premiums between 2004 and 2005.

($79,422) – The Board approved includes a Tier 1 adjustment for OEB annual dues and other regulatory costs from 2004 to 2005 assessments as received from the OEB.

($21,345) – The board approved includes a Tier 1 adjustment that represents the increase in pension costs as a result of OMERS premium increase.

3. **Taxes other than income - $138,221.**
   In the Board approved the Ontario Capital tax has been removed and included in income taxes as per the EDR model instructions.

4. **Other Operating costs - $2,830,510.**
   The $2,830,510 is the interest on debt to associated companies that was included in the 2004 Actual but not in the 2006 Board Approved.

5. **Amortization Expense – ($19,435).**
   The difference represents increased amortization related to Tier 1 adjustments to the rate base.

c) PUC Distribution has included an entry called "Other Operating Costs" in the amount of $2,830,510. Board staff notes that this amount includes "Interest On Debt to Associated Companies" and "Other Interest Expense". Please provide a detailed explanation of why PUC Distribution believes that this amount should be included.

Response

PUC Distribution included the "Other Operating Costs" of $2,830,510 in the table in Exhibit 4, page 4 for comparative purposes. The Other interest expense is not included in the rate base.

4. Ref: Exhibit 4

Table 2 below was prepared by Board staff to review PUC Distribution's OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below.

Table 2

	2006 Board Approved $	2006 Actual $	2007 Bridge $	2008 Test $
Operation	1,496,528	2,051,174	2,156,507	3,018,799
Maintenance	1,793,258	1,430,922	1,448,545	2,277,648
Total Operation & Maintenance	3,289,786	3,482,096	3,605,052	5,296,447
Billing and Collections	959,171	941,104	934,991	1,338,873
Community Relations	375,332	428,632	408,719	473,852
Administrative and General Expenses	2,215,726	1,832,913	2,361,110	1,397,298
Total Administrative and General	3,550,229	3,202,649	3,704,820	3,210,023
Total Controllable OM&A	6,840,015	6,684,745	7,309,872	8,506,470
Taxes other than income	61,448	167,942	157,151	170,151
Other Operating Costs		2,845,705	2,829,662	1,984,620
Total Other Operating	61,448	3,013,647	2,986,813	2,154,771
Amortization Expenses	2,593,891	2,764,612	3,046,595	3,310,978
Total Operating Costs	9,495,354	12,463,004	13,343,280	13,972,219

Table 3 below was created by Board staff to review PUC Distribution's OM&A forecasted expenses from the evidence provided in Exhibit 4 of the application. Note rounding differences may occur, but are immaterial to the following questions. Board staff notes that PUC Distribution are forecasting increases to 2008 Controllable OM&A Expenses by $1,821,725 or 27.3% from 2006 Actual.

Table 3

	2006 Board Approved $	Variance 2006/2006	2006 Actual $	Variance 2007/2006	2007 Bridge $	Variance 2008/2007	2008 Test $	Variance 2008/2006
Operation	1,496,528	554,646	2,051,174	105,333	2,156,507	862,292	3,018,799	967,625
		8.1%		1.6%		11.8%		14.5%
Maintenance	1,793,258	-362,336	1,430,922	17,623	1,448,545	829,103	2,277,648	846,726
		-5.3%		0.3%		11.3%		12.7%
Total Operation & Maintenance	3,289,786	192,310	3,482,096	122,956	3,605,052	1,691,395	5,296,447	1,814,351
		2.8%		1.8%		23.1%		27.1%
Billing and Collections	959,171	-18,067	941,104	-6,113	934,991	403,882	1,338,873	397,769
		-0.3%		-0.1%		5.5%		6.0%
Community Relations	375,332	53,300	428,632	-19,913	408,719	65,133	473,852	45,220
		0.8%		-0.3%		0.9%		0.7%
Administrative and General Expenses	2,215,726	-382,813	1,832,913	528,197	2,361,110	-963,812	1,397,298	-435,615
		-5.6%		7.9%		-13.2%		-6.5%
Total Administrative and General	3,550,229	-347,580	3,202,649	502,171	3,704,820	-494,797	3,210,023	7,374
		-5.1%		7.5%		-6.8%		0.1%
Total Controllable OM&A	6,840,015	-155,270	6,684,745	625,127	7,309,872	1,196,598	8,506,470	1,821,725
		-2.3%		9.4%		16.4%		27.3%

Board staff created Table 4 below to review PUC's OM&A actual and forecasted expenses from the evidence provided in OM&A Cost Table in Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Table 4

Cost Drivers	2006	2007	2008
Opening Balance (previous year)	6,840,015	6,684,745	7,309,872
Additional Engineering Staff			155,656
PCB Removal Program			141,227
Increased Fees Railroad Crossings			117,868
Unexplained Difference	-155,270	625,127	781,847
Closing Balance (current year)	6,684,745	7,309,872	8,506,470

a) Please confirm that PUC Distribution agrees with the four tables presented above. If PUC Distribution does not agree with any table please explain why it does not agree. If PUC Distribution determines that the tables require modification owing to the reconciliation of the difference resulting from Table 1, please provide amended tables with a full explanation of changes made.

Response

PUC Distribution agrees with the four tables above.

b) Please complete Table 4 identifying the key cost drivers that are contributing to the overall increase of 27.3%. Please clearly identify and explain the key cost drivers in groupings of common costs such as labour increases for current staff, labour costs for new hires, unique projects (e.g. incremental value of implementation of full absorption cost allocation, impact of Capex/OM review which includes tree trimming charge). Additionally, for each key driver, please provide a detailed explanation discussing the driver and include in the discussion any assumptions made in calculating the value. The objective is to reduce the line item "Unexplained Difference" for all three years to within a margin of materiality.

Response

	2006 Board Approved to 2006 Actual	2006 to 2007	2007 to 2008
Opening Balance (Previous Year)	$6,840,015	$6,684,745	$7,309,872
PCB Removal Program			$130,000
Increased Fees Railroad Crossings			$108,000
Pole testing			$43,500
Reduction in joint costs allocated to OM & A as a result of the Cost Allocation study			-$192,000
New maint. programs - transf. gauges, breakers, relays			$130,000
Increased line clearing			$145,000
Smart meter processing			$365,000
Reduction in legal fees			-$75,000
Labour rate increase for current staff			
3% increase in 2005	$63,270		
3% increase in 2006	$65,168		
3% increase in 2007		$71,132	
3% increase in 2008			$73,266
Additional staff - for justificaton of staffing needs refer to the Long Term Capital and O&M Needs report prepared internally and the third party report - Review of Capex and P&M Plan. These reports are included with the rate application - Exhibit 1 page 41 and Exhibit 1 page 126.			
Staff increases part way through 2006 = 4, 3 linemen, distribution engineer	$133,000	$133,000	
Staff increase in 2007 = 1, line supervisor		$96,800	
Reduction in overtime over 2004	-$275,000		
Staff increases part way through 2007 = 1, engineering tech.		$29,643	$29,643
Staff increases in 2008 = 8, Protection and Control Engineer (partial allocation to LDC), Billing Supervisor (partial allocation to LDC), 2 Engineering Techs., Line Planning Tech, 3 Linemen, 1 Forestry Tech.			$490,219
OEB adjustment to reduce requested admin expenses in 2006 EDR to one half of increase between 2002 and 2004. Although not approved for 2006 rates due to insufficient evidence as sited by the Board, the increased expenses continued in 2006 and beyond. The expenses include increased energy costs as a result of PUC paying provincial rates rather than previous lower rates to Great Lakes Power, increased building maintenance costs due to the age of facilities, increased regulatory staffing and costs, increased safety staff and costs, increased customer service staff and costs, etc.	$348,788		
Review of accounting for engineering unallocated time - portion removed from capital and included with expenses	$187,147		
Adjustment for transformers that should have been capitalized in prior year	-$80,000		
Reduced Stations Labour	-$12,000		
Costs to operate GIS	$165,000		
Adjustment in 2006 following regulatory accounting review	$148,000		
Change to allocate a portion of joint use assets to capital in addition to expense	-$184,749		
Large amount of substation work (Subs. 14, 18, 21) completed in 2004	-$220,000		
Bad Debts - improvement in economic environment, application of rebates to customer accounts, improved collections	-$112,852		
Pensions - Adjustment in 2006 following regulatory accounting review	-$350,000	$350,000	
Architect fees for new service centre - did not proceed with project	-$104,000		
Increase in utility costs as a result of installation of meters at substations	$138,000		
Reduced legal fees for the supply of energy dispute.	-$140,000		
Change in accounting for Bell Canada pole use fees - previously netted in revenue	$98,000		
Unexplained Difference	-$23,042	-$55,448	-$51,030
	$6,684,745	$7,309,872	$8,506,470

c) Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Please include in this listing the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether PUC Distribution considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

Response

Operating costs for smart meters included in the 2008 smart meter operating budget are $521,685. A portion of the costs have not been included in the test year costs as they are to be recorded in a deferral account. An amount of $365,000 has been included in the test year operating expenses in account 5315 Customer Billing. The $365,000 is the average of budgeted costs for 2008 ($291,124), 2009 and 2010 that are not included in the deferral account.

Repair of unsafe meter bases	$80,428		**(def acct)**
Smart meter entity MDMR	$150,133		**(def acct)**
		$230,561	
AMRC including WAN	$58,673		
AMCC	$26,991		
AMI operations	$121,877		
Measurement Canada re-verification	$83,583		
		$291,124	
		$521,685	

The above operating costs are a component of minimum functionality.

PURCHASE OF SERVICES OR PRODUCTS

5. Ref: Exhibit 4/ Page 52

i. Please provide a detailed description of the specific methodology used in determining the price, i.e., purchasing methods.

Response

Procurement at the PUC typically occurs through one of three methods. They include Request for Quotes (RFQ), Request for Tenders (RFT) and Request for Proposals (RFP). RFQ are used when the specifications and terms are very simple and little or no explanation is required and the PUC is looking to compare prices with three suppliers in the market place. RFT are used when the specifications and requirements are more complicated and require a document outlining our expectations. In addition the value of a RFT is typically greater than a RFQ however we have no specific dollar guidelines for when one document is used over the other. Depending on the nature of the RFT, an evaluation criteria is used which may include professional qualifications, health and safety and pricing. We refer to this as a one, two or three envelope system. Again, the method used is determined by the type of product or service we require. RFP are used when the dollar value is high and where some type of service is needed. The response typically proposes how the work will be done and the specifications are subject to alternatives. In this case, an evaluation criteria is used ensuring a fare and appropriate outcome.

In some circumstances there are very few suppliers for certain products and/or services. They are chosen because of there “Expertise in the field”. In this case an evaluation is done of the product/service they supply.

Purchasing Process

PUC employs several methods for requisitioning products for purchase. In all cases the requisitioners identify their requirements, provide account numbers, descriptions, and price where known, etc.

A requisition is completed by the requisitioner, submitted for approval to the appropriate signing authority, approval obtained, and forwarded to Materiel Resources for processing.

For authorized credit card purchases (typically low dollar value amounts), expense accounts with accompanying receipts are submitted.

Signing authority for requisitions is defined by PUC’s purchasing policy. The policy is published and distributed to appropriate departments.

Materiel Resources representatives process the approved requisitions, obtaining quotations (verbal or written) or tenders as applicable. The product or service requirements are identified by the Purchasing Specification or identified on the requisition.

Quotations/tenders are assessed and the business awarded. A hardcopy purchase order (PO) printout is prepared for purchase orders issued.

ii. Please explain how each purchasing method is chosen for a specific purchase of services/products.

Response
Further to the information above the following general guideline is used.

Under $5,000	**RFQ and RFT**
Over $5,000	**RFT and RFP**

As earlier indicated the nature of the purchase will often determine what method of purchase is used. Signing limits are as follows:

The value of the proposed purchase will determine the level(s) of approval required. Approvals are as follows:

1. **Purchase transactions valued up to $250.00** taxes excluded may be made using a P-card. The P-card eliminates the need for Purchase Orders (PO's) for small purchases where the value of the PO does not justify the cost of processing the PO. Managers issued P-cards have various limits.

2. **Purchases up to $2,000.00** require the signature of the applicable Department Manager whose budget or account the purchase will be charged to.

3. **Purchases from $2,000.01 to $5,000.00** require the signature of the Department Manager whose budget or account the purchase will be charged to, as well as the signature of the Vice President of the applicable Department.

4. **Purchases from $5,000.01 to $50,000.00** require the signature of the Department Manager whose budget or account the purchase will be charged to, as well as the signature of the Vice President of the applicable Department and the Vice President of Finance.

5. **Purchases from $50,000.01 to $500,000.00** require the signature of the Department Manager whose budget or account the purchase will be charged to,

as well as the signature of the Vice President of the applicable Department, the Vice President of Finance and the President.

If a purchase is in excess of $500,000.00, the above approvals are necessary plus the Board of Directors. Approval by the Board of Directors of an item as part of the annual budget process will be considered their authorization to purchase for the purposes of this clause.

SHARED SERVICES

6. Ref: Exhibit 2/ PUC's Long Term Capital and O&M Needs Report
   Ref: Exhibit 2/ Page 46 and Page 47

PUC Distribution makes use of PUC Services Inc. for maintenance and presumably capital projects to some extent.

i. How does PUC Distribution ensure that the work done by PUC Services Inc. is done at a competitive rate as compared to alternative service providers who are not affiliated with PUC Distribution?

Response

PUC Services charges PUC Distribution labour and vehicles at cost with no markup. Allocations to PUC Distribution are reviewed periodically – an outside consultant was utilitized in 2007 to review the allocations. The consultant's report is included in the rate application in Exhibit 4 page 21.

PUC Distribution regularly utilizes local and out-of-town contractors for a number O&M works and capital projects. Contractors are used where specific expertise beyond PUC Services ability is required or where the work is more cost effectively done by workers of lower qualifications than PUC Services staff. (An example is tree trimming crews which typically are from out of town.)

For live line work, there are no qualified contractors available locally. To contract live line work would require importation of contractors from outside the Sault Ste. Marie area with the associated additional costs of mobilization, meals and accommodation.

PUC reviewed pricing in 2007 from qualified contractors for comparison purposes. Pricing from contractors for typical 3-man crews ranged from $500/hr to $370/hr. PUC Services crews perform work at cost (with no markup) for PUC Distribution. The hourly rate charged by PUC Services is approximately $210/hr.

In addition PUC Distribution compares its costs to other LDCs' cost ratios, labour rates and distribution rates to customers. The shared services model for administrative services also provides savings to the LDC and affiliated companies as was noted in a 2007 consultant's report.

ii. What is the end date of the 10 year contract with PUC Services?

Response
The agreement continues to January 1, 2011 with successive renewal periods of 5 years thereafter.

7. Ref: Exhibit 4/ Page 18

It is stated that “KPMG reviewed PUC Services’ method for allocating shared services in the fall of 2001.” Please provide a copy of this report.

Response
Please see below for KPMG’s 2001 report. An updated study was undertaken in 2007 and is included with the rate application in Exhibit 4, page 21.

KPMG LLP
Chartered Accountants
111 Elgin Street at Queen
Suite 200
PO Box 578
Sault Ste Marie ON P6A 5M6

Telephone (705) 949-5811
Telefax (705) 949-0911
www.kpmg.ca

Mr. Terry Greco, CA
PUC Services Inc.
765 Queen Street East
Sault Ste. Marie, Ontario
P6A 6P2

January 9, 2002

Dear Mr. Greco:

As you have requested we have reviewed alternative methods of allocating common joint costs associated with the operation of the local utility amongst PUC Inc. and subsidiaries and the related Water Utility. The following organizations have been considered in our review:

PUC Inc.
PUC Services Inc.
PUC Energies Inc.
PUC Distributions Inc.
PUC Telecom Inc.
Sault Ste. Marie Public Utilities Commission (Water Utility)

As a part of the review we held discussion with Mrs. Diana Caputo, CA who provided us with the identification of costs to be allocated and a listing of departments and the organizations, which benefit from the costs. Based on preliminary discussions with her, the departments that have overhead to be allocated are:

1. Customer service
2. Billing and collecting
3. Office salaries and expense
4. Office building
5. Service centre
6. Miscellaneous expense

We also have held discussions with our colleagues in other KPMG offices to determine what methods are being used elsewhere. These discussions included utilities in Ontario and Manitoba.

KPMG
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Mr. Terry Greco, CA
January 9, 2002

Our review also included consideration that the method of determining cost allocation must be appropriate for many different users such as the Ontario Energy Board, Canadian Custom and Revenue Agency, the City of Sault Ste. Marie and in accordance with accounting principles generally accepted in Canada.

It is important to mention that all costs which are directly related to a particular company/organization must be directly charged to that company/organization when ever possible. This would include items such as legal fees, bad debts, insurance etc. This will then result in a reduced amount of costs which have to be allocated. In determining a basis for cost allocation it is important to ensure the base or driver used does not result in any cross subsidy between company/organizations. Cross subsidy would occur if the allocation method used resulted in assigning cost too heavily on one company/organization while benefiting another. The cost allocation basis must be fair, reasonable and unbiased.

We have found there are a number of allocation drivers, which may be considered. Our discussions with our colleagues indicated that most organizations tend to maintain no more than five different drivers. Generally, the more these drivers are founded on activity-based measures or specific identification, the more defensible they will be. Our discussion resulted in the following drivers which are currently being used as a basis for allocating overhead:

- Number of customers
- Number of bills generated
- Total relative expenditures before allocated administrative costs
- Number of invoices processed
- Number of transactions processed
- Square footage of buildings utilized
- Number of employees
- Direct labour hours
- Number of computer terminals
- Salary and wage costs
- Budgeted expenditures
- Service Revenues
- Fixed percentages
- Relative asset values
- Relative usage

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KPMG

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Mr. Terry Greco, CA
January 9, 2002

We have reviewed the options available for each company/organization and the calculated allocation percentages of relevant drivers to each company as prepared by yo staff. The analysis of these calculations are presented in appendix A for your information. We have reviewed results of the analysis and have discussed them with Mrs. Diana Caputo the resultant assignment of overheads which will result from the drivers. As the analysis shows, some of the different drivers result in a similar allocatio percentage. Where appropriate we are recommending adjustments to the allocation in order to avoid cross subsidies between companies or departments. Based on the above, the following is our recommended allocations:

Customer Service and Billing and Collections

For the customer service and billing and collections departments, the key driver of the overhead is closely related to the number of customers and number of bill generated. Appendix A indicates the number of customers and the number of bills result in the same percentage allocations for all the related companies. As a result we recommend the usag of the number of customers as the driver for allocating overheads for these departments. Our discussions with you revealed that a great amount of the time spent on customer service is really limited to PUC Distribution and the Water Utility. The other related companies do not require customer service. The ratios in Appendix A result in 8.8% of the overhead be allocated to PUC Energies. This is not reasonable as the customers in this area are water heater and sentinel lighting customers whom do not require this service on a regular basis. All customer service time such as installations are directly charged to Energies when delivered. In addition PUC Telecom only has 20 customers at present whom again do not require services from the customer service department as their concerns are handled by the General Manager of PUC Telecom or the Ontel sales representative. As a result we recommend the allocations of the customer service department only be made to PUC Distribution and the Water Utility in the amount of 56% and 44% respectively.

The billing and collection department should be allocated based on the same driver except that time is also spent on billing the PUC Energies customers. The billings to Energies customer are relatively small and routine which basically consists of a flat monthly charge. We recommend adjusting the percentage allocation to 2% for Energies as this more closely relates to the actual activity spent on these customer billings. Correspondingly, the allocations to Distribution and the Water Utility would be at 55% and 43% respectively. The customers of Telecom do not warrant an allocation in respect

KPMG

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Mr. Terry Greco, CA
January 9, 2002

to billing and collecting as the customers are minimal and the billing function is curre being performed by ONtelcom.

Service Centre Building

Based on our discussions, the service centre houses inventory and service vehicles for group of companies. Square footage of space occupied is most commonly used as a b for allocating costs of this type of department. However based on your circumstances this would result in allocating the greatest amount of costs to Services as this company responsible for the inventory and service vehicles. These costs would then have to be allocated to the other companies again on a different method. We have reviewed the other alternatives documented in Appendix A and have found service revenue to be the best alternative which matches the level of activity to the expense. We again recomme the adjustment of the raw percentage for Energies resulting from the analysis as it may too high relative to the level of activity in this company. We recommend adjusting this percentage to 1% and adjusting the other allocation percentages resulting in the followi percentage allocations: Distribution 55.13%, Water Utility 39.36%, Services 3.81%, Telecom .70% and Energies 1.00%.

Office Building

Square footage allocations are the best method for allocating of the office building expenses. As with the Service Centre Building, PUC Services would be charged with t highest costs which then must be reallocated among the other companies/organizations. As all companies are indirectly housed in the office building, we recommend the use of service revenues as the driver for the allocations on the same basis as the Service Centr

Office Salaries and Expense

Office salaries and expense appears to be the most difficult to allocate. If possible, the best method would be to allocate the number of hours spent by employees for each company. Because this is often too cumbersome and not always identifiable and in an effort to keep the number of drivers to a minimum we recommend using service revenue as used for the service centre and office building as the method for allocating office salaries and expenses.

Miscellaneous Expense

KPMG

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Mr. Terry Greco, CA
January 9, 2002

Miscellaneous expense, which are general charges such as insurance, professional fees, memberships etc. should be a direct charge whenever possible or allocated on an individual basis whenever possible. General insurance costs would likely be best allocated on the basis of relative asset values and/or liability coverage. All other miscellaneous expense is not deemed to be significant therefore we recommend these expenses be allocated based on the service revenue percentages.

We have not recommended the allocation of overhead costs to PUC Inc. as we understand a portion of the President's office expenses and other direct administration costs are directly charged to this company. As PUC Inc. serves as a holding it has no customers or service revenue. Its operations are limited and as a result does not directly utilize the services of the other companies.

The above allocations have been recommended based on our analysis of the current information supplied to us and our discussions with you. These allocation methods need to be reviewed from time to time to ensure they are still appropriate especially if there is a significant change in the operations of any of the related companies.

We trust the above is satisfactory for your purposes. If you require further discussion or clarification on any of the above, do not hesitate to contact Patty Desjardins or myself at your convenience.

Yours truly,

KPMG LLP

Per:

Michael A. Marinovich, CA

PUC Services Inc

Appendix

ALLOCATION OF JOINT COSTS FOR THE 2002 BUDGET

Based on the analysis in Appendix A, the following allocation methods have been selected for 2002. These will be reviewed annually.

ALLOCATION PERCENTAGES	ALLOCATION BASE	DISTRIBUTION	WATER	SERVICES	ENERGIES	TELECOM	INC	TOTAL
CUSTOMER SERVICE	# OF CUSTOMERS	56%	44%					100.[illegible]
BILLING & COLLECTING	# OF CUSTOMERS	55%	43%		2%			100.[illegible]
OFFICE SAL & EXP	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.[illegible]
BUSINESS DEVELOPMENT	% OF SERVICE REV						100%	100.[illegible]
MISC	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.[illegible]
OFFICE BUILDING	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.[illegible]
S/C	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.[illegible]

Note:

OF CUSTOMERS

The number of customers were modified in terms of PUC Energies since in terms of billing & collecting a Energies customer a lot less work is required. Based on the 5,500 customers that Energies has it would have been allocated 8.6% of all billing and collecting costs. After analysis of this it was determined that the number of customers used in the allocation base be adjusted from 5,500 to 1,250. By using the 1,250 customers Energies is allocated 2% of all billing & collecting costs.

% OF SERVICE REVENUE

Based on the 2001 revised budget the above percentage allocations were derived using Service revenue as the common denominator throughout the companies. An adjustment was made to the Energies [illegible]

PUC Services Inc

Appendix B

BEFORE ALLOCATIONS	DISTRIBUTION	WATER	SERVICES	ENERGIES	TELECOM	INC	
CUSTOMER SERVICE	$ 432,226	$ 149,604	$ 74,000	$ -	$ -	$ -	$ 655,830
BILLING & COLLECTING (excludes Meter reading)	$ 587,580	$ 272,544	$ 81,000	$ 240	$ -	$ -	$ 941,364
OFFICE SAL & EXP (Excludes Asset charge)	$ 996,600	$ 344,748	$ 217,675	$ -	$ -	$ -	$ 1,559,022
BUSINESS DEVELOPMENT	$ -	$ -	$ 400,587	$ -	$ -	$ -	$ 400,587
MISC	$ 46,001	$ 55,300	$ 155,000	$ 1,617	$ -	$ -	$ 259,918
OFFICE BUILDING	$ 103,869	$ 69,033	$ -	$ -	$ -	$ -	$ 172,802
S/C	$ 251,171	$ 145,050	$ 2,617	$ -	$ -	$ -	$ 398,838
	$ 2,419,437	$ 1,036,279	$ 930,879	$ 1,857	$ -	$ -	$ 4,388,451

ALLOCATION PERCENTAGES	ALLOCATION BASE	DISTRIBUTION	WATER	SERVICES	ENERGIES	TELECOM	INC	TOTAL
CUSTOMER SERVICE	# OF CUSTOMERS	56%	44%					100.00%
BILLING & COLLECTING	# OF CUSTOMERS	55%	43%		2%			100.00%
OFFICE SAL & EXP	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.00%
BUSINESS DEVELOPMENT	% OF SERVICE REV	0.00%	0.00%	3.81%	1.00%	0.70%	0%	5.51%
MISC	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.00%
OFFICE BUILDING	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.00%
S/C	% OF SERVICE REV	55.13%	39.36%	3.81%	1.00%	0.70%	0%	100.00%

Note:

OF CUSTOMERS

The number of customers were modified in terms of PUC Energies since in terms of billing & collecting a Energies customer a lot less work is required. Based on the 5,300 customers that Energies has it would have been allocated 6.8% of all billing and collecting costs. After analysis of this it was determined that the number of customers used in the allocation base be adjusted from 5,500 to 2,500. By using the 2,500 customers Energies is allocated 4% of all billing & collecting costs.

% OF SERVICE REVENUE

Based on the 2001 revised budget the above percentage allocations were derived using Service revenue as the common denominator throughout the companies.

AMOUNT ALLOCATED TO EACH COMPANY	DISTRIBUTION	WATER	SERVICES	ENERGIES	TELECOM	INC	
CUSTOMER SERVICE	$ 368,185	$ 287,645					$ 655,830
BILLING & COLLECTING (excludes Meter reading)	$ 517,144	$ 404,019		$ 20,201			$ 941,364
OFFICE SAL & EXP (Excludes Asset charge)	$ 859,400	$ 613,631	$ 59,399	$ 15,590	$ 10,913	$ -	$ 1,559,022
BUSINESS DEVELOPMENT						$ 400,587	$ 400,587
MISC	$ 143,203	$ 102,304	$ 9,903	$ 2,599	$ 1,818	$ -	$ 259,918
OFFICE BUILDING	$ 95,315	$ 68,050	$ 6,587	$ 1,729	$ 1,210	$ -	$ 172,092
S/C	$ 219,879	$ 156,983	$ 15,196	$ 3,988	$ 2,792	$ -	$ 398,838
	$ 2,203,306	$ 1,632,631	$ 91,085	$ 44,108	$ 16,735	$ 400,587	$ 4,388,451

Puc Services Inc. Appendi

ANALYSIS OF ALLOCATING ADMINISTRATION COSTS

In the 2002 budget all administration costs are now going to be going through the service company initially and then at month end invoiced to the other companies at cost.

In the past the 2/3 electric and 1/3 water split has been used for allocating costs to each company.
Based on the new corporate structure, costs should be allocated to all companies through some common denominator.
This "denominator" may change depending upon what departmental costs are being allocated.

The table below denotes some common denominators or dirvers that might be used in the cost allocation process:

DRIVERS	Distribution	Water	Services	Telecom	Energies	Inc	TOTAL
# of customers	32,000	25,000	0	20	5,500	0	$ 62,520
# of bills	384,000	300,000	0	240	66,000	0	$ 750,240
Revenue base (2001 projected)	$ 9,200,000	$ 6,500,000	$ 1,300,000	$ 440,000	$ 320,000	$ 1,130,000	$ 18,890,000
Service revenue only (2001 projected)	$ 8,600,000	$ 6,120,000	$ 600,000	$ 110,000	$ 320,000	$ -	$ 15,750,000
Admn expense (excluding Int)	$ 3,600,000	$ 1,760,000	$ 230,000	$ 250,000	$ 40,000	$ 70,000	$ 5,890,000
Operating & Misc expenses	$ 2,500,000	$ 3,500,000	$ 370,000	$ 20,000	$ 95,000	$ -	$ 6,485,000
Total expenses (excluding Int)	$ 6,100,000	$ 5,200,000	$ 600,000	$ 270,000	$ 135,000	$ 70,000	$ 12,375,000
Cost of fixed assets	$ 65,066,000	$ 72,000,000	$ 14,500,000	$ 1,800,000	$ 2,100,000	$ -	$ 155,466,000

Appendi

[illegible] percentage allocations are derived for each company:

% ALLOCATION BASED ON THOSE DRIVERS

PREVIOUS ALLOCATION METHOD	Distribution 67.00%	Water 33.00%	Services	Telecom	Energies	Inc	Total 100.00%
# of customers	51.18%	39.99%	0.00%	0.03%	8.80%	0.00%	100.00%
# of bills	51.18%	39.99%	0.00%	0.03%	8.80%	0.00%	100.00%
Revenue base (2001 projected)	48.70%	34.41%	6.88%	2.33%	1.69%	5.98%	100.00%
Service revenue only (2001 projected) excluding interest income	54.60%	38.86%	3.81%	0.70%	2.03%	0.00%	100.00%
Admn expense (excluding Int)	61.12%	28.66%	3.90%	4.24%	0.88%	1.19%	100.00%
O & M	38.56%	53.97%	5.71%	0.31%	1.46%	0.00%	100.00%
Total expenses (excluding Int)	49.29%	42.02%	4.85%	2.18%	1.09%	0.57%	100.00%
NBV of assets	41.85%	46.31%	9.33%	1.16%	1.35%	0.00%	100.00%

8. Ref: Exhibit 4/ Page 20

Shared costs allocated to PUC Distribution are shown as increasing from $2,480,758 in 2007 to $3,248,899 in 2008, an increase of 31%.

(i) Please confirm whether the effect of implementing the changes discussed in the evidence arising out of the RDI report is an overall 31% increase in costs in this area to PUC Distribution. If not, please provide the relevant offsets of the new arrangements for the overall costs of PUC Distribution and a breakdown of the factors that are causing the overall increase/decrease. If PUC Distribution is experiencing a 31% increase in its costs as a result of the new arrangements, please explain why this is justified.

Response
Please note the correction to the allocation of shared services to Fixed Assets in 2006 and 2007.

	2004	2005	2006	2007	2008
Fixed Assets			$125,369	$207,750	$960,431
Load Dispatching					$12,388
Transmission					$6,320
Stations					$68,894
Overhead Lines					$158,299
Underground Lines					$35,684
Transformers					$16,853
Meters					$34,920
Misc. Distribution Expenses					$23,240
Engineering Operations					$24,144
Billing & Collecting	$513,978	$544,134.00	$516,651	$581,030	$644,051
Customer Service	$310,923	$316,510.00	$300,046	$265,998	$351,995
Administrative Expenses	$1,280,342	$1,319,496.00	$1,075,522	$1,117,891	$541,657
Facilities	$565,154	$501,571.00	$321,812	$460,837	$289,054
Miscellaneous	$30,760	$49,085.00	$64,947	$55,002	$80,969
	$2,701,157	$2,730,796	$2,404,347	$2,688,508	$3,248,899

	2008	2007	Change
Cost of Capital Charge	$ 381,391	$ -	$ 381,391
Use of Assets Charge	$ 647,015	$ 557,451	$ 89,564
Joint Services Allocation	$ 2,220,492	$ 2,131,057	$ 89,435
	$ 3,248,898	$ 2,688,508	$ 560,390

The increase in shared costs consists of:

- the implementation of the cost of capital charge as discussed in the cost allocation study included in Exhibit 4, page 21,

- an increase in the asset charge as a result of the use of additional vehicles by the LDC due to the increased operations staff and the implementation of upgraded software driven by the need of the LDC to better maintain records as a result of Reg. 22. In addition the asset charge allocation has been revised as per the cost allocation study to use a more appropriate allocation based on the asset type, for example – the allocation of vehicle depreciation based on vehicle hours utilized, and

- a small increase to joint services allocated from PUC Services. A reduction in the percentage of joint services costs allocated (as discussed in the cost allocation study) is offset by wage increases of 3% and the addition of a shared Billing Supervisor (2008) and a shared IT Manager (end of 2007).

The three cost categories listed above are discussed in the cost allocation study and provide for the recovery of costs of the affiliated service company with no mark-up.

(ii) For the Table entitled "Shared Costs Allocated to PUC Distribution", please provide a line by line explanation of the changes resulting in the increase in costs from $2,480,758 in 2007 to $3,248,899 in 2008 (e.g. "Fixed Assets" has increased from zero in 2007 to $960,431 in 2008.) Please explain the reason for this increase and similarly, for the increase in each of the other line items.

Response
Please note the correction to the allocation of shared services to Fixed Assets in 2007.

		2007			2008			
		Admin Allocation	**Asset Charge**	**Total**	**Admin Allocation**	**Cost of Capital**	**Asset Charge**	**Total**
Fixed Assets	**1.**		$207,750	$207,750	$394,771	$212,561	$353,099	$960,431
Load Dispatching	**2.**					$4,520	$7,868	$12,388
Transmission	**2.**					$2,306	$4,014	$6,320
Stations	**2.**					$25,136	$43,758	$68,894
Overhead Lines	**2.**					$57,754	$100,545	$158,299
Underground Lines	**2.**					$13,019	$22,665	$35,684
Transformers	**2.**					$6,149	$10,704	$16,853
Meters	**2.**					$12,740	$22,180	$34,920
Misc. Distribution Expenses	**2.**					$8,479	$14,761	$23,240
Engineering Operations	**2.**					$8,809	$15,335	$24,144
Billing & Collecting	**3.**	$581,030		$581,030	$618,561	$9,300	$16,190	$644,051
Customer Service	**3.**	$265,998		$265,998	$342,629	$3,417	$5,949	$351,995
Administrative Expenses	**4.**	$768,190	$349,701	$1,117,891	$528,786	$4,696	$8,175	$541,657
Facilities	**5.**	$460,837		$460,837	$289,054			$289,054
Miscellaneous	**6.**	$55,002		$55,002	$46,691	$12,506	$21,772	$80,969
		$2,131,057	$557,451	$2,688,508	$2,220,492	$381,392	$647,015	$3,248,899

1.	Increase a result of implementing recommendations of cost allocation study - allocation of admin. charges, Cost of Capital Charge and Asset Charge to Fixed Assets.
2.	Increase a result of implementing recommendations of cost allocation study - allocation of Cost of Capital Charge and Asset Charge to operating expenses.
3.	Increase a result of implementing recommendations of cost allocation study - allocation of Cost of Capital Charge and Asset Charge to operating expenses and addition of shared Billing Supervisor.
4.	Decrease a result of portion of admin charges to capital and allocation of asset charge to capital and other operating accounts.
5.	Decrease a result of allocation of portion of expenses to capital.
6.	Increase a result of implementing recommendations of cost allocation study - allocation of Cost of Capital Charge and Asset Charge to operating expenses.

9. Ref: Exhibit 4/ Page 32

The "Full Absorption Cost Allocation Report" prepared by RDI Consulting Inc. discusses rate of return and it is stated that: "Currently only depreciation related to PUC Services owned assets is recovered from the users of these assets. The cost of capital (COC) used to finance the purchase of these assets is not reflected in the recovery by Services….RDI recommends that Services recover a cost of capital charge from all the users of the assets that it owns using the LDC deemed weighted average pre-tax cost of capital."

Please provide RDI's justification of the use of the LDC deemed weighted average pre-tax cost of capital for the Services company.

Response (from RDI)

The primary factor in the recommendation to use the LDC deemed weighted average pre-tax cost of capital is drawn from the Affiliate Relationship Code section 2.3.3:

> *"Where a fair market value is not available for any product, resource or service, a utility shall charge no less than a cost-based price, and shall pay no more than a cost-based price. A cost-based price shall reflect the costs of producing the service or product**, including a return on invested capital. The return component shall be the higher of the utility's approved rate of return or the bank prime rate."***

The utility's rate of return is interpreted to mean its weighted average cost of capital as all assets are deemed to be financed through the same combination of debt and equity. Generally, it is not possible to identify differential financing methods for individual assets.

The use of a pre-tax weighted average cost of capital is also consistent with the inclusion of the pre-tax debt and equity return in the setting of cost based LDC rates. Pre tax debt costs are included in rates and the after tax return on equity is grossed up by the tax rate to embed the pre-tax equity component in distribution rates.

The LDC pre-tax weighted average cost of capital is higher than the bank prime rate.

Services is currently 100% equity financed and it was felt that a cost of capital charge reflecting 100% equity financing would not be appropriate for transfer pricing.

As a result, for transfer pricing purposes to the LDC, the LDC pre-tax weighted average cost of capital was felt to be a fair cost based price and in alignment with the Affiliate Code direction.

Please state what capital costs PUC Services would incur on behalf of PUC Distribution.

Response
Capital costs incurred by PUC Services to provide services include vehicles, tools and equipment, office furniture, computer equipment, buildings and communication equipment.

10. Ref: Exhibit 4/ Page 50

Appendix M is entitled "Summary of Costing Changes." In Exhibit 4/Page 33 of the Application, this appendix is described as providing "The impacts of all the recommendations for all the PUC businesses using 2006 data." For PUC Distribution, the appendix shows an increase in overall costs by $111,824 and $110,392 under Options 1 and 2, respectively. These increases arise from decreases in OM&A expenses allocated, offset by increases in capital expenses allocated. Please provide an explanation of the overall increase, including why the capital expense allocation is increasing to a greater extent than the OM&A allocation is decreasing.

Response

A multitude of impacts both negative and positive to the LDC (OM&A and Capital) result from the methodologies employed in the study.

The impact to the LDC (and all other businesses) is affected by the following drivers:

1. **Changes to the allocation of existing costs to each business (same total dollars but different impact from carving up the pie)**
2. **Incremental costs charged to all businesses (eg. rate of return on Vehicles & Equipment which was not previously charged)**
3. **Changes in the split of costs between Operations and Capital within each business due to different allocators**

Driver number 1 in the case of an incremental or a reduced charge to the LDC would increase or decrease *both* OM&A and capital by the percentage split. Both OM& and capital would increase or decrease as opposed to an equal and opposite impact.

Driver number 2 works in the same way as Driver 1 (both OM&A and Capital increase).

There are 2 scenarios related to Driver 3. In conjunction with Driver 1 and 2 both OM&A and Capital would have either an increase or decrease but based on a different percentage.

Only in the scenario where the exact same dollars are being allocated on a different percentage split would there be an equal and offsetting impact to OM&A and Capital. This is evidenced on Appendix M on the line titled Eligible Directly Charged Administrative and General Expenses Allocated to Capital. The total costs that are direct charged to the LDC did not change however they are now split

between both OM&A and Capital (previously 100% charged to OM&A). Appendix M shows a reduction in OM&A costs of $107,093 and an equal and offsetting increase in capital costs of $107,093.

EMPLOYEE COMPENSATION

11. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of the number of employees by employee type.

(a) Please provide the rationale and justification for the increase from 35 to 40 unionized positions, between the 2006 Board approved amount and the 2006 actual amount.

Response
Increase of 5 employees: three additional linemen in 2005 and two additional linemen in 2006. Please refer to part (b) of this question for the rationale.

(b) Please provide the rationale and justification for the increase from 40 to 47 unionized positions, from 2006 to 2008.

Response
Increase of 7 employees in 2008: three additional linemen, a forestry tech, a line planner and two engineering techs

The increase in staffing is required to address an existing, and growing, deficit in renewal of infrastructure. Replacement of end-of-life plant has been under-funded since the early 1990's resulting in a significant deficit at this time, which continues to grow with each year of continued under-funding.

An internal report has been prepared by PUC staff (starting at page 42, Exhibit 2) that identifies, in detail, the urgent need to accelerate the replacement of aged infrastructure. The report outlines the LDC's Capex and O&M programs developed to address this growing deficit in order to ensure ongoing long-term reliability for the customers served by PUC Distribution Inc. The information presented in this report provides the rationale and justification for the proposed increase in staffing. The increase in staffing is required in order to carry out the increased level of plant renewal capital works and the increased level of maintenance activity required to improve system reliability and satisfy Ontario Regulation 22/04 requirements.

This internal report has been reviewed and corroborated by an independent consultant, METSCO, who is a specialist in distribution utility design,

operations and maintenance. METSCO's report begins at page 127 of Exhibit 2.

12. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total employee salary and wages from 2006 to 2008. Please provide a breakdown of total salary and wages by employee type: Executive and Unionized, for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year.

Response

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Executive	$134,576	$259,731	$285,571	$281,521
Management	$294,255	$498,830	$504,046	$556,368
Unionized	$1,821,747	$2,170,683	$2,381,125	$2,923,638
Total Compensation	$2,250,578	$2,929,244	$3,170,742	$3,761,527

13. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total salary and wages from 2006 to 2008. Controlling for the increase in number of employees, this table indicates that there is a 16% differential between the 2006 Board approved amount and the 2006 actual amount. Please provide the rationale and justification for this increase.

Response
The first table on page 53 provides the number of employees that are primarily assigned to PUC Distribution. The following compensation table on page 53 provides i) wages and benefits charged directly from PUC Services by the employees noted in the first table whose primary function is to provide services to PUC Distribution plus ii) wages and benefits charged directly to PUC Distribution by employees whose primary function is not to provide services to PUC Distribution (ie employees not included in the first table). Therefore the increase in number of employees in the first table does not have a direct correlation to the compensation table.

Increase of $679,000 from 2004 to 2006
- **Wage rate increase of 3% in 2005 and 2006 = $130,000**
- **Addition of Rates and Regulatory Officer in 2005 to address additional regulatory requirements = $70,000**
- **Addition of Distribution Engineer to address additional regulatory requirements = $ 90,000**
- **Filling of customer service rep. position for part of year that was vacant in 2004 = $12,000**
- **Addition of six line staff offset by reduction in overtime = $100,000**
- **Additional work performed by Stations Electricians = $140,000**
- **Addition of customer service clerk = $21,000**
- **Addition of accounting clerk = $27,000**

14. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total salary and wages from 2006 to 2008. This table indicates that total salary and wages have increased from $2,929,244 in 2006 to $3,761,527 in 2008. Please provide the rationale and justification for this two-year increase of 28%.

Response
Increase of $832,000
Wage increases in 2007 and 2008 projected @ 3% = $180,000
New union staff = $452,000, 2 Engineering Techs., Line Planning Tech., 3 Linemen, Forestry Tech.
New management staff =$60,000 P & C Engineer
New management staff = $45,000 Billing Supervisor
Six linemen with only part wages in 2006 due to hiring dates, sickness, leaves, etc. = $100,000

The increase in staffing is required to address an existing, and growing, deficit in renewal of infrastructure. Replacement of end-of-life plant has been under-funded since the early 1990's resulting in a significant deficit at this time, which continues to grow with each year of continued under-funding.

An internal report has been prepared by PUC staff (starting at page 42, Exhibit 2) that identifies, in detail, the urgent need to accelerate the replacement of aged infrastructure. The report outlines the LDC's Capex and O&M programs developed to address this growing deficit in order to ensure ongoing long-term reliability for the customers served by PUC Distribution Inc. The information presented in this report provides the rationale and justification for the proposed increase in staffing. The increase in staffing is required in order to carry out the increased level of plant renewal capital works and the increased level of maintenance activity required to improve system reliability and satisfy Ontario Regulation 22/04 requirements.

This internal report has been reviewed and corroborated by an independent consultant, METSCO, who is a specialist in distribution utility design, operations and maintenance. METSCO's report begins at page 127 of Exhibit 2.

15. Ref: Exhibit 4

On Page 53, PUC Distribution provides a comparison of total employee compensation from 2006 to 2008. Please confirm whether or not PUC Distribution has overtime compensation. If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

Response
TG
PUC Distribution has overtime compensation.
The following is the estimate of overtime paid in the line, stations, meter and engineering departments.

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Overtime $	**$571,519**	**$276,462**	**$281,434**	**$387,869**

16. Ref: Exhibit 4

On Page 54, PUC Distribution provides a comparison of total employee benefits from 2006 to 2008. Please provide a breakdown of employee benefits by employee type: Executive and Unionized, for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year.

Response

	2006 Board Approved	**2006 Actual**	**2007 Bridge**	**2008 Test**
Executive	**$31,625**	**$57,524**	**$65,681**	**$59,542**
Management	**$69,150**	**$111,155**	**$115,931**	**$117,670**
Unionized	**$744,464**	**$935,856**	**$991,563**	**$1,152,558**
Total Compensation	**$845,239**	**$1,104,535**	**$1,173,175**	**$1,329,770**

Management vacation included in wages – union vacation included in overhead

17. Ref: Exhibit 4

On Page 54, PUC Distribution provides a comparison of total benefits from 2006 to 2008. Controlling for the increase in number of employees, this table indicates that there is a 14% differential between the 2006 Board approved amount and the 2006 actual amount. Please provide the rationale and justification for this increase.

Response
The first table on page 53 provides the number of employees that are primarily assigned to PUC Distribution. The benefit table on page 54 provides i) benefits charged directly from PUC Services for the employees noted in the first table whose primary function is to provide services to PUC Distribution plus ii) benefits charged directly to PUC Distribution by employees whose primary function is not to provide services to PUC Distribution (ie employees not included in the first table). Therefore the increase in number of employees in the first table does not have a direct correlation to the compensation table.

Benefits as a percentage of wages has decreased from 2006 to 2008.

18. Ref: Exhibit 4

On Page 54, PUC Distribution provides a breakdown of "Total Costs charged to O&M" from 2006 to 2008. On average, PUC Distribution has only charged 58%, 50%, 47%, and 53% of its total employee compensation costs to O&M for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year respectively. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.

Response
Remaining was charged to capital.

CORPORATE COST ALLOCATION

19. Ref: Exhibit 4

i. Please confirm that there are no shared services between the Corporation of the City of Sault Ste. Marie and PUC Distribution Inc.

Response
There are no shared services between the Corporation of the City of Sault Ste. Marie and PUC Distribution Inc.

ii. Please confirm that there are no shared services between PUC Inc. and PUC Distribution Inc.

Response
There are no shared services between PUC Inc. and PUC Distribution Inc.

iii. If shared services do exist, please provide the information required under Section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications. Applicants are required to file: (a) a detailed description of the assumptions underlying the corporate cost allocation and (b) documentation of the overall methodology and policy.

RATE BASE - CAPITAL EXPENDITURES

20. Ref: General

a) For the years 2002 to 2008 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars, or % where indicated):

i Net income;
ii Actual Return on the Equity portion of the regulated rate base (%);
iii Allowed Return on the Equity portion of the regulated rate base (%);
iv. Retained Earnings;
v. Dividends to Shareholders;
vi. Sustainment Capital Expenditures excluding smart meters;
vii. Development Capital Expenditures excluding smart meters;
viii. Operations Capital Expenditures;
ix. Smart meters Capital Expenditures;
x. Other Capital Expenditures (identify);
xi. Total Capital Expenditures including and excluding smart meters;
xii. Depreciation;
xiii Construction Work in Progress
xiv Number of customer additions by class.
xv Rate Base

Response
To be filed at a later date.

	2002	2003	2004	2005	2006	2007	2008
Net Income							
Actual Return on Equity portion of the regulated rate base %							
Allowed Return on the Equity portion of the regulated rate base %							
Retained Earnings							
Dividends to Shareholders							
Sustainment Capital Expenditures excluding smart meters							
Development Capital Expenditures excluding smart meters							
Operations Capital Expenditures							
Smart meters Capital Expenditures							
Other Capital Expenditures (identify)							
Total Capital Expenditures including smart meters							
Total Capital Expenditures excluding smart meters							
Depreciation							

Construction Work in Progress							
Number of Customer Additions by class:							
Residential							
GS<50							
GS>50							
Street Lights (connections)							
Sentinal Lights (connections)							
USL (connections)							
Rate Base							

b) Please identify the type of construction work-in-progress projects and the expected completion date.

Response
PUC Distribution includes capital work that is in process but not yet in service in the Work in Progress account. Due to the nature of typical capital works, PUC Distribution does not anticipate material amounts in this account at year end.

21. Ref: Exhibit 2/ Rate Base Summary Table/ Page 3

    Asset Value at Cost and Accumulated Depreciation Year 2006: Both Asset Value at Cost and Accumulated Appreciation were approximately $3.5 million above the Board approved amounts. Please provide the reasons for this.

Response
The board approved amount for asset values at cost and accumulated depreciation are the average of 2003 and 2004 balances. The 2006 amounts for asset values at cost and accumulated depreciation are the average of the 2005 and 2006 balances. The difference in the balances is 2 years of capital additions and the related depreciation.

22. Ref: Exhibit 2/Gross Asset Table and Continuity Statements

a) Account 1850, Transformers, Page 17: The Board approved 2006 Gross Assets were $13,009,995 versus actuals of 13,714,424, an over-expenditure of $704,429. Please provide the reasons for this.

Response
The Board approved 2006 Gross Assets are 2004 balances. The 2006 actual balances include additions in 2005 and 2006.

b) Account 1850, Transformers, Page 10: The 2006 capital additions for transformers of $920,913 are followed by additions of $596,408 for 2007 and $653,590 projected for 2008. Please identify the drivers for continuing this quantum of capital expenditures on transformers.

Response
Voltage conversion and customer demand (new or upgraded services), are driving the capital expenditures.

c) Account 1855, Services, Page 17: The Board-approved 2006 Gross Assets were $877,246 versus actuals of $1,496,938, an over-expenditure of $619,692. Please provide the reasons for this.

Response
The Board approved 2006 Gross Assets are 2004 balances. The 2006 actual balances include additions in 2005 and 2006.

d) Account 1855, Services, Page 10: The 2006 capital additions for services of $344,182 are followed by additions of $96,583 for 2007 and $154,550 projected for 2008. Please identify the drivers for continuing this quantum of capital expenditures on services.

Response
Customer demand for new and/or upgraded services is driving the capital expenditures.

e) For the years 2002 to 2006 inclusive, please complete the following table showing actual dollars and % where indicated. Please identify the cost drivers, as indicated in the table. Examples of cost drivers are: building new transformer station, replacement of obsolete poles, replacement of aging underground cables, etc. Please identify the type and amount of any one-time or unusual expenditure in any particular year that caused the change outside the given threshold, as shown in the table. Please exclude the smart meters from the $ amount for the capital expenditure figures used in the table.

Response

A Year	B Year	A $	B $	$ Change (A-B)	% Change (A/B)	Cost Drivers for the change (increase or decrease) if the % change is either less than zero or more than 10%
2003	2002	$70,152,267	$69,269,498	$882,769	1%	
2004	2003	$71,826,102	$70,152,267	$1,673,835	2%	
2005	2004	$74,198,638	$71,826,102	$2,372,536	3%	
2006 Actual	2005	$76,170,010	$74,198,638	$1,971,372	3%	
2006 Actual	2006 Board Approved	$76,170,010	$71,476,129	$4,693,881	7%	
2007 Bridge Year	2006 Actual	$79,274,399	$76,170,010	$3,104,389	4%	
2008 Test Year	2007 Bridge Year	$83,263,237	$79,274,399	$3,988,838	5%	

23. Ref: Exhibit 2/ Capital Budget by Project

a) Carry Over Projects and their Costs
Please identify the carryover projects where applicable, for the 2006 actual, 2007 bridge year, and 2008 test year.

(i) For each carryover project, please provide and present the information as indicated in Table 1 below.

Response
To be filed at a later date.

Table 1 – Identification of Carryover Project

Type of the Carryover Project (e.g. Underground cable replacement, smart meters, etc.)	$ Carryover from 2005 to 2006	% Carryover from 2005 to 2006 to total 2006 Capital expenditure	$ Carryover from 2006 to 2007	% Carryover from 2006 to 2007 to total 2007 Capital expenditure	$ Carryover from 2007 to 2008	% Carryover from 2007 to 2008 to total 2007 Capital expenditure
1.						
2.						
3.						
4.						
5.						
6.						

(ii) For each carryover project, please provide the reasons for the carryover in the format of Table 2 shown below. Please specify whether the project is a one-time or an ongoing project.

Table 2 – Reasons for the Carryover Projects

Type of the Carryover Project (e.g. Underground cable replacement, smart meters, etc.)	One-time or ongoing project?	Reasons for the Carry Over
a)		
b)		
c)		
d)		
e)		
f)		

Response

b) Please provide any existing PUC Distribution asset management plan that outlines the method of prioritizing capital expenditures and work plans.

Response
An internal report has been prepared by PUC staff (starting at page 42, Exhibit 2) that identifies, in detail, the urgent need to accelerate the replacement of aged infrastructure. The report outlines the LDC's Capex

and O&M programs developed to address this growing deficit in order to ensure ongoing long-term reliability for the customers served by PUC Distribution Inc. The information presented in this report provides the rationale and justification for the proposed capital and O & M programs.

This internal report has been reviewed and corroborated by an independent consultant, METSCO, who is a specialist in distribution utility design, operations and maintenance. METSCO's report begins at page 127 of Exhibit 2.

c) Please confirm that PUC Distribution has no projects for which a Leave to Construct under section 92 is required, or, if there are such projects, please provide the information about each project in the format of the above reference and any other relevant clarifying information.

Response
To be best of PUC Distribution's knowledge there are no projects for which a Leave to Construct under section 92 is required.

d) Exhibit 2/ Page 29 (2006) and Page 30 (2007): Economic Analysis for the Installation of Services to Meet Customer Demand.

Please provide the economic analysis for 2006 and 2007 for this revenue-producing capital investment costing $776,639 and $748,705 respectively and the resulting profitability indexes (PI's).

Response
Economic analyses were not completed. PUC Distribution will be reviewing the methods used to handle contributed capital in order to improve in the future. The installations include residential services, upgrades to services, and new services which lie along the existing distribution system.

e) Exhibit 2/ Page 33: Overhead included in Capital Budget.

Please indicate the total dollar overhead allocation included within the $12,160,383 capital budget for 2008. Please provide the overhead allocation in each of the amounts $3,356,044 (for 2006) and $3,831,237 (for 2007).

Response

Year	Total Capital	Overhead
2006	$3,356,044	$125,369
2007	$3,831,237	$207,750

2008	**$12,160,383**	**$960,431**

24. Ref: Exhibit 2/ BDR, Metsco Report

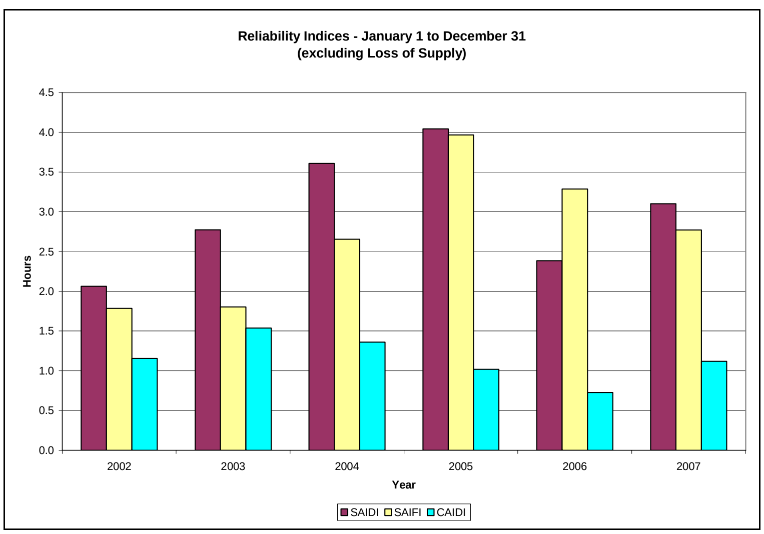
a) Reliability Statistics, Pages 138 & 139: Please quote the reference sources for the data in figures 2.4 and 2.5 on the expectations of failure rates of relevant cable type.

Response
To be filed at a later date.

b) Exhibit 2/ Page 25/ Capital Budget by Project: Please provide the reliability statistics for the years 2002 through 2007 that show the dramatic decrease in system reliability mentioned in the fourth paragraph of this sub-reference.

Response

Year	SAIDI	SAIFI	CAIDI
2002	2.06	1.78	1.16
2003	2.77	1.80	1.54
2004	3.61	2.65	1.36
2005	4.04	3.97	1.02
2006	2.38	3.29	0.73
2007	3.10	2.77	1.12



c) Please provide PUC Distribution's reliability improvement targets, if any, for the SAIDI, SAIFI and CAIDI. If PUC Distribution has established service reliability improvement targets, please advise on the programs that PUC Distribution will implement to achieve these targets.

Response

Please refer to Exhibit 2, pages 70 to 72 for a detailed response to this question.

d) Substation Circuit Breakers, Page 154: Please confirm whether the capital cost of $1,415,000 is included in the 2008 capex estimate for calculation of rates. If not, please indicate how much of this amount is allocated for 2008 capital projects.

Response

This question refers to the METSCO report (page 154 of Exhibit 2) The quoted amount, $1,415,000, refers to the Consultant's estimate of the total cost to replace/refurbish all anticipated end-of-life circuit breakers over the next five years. The 2008 Budget includes an allocation for part of this cost in the amount of $78,960.

e) Manhole Modifications, Page 157: Please advise whether the modification of manholes to larger dimensions is mandated by any safety codes, standards or regulations. Please provide the underlying justification for the recommendation of the Report that manhole modifications expected to cost $800,000 over the next few years be done.

Response

Manhole upgrades are required in order to provide safe working conditions for workers. This requirement is mandated under the Occupational Health & Safety Act.

f) Two additional Positions, Page 164: Please confirm whether a decision has been made to fill these positions. If these positions are to be filled, please provide the annual total cost, including overhead and burden for these two positions. Please advise if PUC Distribution has included the cost of these two positions in the cost estimates of the projects to be undertaken in 2008. If so, please indicate the percentage of time that the individuals occupying these positions will spend on capital projects and maintenance, respectively.

Response
The 2008 Test year includes the cost of the two positions: a forestry technician and a construction planner. The annual cost for these two positions is $164,000 including overhead. Capital projects have been allocated 16% of the costs and maintenance 84%.

25. Ref: Exhibit 2/ Working Capital/Page 167

a) Electricity Supply Expense and 15% thereof for Working Capital, 2007 bridge year to 2008 projected: Please advise how much of the rise in Power Purchased cost (from $40,314,676 to $49,044,109) is due to increased purchased electricity unit price cost and how much is due to increased customer usage.

Response
The $49,044,109 includes total power supply expense, therefore the increase is from $47,605,372 2007 bridge to $49,044,109 2008 test, an increase of 3%. The revised 2007 estimate is $49,300,000 based on IESO invoices.

b) Please confirm whether the projected Power Purchased for 2008 at $49,044,109 includes the total Power Supply expenses for accounts 4705 through 4750. If not, please explain what that figure represents.

Response
In 2008 the total projected power purchased at $49,044,109 is recorded as one amount in account 4705. For forecasting purposes PUC Distribution used one cost of power account (4705) but the expense in that account represents the total power supply expense for account 4705 to 4750.

COST OF CAPITAL

26. Ref: Exhibit 6 – Short-term Debt

In the table shown under “Capital Structure”, PUC Distribution has used a short-term debt rate (under “Cost Rate”) of 4.77% for the 2008 Test Year.

The Board Report on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (the “Board Report”) states the following in section 2.2.2:

“**The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers’ acceptance rate plus a fixed spread of 25 basis points**.” This is consistent with the Board’s method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers’ acceptance rate as published on the Bank of Canada’s website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor’s rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates.” [Emphasis in original]

a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.

Response
PUC Distribution used data from the Bank of Canada’s website a the time the Return on Capital was being prepared in June 2007. At that time, the average rate for the three-month bankers’ acceptances was 4.52%, resulting in a deemed short-term debt rate of 4.52% + 25 basis points = 4.77%.

b) Please confirm if PUC Distribution is proposing that the deemed short-term debt rate would be updated based on January 2008 Consensus Forecasts and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If PUC Distribution is not proposing that the methodology in the Board Report be followed, please provide PUC Distribution's reasons for varying from the methodology in the Board Report.

Response

PUC Distribution expects the Board will adjust the proposed revenue requirement, using a deemed short-term debt rate based on financial data available in January 2008.

27. Ref: Exhibit 6 – Return on Equity

PUC Distribution states that it is requesting a Return on Equity (“ROE”) of 8.69% per the Board’s formulaic approach as documented in Appendix B of the Board Report, with the final ROE for 2008 rate-setting purposes to be established based on January 2008 Consensus Forecasts and Bank of Canada data per the methodology in the Board Report. The table “Return on Equity” shown on page 8 of Exhibit 6 provides a summary of the data upon which the 8.69% is calculated. Please provide the source data used in the calculation and identify the specific data series, data sources and the date(s) of the data used to derive that table.

Response

On August 1, 2007, Board staff advised PUC Distribution’s representative, Elenchus Research Associates that is calculation yielded an ROE of around 8.69% based on the methodology described in the Board Report, the underlying details of the calculations were not communicated.

28. Ref: Exhibit 6 – Long-Term Debt

PUC Distribution provides data on its cost of debt in Exhibit 6 in the table "Cost of Debt" on page 5. The following table summarizes the long-term debt instruments shown on that table:

	2006 Board-approved		**2006 Actual**		**2007 Bridge**		**2008 Test**	
	Principal	**Rate (%)**	**Principal**	**Rate (%)**		**Rate (%)**		**Rate (%)**
Note payable to PUC Inc.	$11,650,000	8.5	$11,650,000	8.5	$11,650,000	5.82	$11,650,000	5.82
Note payable to PUC Inc.	$30,290,000	5.0	$30,290,000	5.0	$14,250,000	5.82	$14,250,000	5.82
Third Party Loan							$8,200,000	5.82
Total Long-term Debt	$41,940,000		$41,940,000		$25,900,000		$34,100,000	

In the Board Report, the Board states, in section 2.2.1, the following policy for setting the debt rate:

"For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

The Board has determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada

Bond Forecast plus an average spread with "A/BBB" rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with "A/BBB" rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and "A/BBB" corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change." [Emphasis in original]

a) For the long-term Note payable to PUC Inc. with a principal of $11,650,000, please provide the following:

i) Provide a copy of the Note Payable;

Response
Please see below

PROMISSORY NOTE

ISSUED TO: PUC INC.
(herein referred to as the "Holder")

ISSUED BY: PUC DISTRIBUTION INC.
(herein referred to as the "Borrower")

AMOUNT: $11, 650,000.00 (the "Principal")

1.0 PROMISE TO PAY

1.1 ON DEMAND, the Borrower hereby promises to pay to the Holder at 765 Queen Street East, Sault Ste. Marie, Ontario the Principal in lawful money of Canada in the manner hereinafter provided, together with interest and other moneys which may from time to time be owing hereunder or pursuant hereto.

2.0 INTEREST

2.1 Interest at the rate of 8.5 percent per annum from January 1st, 2001 to and including the date of repayment in full shall be calculated and payable in arrears on the last days of June, September and December in each year on the balance from time to time outstanding of the Principal amount of this Note, and on any other moneys due and payable hereunder both before and after maturity, default or judgment.

2.2 The first interest payment shall be due on the 30th day of June 2001.

2.3 Interest shall also be calculated and payable on overdue interest from time to time outstanding at the aforesaid rate.

3.0 DEFAULT

3.1 In the event of default, the full unpaid balance of the Principal and all accrued and unpaid interest thereon shall at the option of the Holder forthwith become due and payable.

4.0 PREPAYMENTS

4.1 The Borrower may, at any time, prepay the outstanding aggregate Principal amount of this Note either in whole or in part without notice, bonus or penalty.

5.0 WAIVER

5.1 Presentment for payment, demand, protest, notice of protest and notice of dishonour of this Note are hereby waived.

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6.0 SUCCESSORS AND ASSIGNS

6.1 The Holder shall not assign any interest in this Note without the prior written consent of the Borrower, which consent shall not be unreasonably withheld or delayed. This Note shall be binding upon the Borrower and its successors and assigns and shall ensure to the benefit of the Holder and successors and permitted assigns.

7.0 GOVERNING LAW

7.1 The Note shall be governed and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

8.0 COLLECTION COSTS

8.1 To the extent permitted by applicable law, the Borrower agrees to pay all costs of collection including, without limitation, reasonable solicitor's fees, disbursements and expenses on a solicitor and his own client basis incurred by the Holder in connection with the enforcement of this Note.

9.0 TIME OF ESSENCE

9.1 Time is of the essence.

10.0 INTERPRETATION

10.1 The division of this Note into sections and insertion of headings in this Note are for convenience of reference only and shall not affect the construction or interpretation of this Note.

IN WITNESS WHEREOF, the Borrower has executed this Note as of the 15th day of August, 2001.

PUC DISTRIBUTION INC.

Per: B. Curran
Brian Curran, President

Per: Clyde E Healey
Clyde Healey, Secretary

We have authority to bind the Corporation

ii) Please explain why and when the interest rate (or "Calculated Cost Rate") changed from 8.5% in 2006 to 5.82% in 2007. Please provide the basis for the 5.82%;

Response
PUC Distribution's intent was to adjust the original loans with the shareholder in late 2007. However due to time constraints this has not yet occurred. Discussions have been held with the shareholder and they are in concurrence with the proposed changes to bring the debt to equity structure in line with the Board's deemed levels and rates. PUC Distribution is working with the shareholder to make the changes. Please refer to part d) of this question for the basis of the 5.82%.

iii) Please confirm whether the Note payable has a fixed rate and term or is variable; and

Response
The note payable has a fixed rate of 8.5% and no fixed term.

b) For the long-term Note payable to PUC Inc. with a principal of $30,290,000 in 2006, please provide the following:

i) Provide a copy of the Note Payable;

Response
Please see below

PROMISSORY NOTE

ISSUED TO: PUC INC. (the "Holder")

ISSUED BY: PUC DISTRIBUTION INC (the "Borrower")

AMOUNT: $30,290,000.00 (the "Principal")

1.0 PROMISE TO PAY

1.1 In consideration of the redemption by the Borrower of 3,029 Special Shares, the Borrower hereby promises to pay to the Holder at 765 Queen Street East, Sault Ste. Marie, Ontario the Principal in lawful money of Canada in the manner hereinafter provided, together with interest and other moneys which may from time to time be owing hereunder or pursuant hereto.

2.0 PRINCIPAL PAYMENTS

2.1 On demand the issuer shall pay to the Holder the balance of Principal, interest and all other monies which may be owing hereunder.

3.0 INTEREST

3.1 This note shall bear interest at the rate of 10% per annum calculated from December 1st, 2001. The first interest payment shall be due on the 31st day of December 2001 and thereafter interest shall be payable quarterly on the last day of March, June, September and December. Notwithstanding the foregoing, the interest rate may be adjusted on a quarterly basis by mutual agreement between the Borrower and the Holder. The Borrower agrees that in the absence of manifest error, the record kept by the Holder on this Note of such changes in the interest rate shall be conclusive evidence of the matters recorded

3.2 Interest shall also be calculated and payable on overdue interest from time to time outstanding at the rate in effect at the date of default.

4.0 DEFAULT

4.1 In the event of default, the full unpaid balance of the Principal and all accrued and unpaid interest thereon shall at the option of the Holder forthwith become due and payable.

5.0 PREPAYMENTS

5.1 The Borrower may, at any time, prepay the outstanding aggregate Principal amount of this Note whether in whole or in part without notice, bonus or penalty.

6.0 WAIVER

6.1 Presentment for payment, demand, protest, notice of protest and notice of dishonour of this Note are hereby waived.

7.0 SUCCESSORS AND ASSIGNS

7.1 The Holder shall not assign any interest in this Note without the prior written consent of the Borrower, which consent shall not be unreasonably withheld or delayed. This Note shall be binding upon the Borrower and its successors and assigns and shall enure to the benefit of the Holder and successors and permitted assigns.

8.0 GOVERNING LAW

8.1 The Note shall be governed and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

9.0 COLLECTION COSTS

9.1 To the extent permitted by applicable law, the Borrower agrees to pay all costs of collection including, without limitation, reasonable solicitor's fees, disbursements and expenses on a solicitor and his own client basis incurred by the Holder in connection with the enforcement of this Note.

10.0 TIME OF ESSENCE

10.1 Time is of the essence.

11.0 INTERPRETATION

11.1 The division of this Note into sections and insertion of the headings in this Note are for convenience of reference only and shall not affect the construction or interpretation of this Note.

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IN WITNESS whereof the Borrower has executed this Note as of the 1st day of December, 2001.

PUC DISTRIBUTION INC.

Per: ______________________
Brian Curran, President

Per: ______________________
Clyde Healey, Secretary

We have authority to bind the Corporation

DATE	INTEREST RATE	NOTATION MADE BY

ii) Please explain why and when the interest rate (or "Calculated Cost Rate") changed from 5.0% in 2006 to 5.82% in 2007. Please provide the basis for the 5.82%;

Response
PUC Distribution's intent was to adjust the original loans with the shareholder in late 2007. However due to time constraints this has not yet occurred. Discussions have been held with the shareholder and they are in concurrence with the proposed changes to bring the debt to equity structure in line with the Board's deemed levels and rates. PUC Distribution is working with the shareholder to make the changes. Please refer to part d) of this question for the basis of the 5.82%.

iii) Please explain when and why the principal changed from $30,290,000 in 2006 to $14,250,000 in 2007. Was the note payable renegotiated at this time?

Response
PUC Distribution's intent was to adjust the original loans with the shareholder in late 2007. However due to time constraints this has not yet occurred. Discussions have been held with the shareholder and they are in concurrence with the proposed changes to bring the debt to equity structure in line with the Board's deemed levels and rates. PUC Distribution is working with the shareholder to make the changes.

iv) Please confirm whether the Note payable has a fixed rate and term or is variable; and

Response
The note payable has no fixed term and a rate which may be adjusted on a quarterly basis by mutual agreement between the parties.

c) With respect to the third party loan in 2008 with a principal of $8,200,000, please provide the following:

i) Please explain the purpose of this new debt;

Response
The new debt is to be put in place to finance the installation of smart meters and to finance a portion ($2,000,000) of the planned capital expenditures.

ii) Please explain if this debt has been negotiated;

Response
This debt has not yet been negotiated – it is pending smart meter installation and 2008 rate approvals.

iii) Please confirm if the 5.82% is a pre-negotiated rate. If so please explain;

Response
It is not a pre-negotiated rate.

d) With respect to the long-term debt rate of 5.82%, please provide the derivation of this rate. Please provide the calculations and identify data used, including the data sources as applicable. ; and

Response

Average long-term corporate bond yield (V121761)	**5.25**	*****
Average 30-Year Government of Canada bond yield (V121791)	**4.18**	*****
3-Month Yield Forecast for 10-Yr Bond	**4.6**	******
12-Month Yield Forecast for 10-Yr Bond	**4.8**	******
10-Year CB Actual Month Average (V39055)	**4.12**	*****
30-Year CB Actual Month Average (V39056)	**4.17**	*****
Deemed Long-Term Debt Rate	**5.82**	**%**

***Based on June 1-30, 2007 data**
****Based on June 2007 Issue of *Consensus Forecasts***

e) If necessary, please update the tables labelled “Capital Structure” and “Cost of Debt” in Exhibit 6 based on PUC Distribution’s responses to the above.

Response
To be filed at a later date.

REVENUE OFFSETS

29. Ref: Exhibit 3, Page 15

OTHER DISTRIBUTION REVENUE

	2006 Board Approved	2006 Actual	Variance form 2006 Board Approved	2006 Actual	2007 Bridge	Variance form 2006 Actual	2007 Bridge	2008 Test	Variance form 2007 Actual
	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)	($'s)
Other Distribution Revenue									
Distribution Services Revenue	112,488	111,483	(1,005)	111,483	104,000	(7,483)	104,000	104,000	-
Retail Services Revenues	32,487	53,782	21,295	53,782	58,500	4,718	58,500	58,520	20
Service Transaction Requests (STR) Revenues	127	1,668	1,541	1,668	1,200	(468)	1,200	250	(950)
Electric Services Incidental to Energy Sales									
Transmission Charges Revenue									
Revenue from Merchandise, Jobbing, Etc.	77,541	29,047	(48,494)	29,047	30,000	953	30,000	30,000	-
Miscellaneous Non-Operating Income	12,070	12,154	84	12,154	10,000	(2,154)	10,000	10,000	-
Rent from Electric Property	90,578	19,456	(71,122)	19,456	303,459	284,003	303,459	304,080	621
Other Utility Operating Income									
Other Electric Revenues									
Late Payment Charges	158,171	190,058	31,887	190,058	195,000	4,942	195,000	195,000	-
Sales of Water and Water Power									
Miscellaneous Service Revenues	219,407	229,364	9,957	229,364	140,300	(89,064)	140,300	172,900	32,600
Interest and Dividend Income	68,534	217,338	148,804	217,338	150,200	(67,138)	150,200	97,972	(52,228)
TOTAL	771,403	864,350	92,947	864,350	992,659	128,309	992,659	972,722	(19,937)

<u>Revenue Offsets</u>

a) Please explain why the number for Total Revenue Offsets for 2006 Board Approved ($771,403) is different from the approved 2006 EDR Model, Sheet 5-5, Cell F25 ($1,100,386).

Response

PUC Distribution used the Actual 2004 balances for comparative purposes in the table above. The differences are as follows:

$164,717 – **Miscellaneous Service Revenues. The board approved amount includes an estimated average volume of services at revised rates. The table above is the actual 2004 revenue. The difference is $164,717.**

$254,844 – **Interest and Dividend Income. The board approved amount includes regulatory carrying charges of $254,844. The**

regulatory carrying charges have been excluded in the 2008 projections as other distribution income and for comparative purposes to 2004 Actual the carrying charges were not included in the table above.

($90,578) – Rent from electric property. The 2006 EDR model did not include account 4210 in the revenue offsets in the amount of $90,578. In 2008 projections other electric property rent is included as a revenue offset and was included in the table above for consistency and comparative purposes.

b) Please explain why the number for Miscellaneous Service Revenues for 2006 Board Approved ($219,407) is different from the approved 2006 EDR Model, Sheet 5-2, Cell N64 ($384,124).

Response

The miscellaneous service revenue in the table above is the actual 2004 revenue not the revenue from the 2006 EDR model.

c) Please explain why the number for “Interest and Dividend Income” for 2006 Board Approved ($68,534) is different from the approved 2006 EDR Model, Sheet 5-5, Cell D22 ($412,989).

Response

The $412,989 from the EDR model is other income and deductions that consists of the following:

$75,541 – Revenue from merchandise, jobbing etc. This amount is included in the table above

$12,070 – Miscellaneous non-operating income. This amount is included in the table above.

$323,378 – Interest and dividend income. As explained above there is a difference of $254,844 in this account ($323,378-$68,534). The board approved amount includes regulatory carrying charges of $254,844. The regulatory carrying charges have been excluded in the 2008 projections as other distribution income and for comparative purposes to 2004 actual the carrying charges were not included in the table above.

d) Please provide an explanation of each variance from 2006 Board Approved versus 2006 Actual, 2006 Actual versus 2007 Bridge and 2007 Bridge versus 2008 Test, respectively.

Response

To be filed at a later date.

30. Exhibit 7, Page 2

The value used in the 2008 Test Year Other Operating Revenue (net) is reported as $992,659. According to Exhibit 3, Page 15 of the Application, this value is the 2007 Bridge value. Please confirm that the number presented is correct or provide a corrected amended schedule.

Response

PUC Distribution used the 2007 bridge year other operating revenue of $992,659 to calculate the revenue deficiency. The schedule on Exhibit 7 page 2 compares the 2007 total revenue to the projected 2008 costs and expenses to determine the utilities revenue deficiency.

31. Exhibit 3/ Page 5

FORECASTING

The Applicant states that the weather-normalization that was generated was performed by Hydro One.

Please provide the Hydro One report and any spreadsheets containing data supporting the calculations of the normalized historical load.

Response

The Hydro One report and spreadsheets which supports the weather normalization information used in the cost allocation as well as this application are provided in Appendix B submitted with these responses as PUCDistribution_IRR_OEB_AppendixB_20080229.

32. Ref: Exhibit 3/ Pages 5 to 10

In pages 5 to 10, the Applicant explains how it developed its 2008 load forecast. While some details are missing, the essential approach used appears to be that the Applicant:

- determined the 2008 forecasted customer count for each customer class,
- determined the weather-normalized retail energy for each customer class for 2004,
- determined the 2004 retail normalized average use per customer ("retail NAC") for each class by dividing each of the weather-normalized retail energy values by the corresponding number of customers/connections in each class existing in 2004,
- applied the 2004 retail NAC for each class to the 2008 Test Year without modification, and
- determined the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value for each class by the 2008 forecasted customer count in that class.

Please:
a) Verify that the above is the essence of the Applicant's load forecasting methodology,

Response
The above description of the load forecast methodology is in essence the method used to determine the weather normalized values for the weather sensitive classes (i.e. Residential, GS<50 kW and GS > 50 kW classes.

b) Differentiate the approach used for weather sensitive loads from that used for non-weather sensitive loads, and

Response
For the non-weather sensitive classes such as Street Lighting and Sentinel Lighting the actual average usage per connection from 2003 to 2006 is applied to the forecasted number of connections in 2008 to determine the load forecast for these classes.

For the Unmetered Scattered Load class which is also non-weather sensitive the actual 2006 usage per connection is applied to the forecasted number of connections in 2008 to determine the load forecast for this classes.

c) Correct any errors in the above explanation.

Response
N/A

33. Ref: Exhibit 3/ Page 9

The Applicant outlines the method used for determining the class loss factor.

Please provide:

a) A detailed description of this process, and

Response
The class loss factor is the estimated 2004 wholesale purchases for the class divided by the actual 2004 retail sales for the class.

b) Supporting values and calculations.

Response
The supporting values and calculations are provided in Exhibit 3, page 9 of the application.

34. Ref: Exhibit 3/ Page 10

The Applicant outlines the method used for determining kW billing.

Please provide:

a) A detailed description of this process, and
b) Supporting values and calculations.

Response

a) For all classes that have $/kW distribution volumetric charge the billed kW was based on the weighted average ratio of historical billed kW to historical billed kWh for the years 2002 to 2006. The weighted average ratio was applied to the 2008 weather corrected kWh to determine the 2008 billed kW

b) The following tables provides the calculation of the ratios referenced in a) and how they are used to determine the 2008 kW by rate class.

GS > 50 kW class

	2002	2003	2004	2005	2006
kWh	254,358,678	260,690,987	267,276,598	265,759,098	259,141,405
kW	649,990	662,472	681,668	677,082	653,427
kW/kWH	0.002555	0.002541	0.002550	0.002547	0.002521
Weighed Average kW/kWh			0.002543		
2008 Weather Corrected kWh			265,745,829		
2008 Forecasted Billed kW			675,865		

Sentinel Lighting

	2002	2003	2004	2005	2006
kWh	283,745	305,203	285,603	281,406	275,397
kW	788	847	793	782	762
kW/kWH	0.002777	0.002776	0.002778	0.002779	0.002766
Weighed Average kW/kWh			0.002775		
2008 Forecasted kWh			273,329		
2008 Forecasted Billed kW			759		

Street Lighting

	2002	2003	2004	2005	2006
kWh	6,711,914	6,929,107	6,973,456	6,947,864	7,019,943
kW	23,069	21,295	19,565	21,295	21,224
kW/kWH	0.003437	0.003073	0.002805	0.003064	0.003023

Weighed Average kW/kWh	0.003078
2008 Forecasted kWh	7,051,649
2008 Forecasted Billed kW	21,706

35. Ref: Exhibit 3/ Pages 5 to 10

In pages 5 to 10, the Applicant explains how it determined the 2004 retail normalized average use per customer ("retail NAC") for each class and apparently used this value for other years also. This does not appear to adequately weather-normalize the energy usage in historical years and does not allow for the possible change in energy usage per customer over the 2002 – 2008 period due, for example, to Conservation and Demand Management. The minimal amount of weather normalization and the constant retail energy assumption could potentially lead to forecasting errors.

a) Please file a data table for the historical years 2002 to 2006 that shows:

i. the actual retail energy (kWh) for each customer class in each year,

ii. the *weather normalized* retail energy (kWh) for each customer class in each year (where, for the customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year and not rely on results for any other year),

iii. the values of the weather conversion factors used,

iv. the customer count for each class in each year,

v. the retail normalized average use per customer for each class in *each year* based on the *weather corrected* kWh data in item ii. above, and

vi. as a footnote to the table, the source(s) of the weather correction factors.

b) Please file a data table for the 2002 to 2008 period:

i. utilizing the retail normalized average use per customer values for each class in each year obtained in a) v. above for the historical years 2002 to 2006,

ii. including 2007 and 2008 projections for the retail normalized average use per customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) for each class, and

iii. as a footnote to the table, for each of the weather-sensitive classes, describe in detail the trend analysis performed in ii. above.

c) Please file an updated version of the historical/forecast table presented in Exhibit 3, Page 10 of the Application utilizing the weather corrected data determined in b) above.

Response

a.

i. The following table outlines the actual retail energy (kWh) for each customer class for 2002 to 2006.

Customer Class	2002	2003	2004	2005	2006
Residential	354,194,523	358,254,404	352,458,116	347,284,966	335,488,361
GS < 50 kW	99,913,189	99,363,684	95,261,036	96,706,426	94,285,761
GS > 50 kW	254,358,678	260,690,987	267,276,598	265,759,098	259,141,405
Sentinel Lights	283,745	305,203	285,603	281,406	275,397
Streetlights	6,711,914	6,929,107	6,973,456	6,947,864	7,019,943
USL	58,389	814,639	833,198	889,645	813,406
Total	715,520,438	726,358,024	723,088,007	717,869,405	697,024,273

ii. The following table outlines the weather normalized retail energy (kWh) for each customer class for 2002 to 2006. The classes that have classified as weather sensitive are the Residential, GS < 50 kW and GS > 50 kW.

Customer Class	2002	2003	2004	2005	2006
Residential	345,906,371	355,818,274	352,916,312	342,284,062	338,071,621
GS < 50 kW	97,575,220	98,688,011	95,384,875	95,313,853	95,011,762
GS > 50 kW	248,406,685	258,918,288	267,624,057	261,932,167	261,136,794
Sentinel Lights	283,745	305,203	285,603	281,406	275,397
Streetlights	6,711,914	6,929,107	6,973,456	6,947,864	7,019,943
USL	58,389	814,639	833,198	889,645	813,406
Total	698,942,324	721,473,522	724,017,501	707,648,998	702,328,922

iii. The values of the weather conversion factors are shown below

2002	2003	2004	2005	2006
97.66%	99.32%	100.13%	98.56%	100.77%

iv. The customer/connection count for each class for 2002 to 2006 is provided in the following table.

Customer Class	2002	2003	2004	2005	2006
Residential	28,495	28,544	28,576	28,577	28,615
GS < 50 kW	3,243	3,230	3,265	3,283	3,319
GS > 50 kW	416	419	430	431	432

Sentinel Lights	**466**	**466**	**466**	**453**	**446**
Streetlights	**8,568**	**8,619**	**8,650**	**8,635**	**8,691**
USL	**12**	**12**	**27**	**28**	**28**
Total	**41,200**	**41,290**	**41,414**	**41,407**	**41,531**

v. The retail normalized average use per customer/connection for each class in each year based on the weather corrected kWh data in item ii. above, is outlined in the following table

Customer Class	**2002**	**2003**	**2004**	**2005**	**2006**
Residential	**12,139**	**12,466**	**12,350**	**11,978**	**11,814**
GS < 50 kW	**30,088**	**30,554**	**29,214**	**29,033**	**28,627**
GS > 50 kW	**597,131**	**617,943**	**622,382**	**607,731**	**604,483**
Sentinel Lights	**609**	**655**	**613**	**621**	**617**
Streetlights	**783**	**804**	**806**	**805**	**808**
USL	**4,866**	**67,887**	**30,859**	**31,773**	**29,050**

vi In order to prepare this application PUC Distribution and its advisors researched various weather normalization methods and concluded that there were limited resources available in the industry to prepare a cost effective weather normalization forecast which would reflect the characteristic of PUC Distribution. However, in order to prepare the recent cost allocation study PUC Distribution, retained Hydro One, as most other distributors in the province did, to weather normalize the 2004 volumes by rate class. From the documentation provided by Hydro One the following summaries the weather normalization process used in the cost allocation study.

"Weather correction is a statistical process designed to remove the impact of abnormal or extreme weather conditions from historical load data. Normal weather data is defined to be data that is based on the average weather conditions experienced over the last 31 years. A weather-normal load forecast is a forecast of load assuming normal weather conditions with a weather-corrected base year. The weather correction method is applicable to the total utility load as well as by rate class."

Hydro One was approached to conduct a weather normalized forecast for the 2008 test but the resources that were available to prepare the weather normalized information for the cost allocation study were no longer available. In addition, the IESO was approached to prepare a weather normalized forecast but they also did not have the resources. Other options were pursued but the cost of preparing the weather normalized forecast were unreasonable considering a simplistic approach could be produced in a cost effective manner.

In the view of PUC Distribution, the method of using the 2004 weather normalized data as base data in the application to produce the weather

normal forecast for 2008 is the most reasonable approach considering the 2004 weather normalized values reflects 31 years of average weather conditions . In the view of PUC Distribution, at the time the application was prepared the only improvement that could have been made to the process would be to include 2005 and 2006 actual data in the 31 year average but it is expected this would not significantly change the 2004 weather normalized results and the cost to include 2005 and 2006 data would not be outweighed by the benefits.

However, in order to respond to this interrogatory PUC Distribution reviewed the responses of Halton Hills Hydro to the interrogatories for their 2008 rebased rate application. In response to question 17 a iii, Halton Hills Hydro Responses to Second Round of OEB Staff Interrogatories, EB-2007-0696, dated December 21, 2007, Halton Hills Hydro used weather normalized data from the IESO website to develop weather conversion factors to address an interrogatory similar to this one. PUC Distribution has used these same factors to respond to this interrogatory. It is PUC Distribution view that using these factors to produce weather normalized data would be inferior to the method used in the application as it does not reflect specific rate class characteristic of PUC Distribution.

b) The following table outlines the weather corrected average kWh/Customer values for the years 2002 to 2008 for the rate classes that are weather sensitive.

Customer Class	2002	2003	2004	2005	2006	2007	2008
Residential	12,139	12,466	12,350	11,978	11,814	12,149	12,149
GS < 50 kW	30,088	30,554	29,214	29,033	28,627	29,503	29,503
GS > 50 kW	597,131	617,943	622,382	607,731	604,483	609,934	609,934

The method used to determine the values for 2007 and 2008 reflects the average for the years 2002 to 2006. The average was chosen as there did not appear to be a consistent trend line in the numbers.

c) The updated version of the historical/forecast table in Exhibit 3, page 10 using utilizing the weather corrected data determined in b) is as follows

		Historical Actual	Historical Board Approved	Historical Actual Normalized	Bridge Year - Est.	Bridge Year Estimate Normalized	Test Year Normalized Forecast
Year		2006	2004	2006	2007	2007	2008
Customer Class							
Residential	#	28,615	28,576	28,615	28,645	28,645	28,675
	kWh	335,488,361	354,615,620	347,655,041	335,840,087	348,019,523	348,384,005
GS < 50 kW	#	3,319	3,265	3,319	3,284	3,284	3,294

	kWh	94,285,761	100,117,704	97,920,484	93,291,485	96,887,879	97,192,666
GS > 50 kW	#	432	430	432	426	426	426
	kWh	259,141,405	260,711,019	263,491,571	255,542,219	259,831,966	259,831,966
	kW	653,427	664,816	664,396	649,914	660,824	660,824
USL	#	28	27	28	26	26	26
	kWh	813,406	833,198	813,406	813,406	755,305	755,305
Sentinel Lights	#	446	466	446	441	441	436
	kWh	275,397	291,509	275,397	276,343	276,343	273,329
	kW	762	801	762	767	767	759
Street Lighting	#	8,691	8,650	8,691	8,722	8,722	8,753
	kWh	7,019,943	7,031,314	7,019,943	7,026,565	7,026,565	7,051,649
	kW	21,224	22,000	21,224	21,629	21,629	21,706

COST ALLOCATION AND RATE DESIGN

Cost Allocation

36. Informational Filing

Please file the “rolled-up” Cost Allocation Informational Filing EB-2007-0001 as an official part of the record of this Application. (The hard copy reply needs to include only the input tables (Sheet I3 – I8) and Sheets O1 and O2.)

Response
PUC Distribution has filed the ‘rolled-up” Cost Allocation Informational Filing with these responses as Appendix C (PUCDistribution_IRR_OEB_AppendixC_20080229).

37. Ref: Exhibit 8 / Page 10

a. Please provide the rationale for raising the Revenue to Cost Ratio to an amount of only 40% for each of the two classes, Streetlighting and Sentinel Lights.

Response

The streetlighting and sentinel lights classes were raised to a revenue to cost ratio of only 40% to mitigate the rate impact. In both cases the increase to 40% represents a bill increase in excess of 10%.

b. Please provide a calculation of the hypothetical rates that would yield a ratio of 70% for each of the two classes, and a calculation of the total bill impact if the hypothetical distribution rates were implemented.

Response

Hypothetical Rates at a ratio of 70%

	Monthly Fixed	Volumetric	Bill Impact $	Bill Impact %
Streetlighting	$1.56	$24.2815	$36,127	66%
Sentinel Lights	$1.93	$35.8541	$1,658	71%

Rate Design

38. Ref: Exhibit 8 / Page 9

Please provide the rationale for the proposed increase in the monthly service charge for the GS < 50 kW class by 37.5%, considering that the proposal is to increase the kWh rate by 13.4%, and considering that the currently approved monthly service charge appears to be within the range of customer-related costs in the Informational Cost Allocation study.

Response

PUC Distribution proposes the increase to reach the upper limit of the minimum system fixed charge. This increase in fixed charges reduces revenue volatility and results in an overall bill increase of 3.6% for low consumption GS < 50 class customers.

Regulatory Asset Recovery Rate Riders

39. Ref: Exhibit 5 / Page 6 / Step 4

Please explain why the period to clear the account is set at two years rather than a single year given that the rate rider for each class is a rebate.

Response
A two year clearing period was selected based on prior regulatory asset settlement being over more than one year.

40. Ref: Exhibit 3 / Page 10, and Exhibit 5 / Page 5

For three classes -- GS < 50 kW, GS > 50 kW, and USL -- the volumetric units used in Exhibit 5 do not match the test year normalized forecast in the final column of Exhibit 3. Please explain this discrepancy, and if appropriate please provide the correct calculation in Exhibit 5.

Response
To be filed at a later date.

Retail Transmission Service Rates

41. Ref: Exhibit 9 / Pages 21 – 31

In response to the decrease in the Wholesale Transmission Network rate, the proposal is to decrease the Retail Transmission Service rate by 10.2 % or 10.3% for some classes, and by 11.2% for others, as shown in the applicable line in the impact calculations. Please explain why the decrease is not a uniform percentage decrease for all classes.

Response
The decrease is not a uniform percentage for all classes due to the rounding of rates to four decimal places after decreasing all the rates by a uniform percentage.

Loss Factors

42. References:

i. Exhibit 4. Page 56 (Loss Adjustment Factor Calculation)
ii. Exhibit 4, Page 57 (Materiality Analysis On Distribution Losses)
iii. Exhibit 9, Page 16 (Existing Rate Schedule)
iv. Exhibit 9, Page 19 (Proposed Rate Schedule)

- The 1st reference provides a calculation of actual distribution loss factors (DLF) for 2004 to 2006 and an average for the 3-year period. This reference further provides proposed total loss factors (TLF) for 2008.
- The 2nd reference provides a comparison between the approved loss factor for 2007 and proposed loss factor for 2008.
- The 3rd and 4th references provide TLFs for 2007 (approved) and 2008 (proposed) respectively.

a. The loss factor calculation in rows A to H in the upper table in the 1st reference follows the framework of the 2006 EDR Handbook Schedule 10-5, wherein the factor calculated corresponds to DLF for secondary metered customer < 5,000 kW. Row H titled "Distribution Loss Adjustment Factor" confirms the calculated factors as DLF. The average DLF for the 3-year period is shown in the column titled "Total" in the upper table as 1.0454. However the same value is replicated both in the lower table with the label "Total Loss Factor" and in the 4th reference as the proposed TLF for 2008. As TLF = DLF x Supply Facilities Loss Factor (SFLF), we need to establish whether the proposed loss factor of 1.0454 refers to DLF or TLF.

Please further confirm whether kWh values shown in row A titled "Wholesale kWh (IESO)" correspond to:

- the metering installation on the secondary or low voltage side of the transformer, or
- the defined meter point on the primary or high voltage side of the transformer

If it is the former, row H refers to DLF:

- Please confirm if the label in the lower table is incorrect, as 1.0454 is DLF and not TLF.
- Please provide the correct TLF based on a DLF of 1.0454 and the corresponding SFLF.

- Please provide a correction for the proposed TLF for 2008 in the 4th reference.

If it is the latter, row H refers to TLF:

- Please confirm if the label in upper table is incorrect, as 1.0454 is TLF and not DLF.
- Please provide the correct DLF based on a TLF of 1.0454 and the corresponding SFLF.
- Please confirm that the loss factors in the lower table refer to proposed factors for 2008.

b. The 2nd reference refers to 1.0430 as the approved 2007 DLF, whereas the 3rd reference refers to 1.0430 as the approved 2007 TLF. Please confirm that the terminology in the latter is correct.

c. Please explain the rationale for proposing that the loss factor for 2008 be an average of the loss factors for the 3-year period (1.0454) rather than a lower value such as the actual loss factor in 2005 of 1.0437.

d. Please describe any steps that are contemplated to decrease PUC Distribution's loss factor during the test year (2008) and/or during a longer planning period.

Response:
To be filed at a later date.

SMART METERS

43. Ref: Exhibit 1 /Draft Issues List

In the 1st paragraph of Page 33 (under "Draft Issues List"), PUC Distribution states: "In this rate application PUC has included costs related to Smart Metering. PUC's smart meter plan has been compiled by a consultant as part of the EDA's Northeast District LDCs. As part of the group's plan, PUC is scheduled to install all its smart meters in the spring of 2008. The costs included are based on the consultant's estimates which have been drawn from costs approved for other LDCs in the province."

a) PUC Distribution is not one of the thirteen licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities with respect to smart meters.
   i. In light of its "un-named" status, please explain under what authority PUC Distribution has decided to undertake smart meter activity in 2008;

Response

PUC Distribution has not been authorized to undertake smart meter installations. The utility is a member of the Northeast Ontario utilities working group (referred to in some documents as District 9) who are working together to meet the government mandate of smart meter installations by the end of 2010. The District group through its consultant is participating as an observer in the London Hydro Smart Meter RFP process. The Ministry of Energy has been informed of the status and approach by the Northeast utilities with respect to smart meters. The Assistant Deputy Minister, Consumer and Regulatory Affairs, has provided correspondence (attached) dated December 21, 2007, that the Ministry of Energy will recommend to Cabinet an amendment to O. Reg. 427/06 to accommodate London Hydro and consortium members as well as any other LDCs outside the consortium (PUC Distribution as part of the District 9 group) that have chosen to participate in the process. Subject to the evaluation process and negotiations with the AMI vendors and installation vendors, PUC Distribution is hopeful that implementation can commence in late summer or early fall of 2008.

Costs incurred with respect to the smart meter initiative are being collected in a variance account to be offset by the smart meter rate adder of $.26 per month subject to amendments to required regulations to allow PUC Distribution to proceed with full implementation.

Ministry of Energy

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Ontario

Office of Consumer & Regulatory Affairs

December 21, 2007

Mr. Bernie Watts
Chief Executive Officer
London Hydro Inc.
111 Horton Street
P.O. Box 3060
London, ON, N6A 4J8

Dear ~~Mr. Watts~~, Bernie

I understand that London Hydro and a consortium of more than 20 additional local distribution companies (LDCs) are currently working diligently considering bids received from the now closed smart meter RFP. I want to personally congratulate London Hydro and consortium members on the hard work and collaboration that has resulted in a process that strives to ensure economies of scale, cost-effectiveness, and best value for customers. We are eager to see the results from this process to establish a second round of smart meter procurement in the province.

In our letter to London Hydro on July 25, 2007, the government reiterated its view that, wherever possible, individual procurements of the same product should be combined to capture any economic benefits from a common statement of work. This was also communicated in subsequent discussions between Ministry staff and London Hydro regarding the consideration of options for allowing LDCs outside of the consortium to participate in the procurement process.

As you are no doubt well aware, this procurement has attracted attention from LDCs across the province and several have expressed an interest in participating. I am appreciative of the work done by London Hydro to develop a participation process that offers non-consortium LDCs with an opportunity to investigate a suitable technology for their own customers. I understand that the participation guidelines ensure that the integrity of the procurement process (which will be monitored by London Hydro's fairness commissioner) will be maintained in the event of expanded LDC participation. The participation process also provides opportunities for both consortium and other LDCs to achieve greater cost-savings and volumetric discounts in those cases where the same bidder's technology is selected.

Following the successful completion of the RFP and Minister Phillips' approval, the Ministry will recommend to Cabinet an amendment to O. Reg. 427/06 to accommodate London Hydro and consortium members as well as any other LDCs outside the consortium that have chosen to participate in the process. As you know, the Ministry cannot bind Cabinet's decision making. As such, nothing in this letter shall be construed as obligating the Cabinet or the legislature of the Province of Ontario to approve or promulgate the proposed amending regulation.

Please accept my congratulations on your accomplishments to date on this initiative. I encourage you to continue the dedication you have shown thus far toward the successful implementation of smart metering for your customers.

Sincerely,

Rosalyn Lawrence

Rosalyn Lawrence
Assistant Deputy Minister
Consumer and Regulatory Affairs

cc:

Electricity Distributors Association

Niagara Erie Power Alliance

Cornerstone Hydro Electric Concepts Group

District 9

Whitby Hydro

ii. Please indicate the accounts to which these costs will be applied in 2008;

Response

The costs will be applied to Account 5315 Customer Billing and 1860 Meters.

iii. Has PUC Distribution undertaken any smart meter activity in 2007? If so please explain in full all smart meter activities, when they occurred, and all associated capital and OM&A costs;

Response

PUC Distribution has undertaken the following smart meter activities in 2007:

- **Formation of Northeastern Ontario smart meter working group**
- **Hired consultant, cost shared amongst district working group, as a resource for planning, procurement and selection of qualified vendors, negotiation with qualified vendors, implementation and acceptance, integration of data from the AMI system with the MDMR and CIS system, transition to time of use billing and customer education**
- **Preparation of evaluation document of AMI vendors**
- **Preparation of evaluation document for installation vendors**
- **AMI vendor meetings to assess various AMI technologies**
- **Meeting with and demonstration from utilities that have installed smart meters to assess various AMI technologies, installation experience and data integration**
- **Preparation of smart meter capital and operating budget for the 2008 rate application based on response from 4 potential AMI vendors who are participating in the Ontario smart meter initiative.**
- **Preparation of a draft smart meter capital and operating budget based on cooperative possibilities amongst the participating district utilities**

Capital costs in 2007 are $53,625.

iv. Please explain in full all smart meter activities planned for 2008 including all associated capital and OM&A costs.

Response

Smart meter activities planned for 2008 include:

- **regulatory approval to proceed with smart meter initiative**
- **evaluation of approved AMI vendors and selection**
- **evaluation of installation vendors and selection**
- **upgrades to CIS system as required, installation of field management applications as required,**
- **evaluation and installation of customer presentment applications as required**
- **implementation of AMI infrastructure, component testing and validation of data collection**
- **integration with CIS and MDMR and related testing**
- **staff education and training**
- **preparation of customer education program**

It is expected that Time of Use Pricing would commence in May 2009.

Capital costs for 2008 are estimated at $6,737,612 and summarized as follows:

o **smart meter infrastructure, installation**	**$5,970,259**
o **cis upgrades, mdmr,**	**$220,115**
o **planning, security**	**$52,080**
o **internal cost allocations**	**$495,158**

Operating Costs for 2008 are estimated at $521,686 and summarized as follows:

o **AMI operations including WAN costs, data administration**	**$371,553**
o **MDMR (def account)**	**$150,133**

v..Please indicate the accounts to which these costs have been applied.

Response

The costs will be applied to Account 5315 Customer Billing and 1860 Meters.

44. Ref: Exhibit 2 /Smart Meter Plan Comments

In the 4th paragraph of Page 34, PUC Distribution states: “Hydro One, as well as the Coalition of Large Distributors (CLD) in conjunction with the Ministry of Energy (MOE), have undergone procurement processes resulting in qualified AMI vendors and implementation service companies for Phase One of the smart meter initiative. These qualified vendors form the “short list” of vendors available for use in Phase One deployments and any Ontario LDC’s procuring in 2007. Options have been presented which include awaiting the release of the Phase Two RFPQ which may or may not qualify different vendors from that approved in Phase One. The Group SMI Planning has incorporated both processes into their planning, and members are currently waiting the Phase Two outcome to reach a decision regarding AMI and implementation vendors, which will allow contract negotiations to be finalized in early 2008.”

b) Please indicate whether PUC Distribution has finalized its decision regarding AMI and implementation vendors. If so, is the chosen vendor one of the approved vendors in Phase One? If so, has PUC Distribution signed a contract with the vendor? If so, please provide a copy of the contract.

Response
PUC Distribution has not finalized its decision regarding AMI and implementation vendors. It is awaiting the evaluation of the London Hydro RFP for smart meters and the possible participation role in that process. It is understood that approval is through separate Regulations or amendments to Ontario Reg. 427/06 will be required.

c) Please indicate whether PUC Distribution has started to install any smart meters in 2008.

Response
PUC Distribution has not installed smart meters in 2008 as of this date.

In the 3rd paragraph of Page 36 of Exhibit 2, PUC Distribution states: “PUC has included approximately $215 per meter in 2008 fixed asset additions and an average additional monthly operating cost of $1.00 per meter per month. Under the current Group plan, PUC is scheduled to have all smart meters installed in 2008, commencing in April.”

d) Please indicate the number of smart meters that PUC Distribution plans to install in 2008 and the associated total 2008 smart meter capital expenditure amount.

Response
PUCD will install all the smart meters as required by regulation by the end of 2008.

In the preparation of the smart meter capital budget PUCD estimated that 30,587 residential and 935 general service <50kW would require smart meters.

e) Please confirm whether the approximately $215 per meter amount for smart meters in 2008 will meet or exceed the “minimum functionality” criteria which formed the basis in the Board’s August 8, 2007 Decision with Reasons in EB-2007-0063 to allow the recovery of smart meter capital costs. In that Decision, the Board determined that there were fourteen cost categories in relation to “minimum functionality” that were set out in Appendix “A”.

Please advise if any part of this approximately $215 per meter cost is outside of these fourteen cost categories. If so, please describe these costs and why PUC Distribution is seeking to recover them. If part of PUC Distribution’s proposed smart meter per unit amount is beyond the “minimum functionality” criteria, please provide, for 2008, the per unit cost breakdowns for “minimum functionality” and “beyond minimum functionality” cost categories.

Response
Per meter costs reported, approximately $215 per meter, falls only within the fourteen cost categories and the minimum functionality criteria as identified in EB-2007-0063.

f) Exhibit 4, Page 12, under Customer Billing: PUC has identified that the change of $413,390 from 2007 to 2008 is an “increase in operating costs as a result of smart meters”.

Please confirm that the entire $413,390 is due entirely to smart meters, and explain how the amount of $413,390 was calculated. If the entire amount is not all related to smart meters please provide the amount that is related to smart meters and explain fully how this amount was calculated.

Response

The amount of the increase related to smart meters is $365,000. The $365,000 is the three year average of budgeted smart meter operating costs for 2008, 2009 and 2010 as noted above. It does not include amounts to be accumulated in the deferral account.

g) Please confirm whether PUC Distribution will incorporate the 2008 smart meter capital expenditure amount into its rate base and recover the associated rate of return through its proposed 2008 revenue requirement.

Response
PUC Distribution has included the smart meter capital expenditure in its 2008 rate base and as a result one half of the amount is included in the 2008 proposed revenue requirement.

i. If not, please confirm whether PUC Distribution is going to maintain its current Smart Meter Rate Adder of $0.26 per month per metered customer which was approved by the Board on April 12, 2007 in EB-2007-0568.

Response
N/A

ii. If PUC Distribution is not intending to maintain the Smart Meter Rate Adder of $0.26, what is the amount of the new Smart Meter Rate Adder PUC Distribution is intending to collect. Please explain in detail how the new amount for Smart Meter Rate Adder was arrived at.

Response
N/A

DEFERRAL AND VARIANCE ACCOUNTS

45. Ref: Exhibit 1/Page 31

PUC Distribution is requesting to establish a deferral/variance account for capital works during the non-rebasing years to collect the revenue requirements costs (i.e. depreciation and return) associated with the cost of construction.

a. What is the regulatory precedent for the collection of these costs in this proposed deferral account?

Response
PUC Distribution is not aware of any regulatory precedent for the collection of these costs in this proposed deferral account?

b. What is the justification for this account?

Response
In the OEB's Filing Requirements for Transmission and Distribution Applications dated November 14, 2006, Page 7, Section 2.0 Preamble Framework, last paragraph it states

***"For the distributors, recognizing that rebasing may occur every three years, a distributor may consider applying for deferral accounts for capital works during the non-rebasing years to collect the cost of construction*.**"**

Based on the above reference it is PUC Distribution's view the requested deferral is justified since it has been suggested in the filing requirements and it is a reasonable approach to address the cost associated with capital that occurs in a non-rebasing year.

c. What are the types of the underlying capital expenditures to be recorded in this account?

Response
The types of underlying capital expenditures that will be used as a basis to record amounts in this account will be capital expenditures required to maintain and sustain a reliable distribution system

d. What are the journal entries to be recorded?

Response

PUC Distribution's DC will debit a deferral account and credit a corresponding liability account

e. When does PUC Distribution plan to ask for its disposition?

Response
It is PUC Distribution plan to dispose of this deferral account next time rates are rebased.

f. How does PUC Distribution plan to allocate this amount by rate class?

Response
At this time, PUC Distribution plans to allocate this amount to each rate class based on the proportion of rate class distribution revenue. However, this may change at the time the proposal to dispose of the deferral account is developed as experience may indicate a better allocator would be more appropriate.

g. PUC Distribution has identified new capital spending for the 2008 test year. If PUC Distribution under-forecast or over-forecast the 2008 capital costs, should PUC Distribution be required to record the difference in this deferral account? If no, please explain the rationale for not doing this?

Response
PUC Distribution expects to record any under-forecast or over-forecast of 2008 capital costs in this deferral account.

h. Please confirm that PUC Distribution will record the amounts related to the annual cost of service associated with the new assets (i.e. depreciation, return, PILs, etc.), and not the total capital costs in this account. If the former, please provide an example showing all the relevant calculations and amounts. If the latter, please confirm that PUC Distribution is proposing to recover the total capital costs outside of rate base in the future (i.e. via a future rate rider), and therefore these amounts will not be included in rate base in the future.

Response
PUC Distribution will record the annual cost of service associated with the new assets in this account. The cost items to be included will be depreciation and return but not PILs as the process to calculate incremental PILs on incremental capital assets is difficult and could be very controversial at the time of disposition. Depreciation will be calculated as the approved deprecation rate times the new assets. The return will be

the value of assets minus accumulated deprecation on the new assets times the approved rate of return.

46. Ref: Exhibit 1/Page 31

PUC Distribution is requesting for a new deferral and variance account - Meter Depository Management Repository Account (MDMR).

a. What is the regulatory precedent for the collection of these MDMR costs in this proposed deferral account?

Response
PUC Distribution is not aware of any regulatory precedent for the collection of MDMR costs in a deferral account.

b. What is the justification for this account?

Response
With the deployment of smart meters PUC Distribution expects the IESO will be charging PUC Distribution for the usage of the Meter Data Management Repository before the next rebasing rate application. Since PUC Distribution does not know what these charges will be it has not included any MDMR costs in the projected revenue requirement. However, PUC Distribution may be charged for a service which it may not be able to recover from customers until the next rebasing rate application. As a result, ERDHC is requesting a deferral account to record the MDMR costs.

c. What are the journal entries to be recorded?

Response
PUC Distribution would debit a deferral account and credit a corresponding liability account

d. When does PUC Distribution plan to ask for its disposition?

Response
It is PUC Distribution's plan to dispose of this deferral account next time rates are rebased.

e. How does PUC Distribution plan to allocate this amount by rate class?

Response
At this time, PUC Distribution plans to allocate this amount to each rate class based on the population of smart meters in each rate class. However, this may change at the time the proposal to dispose of the deferral account

is developed as experience may indicate a better allocator would be more appropriate.

f. Since the costs or fees are not known, please explain the basis of the approval to record these amounts in a deferral account.

Response
The basis of the approval to record costs in the proposed deferral account is that these costs have been reasonably incurred in the normal course of business. The fairness and reasonableness of the costs can be tested when they are proposed to be recovered in rates.

g. Please provide any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.

Response
PUC Distribution is not aware of any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.

h. Please provide a brief description of the account.

Response
See response to b)

47. Ref: Exhibit 1/Page 31

PUC Distribution is requesting approval to establish a new variance account to collect the difference between the return on smart meter assets and smart meter depreciation expense for the full years in 2009 and 2010 (as the amount included in the 2008 rates for the return on smart meter assets and smart meter depreciation expenses only included one half of smart meter expenditures due to the use of the average opening and closing capital asset balances).

a. What is PUC Distribution's proposed account name and number for this new deferral and variance account?

b. How does this new account differ from the use of 1555 and 1556?

c. How does the use of this account tie to the EB-2007-0063 Smart Meter Decision, particularly Appendix E?

d. Has PUC Distribution received permission from the Board to record smart meter-related costs in any deferral account? If yes, please quote the Decision number and provide the details of the instruction received, including which accounts are affected. If no, please state the rationale for recording such smart meter-related costs in deferral accounts.

e. Please provide the calculation of the difference between the return on smart meter assets and smart meter depreciation expense.

f. What is the regulatory precedent for the collection of this difference in the proposed deferral and variance account?

g. What is the justification for this account?

h. What are the journal entries to be recorded?

i. When does PUC Distribution plan to ask for its disposition?

j. How does PUC Distribution plan to allocate this amount by rate class?

k. Since the costs or fees are not known, please explain the basis for approving the recording of these amounts in a deferral account?

l. Please provide any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.

Response

a. **PUC Distribution's does not have proposed account name and number for this new deferral and variance account. However, PUC Distribution suggest it could be a sub account of the proposed deferral/variance account for capital works during the non-rebasing years as it would be treated in a similar manner.**

b. **In PUC Distribution's view accounts 1555 and 1556 are used for smart meter costs that occur separately from the distributor's rate base and revenue requirement. The proposed deferral account or sub account would record the revenue requirement amount associated with smart meter capital incurred before the next rebasing rate application that is not included in the approved rate base for 2008 rates but otherwise would be included in the revenue requirement if rates were rebased every year.**

c. **It is PUC Distribution's understanding that Appendix E in the EB-2007-0063 Smart Meter Decision outlines the calculation to collect the revenue requirement for actual smart meters installed in 2006 and 2007. The proposed account would record the revenue requirement amount associated with smart meter capital incurred before the next rebasing rate application that is not included in the approved rate base for 2008 rates.**

d. **Yes, PUC Distribution has received permission from the Board to record smart meter-related costs in a variance account. In Generic Decision – RP-2005-0020, EB-2005-0529 the smart meter variance account was generically establishment for all LDCs. In PUC Distribution 2006 rate order – EB-2005-0412, the variance accounts (i.e. 1555 and 1556) were specifically established for PUC Distribution. In PUC 2007 rate order – EB-2007-0568, the smart meter variance accounts were continued. PUC Distribution has followed the Accounting Guidance for the Smart Meter Variance Accounts as outlined in the OEB letter dated June 13, 2006 to LDCs regarding Smart Meters and Low Voltage Accounting Matters arising from the Board's 2006 EDR Decision on Common or Generic Issues Board File**

No. EB-2006-0136. However, PUC Distribution would like to reiterate that these approval and procedures relate to accounts 1555 and 1556 which are used for smart meter costs that occur separately from the distributor's rate base and revenue requirement. The proposed deferral account or sub account would record the revenue requirement amount associated with smart meter capital incurred before the next rebasing rate application that is not included in the approved rate base for 2008 rates but otherwise would be included in the revenue requirement if rates were rebased every year.

.

e. PUC Distribution will record in this account the annual cost of service associated with the smart meter assets not included in the approved rate base. The cost items to be included will be depreciation and return but not PILs as the process to calculate incremental PILs on incremental capital assets is difficult and could be very controversial at the time of disposition. Depreciation will be calculated as the approved deprecation rate times the new assets. The return will be the value of assets minus accumulated deprecation on the smart meter assets times the approved rate of return.

f PUC Distribution is not aware of any regulatory precedent for the collection of these costs in this proposed deferral account?

g. In the OEB's Filing Requirements for Transmission and Distribution Applications dated November 14, 2006, Page 7, Section 2.0 Preamble Framework, last paragraph it states

***"For the distributors, recognizing that rebasing may occur every three years, a distributor may consider applying for deferral accounts for capital works during the non-rebasing years to collect the cost of construction*."**

Based on the above reference it is PUC Distribution's view the requested deferral is justified since it has been suggested in the filing requirements and it is a reasonable approach to address the cost associated with smart meter capital that occurs in a non-rebasing year

h. PUC Distribution would debit a deferral account and credit a corresponding liability account

i **It is PUC Distribution's plan to dispose of this deferral account next time rates are rebased.**

j **At this time, PUC Distribution plans to allocate this amount to each rate class based on the population of smart meters in each rate class. However, this may change at the time the proposal to dispose of the deferral account is developed as experience may indicate a better allocator would be more appropriate.**

k **The basis of the approval to record costs in the proposed deferral account is that these costs have been reasonably incurred in the normal course of business. The fairness and reasonableness of the costs can be tested when they are proposed to be recovered in rates**

l **PUC Distribution is not aware of any new or additional information that would assist the Board in its decision to approve the recording of these costs or fees in a deferral account.**

48. Ref: Exhibit Exhibit 5/ Pages 4 & 5

a) Please explain the composition of the balance in Account 1508.

Response
Account 1508 "Other Regulatory Assets" consists of sub-accounts that record incremental OEB cost assessments above the level that was included in rates up to April 30, 2006 for the period January 1, 2004 to April 30, 2006 and incremental OMERS cost above the level that was included in rates up to April 30, 2006 for the period January 1, 2005 to April 30, 2006.

b) Is there a balance in Account 1508 sub-account OMERS that represents costs paid to OMERS by an affiliate of the LDC?
   i. If yes, what is the balance?

Response
Yes. The balance as of December 31, 2007 is $404,292.

   ii. If yes, have the billings by the affiliate to the LDC reflected an increase in OMERS pension costs beginning in the period that costs were collected in 1508? If so, what has been the increase in burden beginning in this period? What is the period?

Response
Yes the billings from the affiliate to PUC Distribution reflected increased OMERS costs. The additional costs are recorded in account 1508 for the period January 1, 2005 to April 30, 2006. The increased cost was $367,909 for the period.

49. Ref: Exhibit 2/Page 39

a. Is PUC Distribution using the Board-prescribed interest rate, as per the Board's letter to LDCs dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?

Response
PUC Distribution is not recording interest on CWIP – there are no major projects of long duration.

b. If not, what interest rate has PUC Distribution been using for CWIP?

Response
N/A

c. If PUC Distribution was not using the Board-prescribed interest rates, what would the impact on ratebase, revenue requirement, and CWIP be if PUC Distribution did use the prescribed interest rates?

Response
N/A

50. Ref: Exhibit 5/ Pages 4 & 5

PUC Distribution is requesting for the disposition of regulatory variance accounts in Exhibit 5/ Page 5. The totals in the exhibit do not agree with the totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31, 2006.

Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit 5/ Page 5. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

Response

Response

The balances reported to the Board under S.2.1.1.(January 31, 2007) do not capture the final year end figures as information is still outstanding at that time 2.1.1 submission is required by the OEB ie. power expense for December, therefore the variance account totals are not final. The power invoice is not received until February therefore the final balances to calculate the variances are not available to be reported by January 31st. The adjustments are reflected in the S.2.1.1. filing March 31, 2007.
The continuity schedule will be filed at a later date.

51. Ref: Exhibit 1/Page 143 & Exhibit 5/Page 4

   a. Please explain why there are no forecasts for the deferral and variance accounts in the 2008 pro forma balance sheet.

Response
To be filed at a later date.

   b. Please state why net loss has increased from $329,739 in 2006 to a pro forma loss of $517,419 in 2007 and to a pro forma net income of $1,571,858 in 2008.

Response
The increase to net income in 2008 compared to losses in 2006 and 2007 is the result of the large decrease in interest expense as a result of the projected loan restructuring and increased rates which will recover the expense levels PUC Distribution has experienced which are not in the current rate base.

52. Ref: Exhibit 5/Pages 2 &3, Exhibit 1/Pages 31 & 32

   a. Please describe the deferral and variance accounts in these exhibits.

Response

1588 Retail Settlement Variance Account Power – This account is used to record the net differences between the energy amount billed to customers and the energy charged to PUC using the settlement invoice received from the IESO.

1518 Retail Cost Variance Account Retail - This account is used to record the net of :
1. revenues derived from the following services described in the Rates handbook:
a) Establishing Service Agreements
b) Distributor-Consolidated Billing
c) Retailer-Consolidated Billing; and
d) Split Billing

AND

2. the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (d) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing.

1548 retail Cost Variance Account STR – This account is used to record the net of :
1. revenues derived from the Service Transaction Request services described in the Rates Handbook and charged by the distributor, as prescribed, in the form of a:
a) Request Fee
b) Processing Fee
c) Information Request Fee
d) Default Fee; and
c) Other Associated Costs fee;

AND

2. the incremental cost of labour, internal information system maintenance costs, and delivery costs related to the services associated with the above items.

<u>1580 Retail Settlement Variance Account – Wholesale Market Service Charges</u>
This account is used to record the net of:
1. the amount charged by the IESO based on the settlement invoice for the operation of the IESO administered markets and the operation of the IESO controlled grid (as defined in the Electricity Act, 1998)

AND
2. the amount billed to customers using the Board approved Wholesale Market Service Rate.

<u>1584 Retail Settlement Variance Account – Retail Transmission Network Charge</u> – This account is used to record the net of :
1. the amount charged by the IESO based on the settlements invoice for transmission service network services.

AND

2. the amount billed to customers for the same services using the Board approved transmission network charge rate.

<u>1508 Other Regulatory Assets</u>
This account included amounts of regulatory-created assets not included in other accounts
PUC Distribution has OMERS and OEB costs in account 1508. Refer to description above for "Other Regulatory Assets".

b. On Exhibit 5/Page 2 Account 1589 is listed and this is not an APH account. Please provide the correct account number.

Response
The correct account number for the account listed on Exhibit 5/Page 2 as 1589 is account number 1588 – Retail Settlement Variance Power.

53. Ref: Exhibit 5/Page 5

a) Please provide allocations and rate riders for recovery of regulatory deferral and variance accounts balances comprised of the December 31, 2006 balances with interest forecast to April 30, 2008 for the period after December 31st, 2006.

Response
To be filed at a later date.

Re-run model with interest included?

b) Are principal balances on 1590 being forecasted beyond December 31, 2006 and included in the amount for disposition in the schedule?

Response
To be filed at a later date.

PILs

1) For the 2006 tax year, please provide the following:

   i. Actual federal T2 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;

Response
Please see below

PUC Distribution Inc 06.206
2007-05-08 16:31

2006-12-31

PUC Distribution Inc.
86709 6778 RC0001

200

Canada Revenue Agency / Agence du revenu du Canada

T2 CORPORATION INCOME TAX RETURN

055 Do not use this area

This form serves as a federal, provincial, and territorial corporation income tax return, unless the corporation is located in Quebec, Ontario, or Alberta. If the corporation is located in one of these provinces, you have to file a separate provincial corporation return.

Parts, sections, subsections, and paragraphs mentioned on this return refer to the *Income Tax Act*. This return may contain changes that had not yet become law at the time of printing. For more information on how to complete the return, see the *T2 Corporation – Income Tax Guide* (T4012).

CLIENT'S COPY

Send one completed copy of this return, including schedules and the *General Index of Financial Information* (GIFI), to your tax services office or tax centre. You have to file the return within six months after the end of the corporation's tax year. For more information on when and how to file T2 returns, refer to the Guide under the heading "Before you start."

Identification

Business Number (BN) 001 86709 6778 RC0001

Corporation's name
002 PUC Distribution Inc.

Has the corporation changed its name since the last time we were notified? 003 1 Yes [ ] 2 No [X]

If *Yes*, do you have a copy of the articles of amendment? 004 1 Yes [ ] 2 No [ ]

Address of head office
Has this address changed since the last time we were notified? 010 1 Yes [ ] 2 No [X]
(If *Yes*, complete lines 011 to 018)

011 765 Queen Street East
012 P.o. Box 9000

City	Province, territory, or state
015 Sault Ste Marie	016 ON
Country (other than Canada)	**Postal code/Zip code**
017	018 P6A 6P2

Mailing address (if different from head office address)
Has this address changed since the last time we were notified? 020 1 Yes [ ] 2 No [X]
(If *Yes*, complete lines 021 to 028)

021 c/o
022
023

City	Province, territory, or state
025	026
Country (other than Canada)	**Postal code/Zip code**
027	028

Location of books and records
Has the location of books and records changed since the last time we were notified? 030 1 Yes [ ] 2 No [X]
(If *Yes*, complete lines 031 to 038)

031 765 Queen Street E
032

City	Province,territory, or state
035 Sault Ste. Marie	036 ON
Country (other than Canada)	**Postal code/Zip code**
037	038 P6A 6P2

040 **Type of corporation at the end of the taxation year**

1 [ ] Canadian-controlled private corporation (CCPC)
2 [ ] Other private corporation
3 [ ] Public corporation
4 [ ] Corporation controlled by a public corporation
5 [X] Other corporation (specify, below) Electrity Act

If the type of corporation changed during the tax year, provide the effective date of the change 043 ____ YYYY MM DD

To which tax year does this return apply?

Tax year start 060 2006-01-01 (YYYY MM DD)
Tax year end 061 2006-12-31 (YYYY MM DD)

Has there been an acquisition of control to which subsection 249(4) applies since the previous tax year? 063 1 Yes [ ] 2 No [X]

If *Yes*, provide the date control was acquired 065 ____ YYYY MM DD

Is the corporation a professional corporation that is a member of a partnership? 067 1 Yes [ ] 2 No [X]

Is this the first year of filing after:
Incorporation? 070 1 Yes [ ] 2 No [X]
Amalgamation? 071 1 Yes [ ] 2 No [X]
If *Yes*, complete lines 030 to 038 and attach Schedule 24.

Has there been a windup of a subsidiary under section 88 during the current tax year? 072 1 Yes [ ] 2 No [X]
If *Yes*, complete and attach Schedule 24.

Is this the final tax year before amalgamation? 076 1 Yes [ ] 2 No [X]

Is this the final return up to dissolution? 078 1 Yes [ ] 2 No [X]

Is the corporation a resident of Canada?
080 1 Yes [X] 2 No [ ] If *No*, give the country of residence on line 081 and complete and attach Schedule 97.
081

Is the non-resident corporation claiming an exemption under an income tax treaty? 082 1 Yes [ ] 2 No [X]
If *Yes*, complete and attach Schedule 91.

If the corporation is exempt from tax under section 149, tick one of the following boxes:
085
1 [ ] Exempt under paragraph 149(1)(e) or (l)
2 [ ] Exempt under paragraph 149(1)(j)
3 [ ] Exempt under paragraph 149(1)(t)
4 [ ] Exempt under other paragraphs of section 149

Do not use this area

091	092	093	094	095	096
100					

T2 E (06)
CORPORATE TAXPREP / TAXPREP DES SOCIÉTÉS - EP06

Canada

Page 1 of 9

PUC Distribution Inc 06.206
2007-10-18 14:52

2006-12-31

PUC Distribution Inc.
86709 6778 RC0001

Attachments

Financial statement information: Use GIFI schedules 100, 125, and 141.
Schedules – Answer the following questions. For each *Yes* response, attach to the T2 return the schedule that applies.

		Yes	Schedule
Is the corporation related to any other corporations?	150	X	9
Is the corporation an associated Canadian-controlled private corporation?	160	X	23
Is the corporation an associated Canadian-controlled private corporation that is claiming the expenditure limit?	161		49
Does the corporation have any non-resident shareholders?	151		19
Has the corporation had any transactions, including section 85 transfers, with its shareholders, officers, or employees, other than transactions in the ordinary course of business? Exclude non-arm's length transactions with non-residents	162		11
If you answered *Yes* to the above question, and the transaction was between corporations not dealing at arm's length, were all or substantially all of the assets of the transferor disposed of to the transferee?	163		44
Has the corporation paid any royalties, management fees, or other similar payments to residents of Canada?	164		14
Is the corporation claiming a deduction for payments to a type of employee benefit plan?	165		15
Is the corporation claiming a loss or deduction from a tax shelter acquired after August 31, 1989?	166		T5004
Is the corporation a member of a partnership for which a partnership identification number has been assigned?	167		T5013
Did the corporation, a foreign affiliate controlled by the corporation, or any other corporation or trust that did not deal at arm's length with the corporation have a beneficial interest in a non-resident discretionary trust?	168		22
Did the corporation have any foreign affiliates during the year?	169		25
Has the corporation made any payments to non-residents of Canada under subsections 202(1) and/or 105(1) of the federal *Income Tax Regulations*?	170		29
Has the corporation had any non-arm's length transactions with a non-resident?	171		T106
For private corporations: Does the corporation have any shareholders who own 10% or more of the corporation's common and/or preferred shares?	173		50
Has the corporation made payments to, or received amounts from, a retirement compensation plan arrangement during the year?	172		
Is the net income/loss shown on the financial statements different from the net income/loss for income tax purposes?	201	X	1
Has the corporation made any charitable donations; gifts to Canada, a province, or a territory; or gifts of cultural or ecological property?	202		2
Has the corporation received any dividends or paid any taxable dividends for purposes of the dividend refund?	203		3
Is the corporation claiming any type of losses?	204	X	4
Is the corporation claiming a provincial or territorial tax credit or does it have a permanent establishment in more than one jurisdiction?	205		5
Has the corporation realized any capital gains or incurred any capital losses during the tax year?	206		6
i) Is the corporation claiming the small business deduction and reporting income from: a) property (other than dividends deductible on line 320 of the T2 return), b) a partnership, c) a foreign business, or d) a personal services business; or ii) is the corporation claiming the refundable portion of Part I tax?	207		7
Does the corporation have any property that is eligible for capital cost allowance?	208	X	8
Does the corporation have any property that is eligible capital property?	210		10
Does the corporation have any resource-related deductions?	212		12
Is the corporation claiming reserves of any kind?	213		13
Is the corporation claiming a patronage dividend deduction?	216		16
Is the corporation a credit union claiming a deduction for allocations in proportion to borrowing or an additional deduction?	217		17
Is the corporation an investment corporation or a mutual fund corporation?	218		18
Was the corporation carrying on business in Canada as a non-resident corporation?	220		20
Is the corporation claiming any federal or provincial foreign tax credits, or any federal or provincial logging tax credits?	221		21
Is the corporation a non-resident-owned investment corporation claiming an allowable refund?	226		26*
Does the corporation have any Canadian manufacturing and processing profits?	227		27
Is the corporation claiming an investment tax credit?	231		31
Is the corporation claiming any scientific research and experimental development (SR&ED) expenditures?	232		T661
Is the total taxable capital employed in Canada of the corporation and its related corporations over $10,000,000?	233		33/34/35
Is the corporation a member of a related group with one or more members subject to gross Part I.3 tax?	236	X	36
Is the corporation claiming a surtax credit?	237		37
Is the corporation subject to gross Part VI tax on capital of financial institutions?	238		38
Is the corporation claiming a Part I tax credit?	242		42
Is the corporation subject to Part IV.1 tax on dividends received on taxable preferred shares or Part VI.1 tax on dividends paid?	243		43
Is the corporation agreeing to a transfer of the liability for Part VI.1 tax?	244		45
Is the corporation subject to Part II - Tobacco Manufacturers' surtax?	249		46
For financial institutions: Is the corporation a member of a related group of financial institutions with one or more members subject to gross Part VI tax?	250		39
Is the corporation claiming a Canadian film or video production tax credit refund?	253		T1131
Is the corporation claiming a film or video production services tax credit refund?	254		T1177
Is the corporation subject to Part XIII.1 tax?	255		92 *

*** We do not print this schedule.**

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Attachments – continued from page 2

		Yes	Schedule
Did the corporation have any foreign affiliates that are not controlled foreign affiliates?	256		T1134-A
Did the corporation have any controlled foreign affiliates?	258		T1134-B
Did the corporation own specified foreign property in the year with a cost amount over $100,000?	259		T1135
Did the corporation transfer or loan property to a non-resident trust?	260		T1141
Did the corporation receive a distribution from or was it indebted to a non-resident trust in the year?	261		T1142
Has the corporation entered into an agreement to allocate assistance for SR&ED carried out in Canada?	262		T1145
Has the corporation entered into an agreement to transfer qualified expenditures incurred in respect of SR&ED contracts?	263		T1146
Has the corporation entered into an agreement with other associated corporations for salary or wages of specified employees for SR&ED?	264		T1174

Additional information

Is the corporation inactive?	280	1 Yes	2 No X
Has the major business activity changed since the last return was filed? (enter *Yes* for first-time filers)	281	1 Yes	2 No X

What is the corporation's major business activity? 282 ______
(Only complete if *Yes* was entered at line 281.)

If the major business activity involves the resale of goods, show whether it is wholesale or retail 283 1 Wholesale ☐ 2 Retail ☐

Specify the principal product(s) mined, manufactured, sold, constructed, or services provided, giving the approximate percentage of the total revenue that each product or service represents.

284	Electrical distributor	285	100.000 %
286		287	%
288		289	%

Did the corporation immigrate to Canada during the tax year?	291	1 Yes	2 No X
Did the corporation emigrate from Canada during the tax year?	292	1 Yes	2 No X

Taxable income

Net income or (loss) for income tax purposes from Schedule 1, financial statements, or GIFI.			300	1,705,567	A
Deduct: Charitable donations from Schedule 2	311				
Gifts to Canada, a province, or a territory from Schedule 2	312				
Cultural gifts from Schedule 2	313				
Ecological gifts from Schedule 2	314				
Taxable dividends deductible under section 112 or 113, or subsection 138(6) from Schedule 3	320				
Part VI.1 tax deduction from Schedule 43 *	325				
Non-capital losses of preceding tax years from Schedule 4	331	1,705,567			
Net capital losses of preceding tax years from Schedule 4	332				
Restricted farm losses of preceding tax years from Schedule 4	333				
Farm losses of preceding tax years from Schedule 4	334				
Limited partnership losses of preceding tax years from Schedule 4	335				
Taxable capital gains or taxable dividends allocated from a central credit union	340				
Prospector's and grubstaker's shares	350				
Subtotal		1,705,567	►	1,705,567	B
Subtotal (amount A **minus** amount B) (if negative, enter "0")					C
Add: Section 110.5 additions or subparagraph 115(1)(a)(vii) additions			355		D
Taxable income (amount C **plus** amount D)			360		
Income exempt under paragraph 149(1)(t)			370		
Taxable income for a corporation with exempt income under paragraph 149(1)(t) (line 360 **minus** line 370)					Z

* This amount is equal to 3 times the Part VI.1 tax payable at line 724.

Small business deduction

Canadian-controlled private corporations (CCPCs) throughout the tax year

Income from active business carried on in Canada from Schedule 7 . . . . **400** 1,705,567 A

Taxable income from line 360, **minus** 10/3 of the amount on line 632*, **minus** 3 times the amount on line 636**, and **minus** any amount that, because of federal law, is exempt form Part I tax . . . . **405** ______ B

Calculation of the business limit:

For all CCPCs, calculate the amount at line 4 below.

250,000	x	Number of days in the tax year in 2004 / Number of days in the tax year	____ / 365	=	______ 1
300,000	x	Number of days in the tax year in 2005 and in 2006 / Number of days in the tax year	365 / 365	=	300,000 2
400,000	x	Number of days in the tax year after 2006 / Number of days in the tax year	____ / 365	=	______ 3

Add amounts at lines 1, 2, and 3 300,000 4

Business limit (see notes 1 and 2 below) . . . . **410** 172,253 C

Notes: 1. For CCPCs that are not associated, enter the amount from line 4 on line 410. However, if the corporation's tax year is less than 51 weeks, prorate the amount from line 4 by the number of days in the tax year divided by 365, and enter the result on line 410.

2. For associated CCPCs, use Schedule 23 to calculate the amount to be entered on line 410.

Business limit reduction:

Amount C 172,253 x **415** *** ______ D / 11,250 = ... ______ E

Reduced business limit (amount C **minus** amount E) (if negative, enter "0") . . . . **425** 172,253 F

Small business deduction

Whichever amount is the least A, B, C or F . . . . ______ G1

Amount G1	______	x	Number of days in the tax year before 2008 / Number of days in the tax year	365 / 365	x	16.00 %	=	______ G2
Amount G1	______	x	Number of days in the tax year in 2008 / Number of days in the tax year	____ / 365	x	16.50 %	=	______ G3
Amount G1	______	x	Number of days in the tax year after 2008 / Number of days in the tax year	____ / 365	x	17.00 %	=	______ G4

Small business deduction – total of amounts G2, G3, and G4 . . . . **430** ______ G
(enter amount G on line 9)

* Calculate the amount of foreign non-business income tax credit deductible on line 632 without reference to the refundable tax on the CCPC's investment income (line 604) and without reference to the corporate tax reductions under section 123.4.

** Calculate the amount of foreign business income tax credit deductible on line 636 without reference to the corporate tax reductions under section 123.4.

*** **Large corporations**

- The amount to be entered at line 415 is the total taxable capital employed in Canada **minus** $10,000,000 x 0.225%, calculated on Schedule 33, *Part I.3 Tax On Large Corporations*, Schedule 34, *Part I.3 Tax On Financial Institutions* **or** Schedule 35, *Part I.3 Tax On Large Insurance Companies*.
- If the corporation is not associated with any corporations in both the current and the preceding tax years, use the applicable schedule for the **prior** year. (Amount **P** in Part 6 of Schedule 33; Amount **O** in Part 6 of Schedule 34; Amount **DD** in Part 6 of Schedule 35)
- If the corporation is not associated with any corporations in the current tax year, but was associated in the preceding tax year, use the applicable schedule for the **current** year.
- For corporations associated in the current tax year, see Schedule 23 for the special rules that apply.

Accelerated tax reduction

Canadian-controlled private corporations throughout the taxation year that claimed the small business deduction

Reduced business limit (amount from line 425)	172,253 x 300,000 / line 4 above =	172,253	A
Net active business income (amount from line 400) *		1,705,567	B
Taxable income from line 360 **minus** 3 times the amount at line 636** on, and **minus** any amount that, because of federal law, is exempt from Part I Tax	C		
Deduct:			
Aggregate investment income (amount from line 440)	D		
Amount C **minus** amount D (if negative, enter "0")	▶		E
Amount A, B, or E above, whichever is less			F
Amount Z from Part 9 of Schedule 27 ______ x 100 / 7 =	G		
Amount QQ from Part 13 of Schedule 27	H		
Taxable resource income (amount from line 435)	I		
Amount used to calculate the credit union deduction (amount E in Part 3 of Schedule 17)	J		
Amount on line 400, 405, 410, or 425 of the small business deduction, whichever is less	K		
Total of amounts G, H, I, J, and K	▶		L
Amount F **minus** amount L (if negative, enter "0")			M
Accelerated tax reduction – 7.00 % of amount M (enter amount N on line 637)			N

* If the amount at line 450 of Schedule 7 is positive, members of partnerships need to use Schedule 70 to calculate net active business income.

** Calculate the amount of foreign business income tax credit deductible at line 636 without reference to the corporate tax reductions under section 123.4.

Resource deduction

Taxable resource income [as defined in subsection 125.11(1)] **435** ______ A

Amount A	______ x	Number of days in the tax year in 2004 / Number of days in the tax year	______ / 365	x 2 % =	______ B
Amount A	______ x	Number of days in the tax year in 2005 / Number of days in the tax year	______ / 365	x 3 % =	______ C
Amount A	______ x	Number of days in the tax year in 2006 / Number of days in the tax year	365 / 365	x 5 % =	______ D
Amount A	______ x	Number of days in the tax year after 2006 / Number of days in the tax year	______ / 365	x 7 % =	______ E

Resource deduction – total of amounts B, C, D, and E (enter amount F on line 10) **438** ______ F

General tax reduction for Canadian-controlled private corporations

Canadian-controlled private corporations throughout the tax year

Taxable income from line 360			A
Amount Z1 from Part 9 of Schedule 27	B		
Amount QQ from Part 13 of Schedule 27	C		
Taxable resource income from line 435 above	D		
Amount used to calculate the credit union deduction (amount E in Part 3 of Schedule 17)	E		
Amount on line 400, 405, 410, or 425, whichever is the least	F		
Aggregate investment income from line 440	G		
Amount used to calculate the accelerated tax reduction (amount M)	H		
Total of amounts B, C, D, E, F, G, and H	▶		I
Amount A **minus** amount I (if negative, enter "0")			J

Amount J	______ x	Number of days in the tax year before 2008 / Number of days in the tax year	365 / 365	x 7 % =	______ K1
Amount J	______ x	Number of days in the tax year in 2008 / Number of days in the tax year	______ / 365	x 7.5 % =	______ K2
Amount J	______ x	Number of days in the tax year in 2009 / Number of days in the tax year	______ / 365	x 8 % =	______ K3
Amount J	______ x	Number of days in the tax year after 2009 / Number of days in the tax year	______ / 365	x 9 % =	______ K4

General tax reduction for Canadian-controlled private corporations – total of amounts K1, K2, K3, and K4 (enter amount K on line 638) ______ K

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General tax reduction

Corporations other than a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation, or a mutual fund corporation; and for tax years starting after May 1, 2006, any corporation with taxable income that is not subject to the full tax rate of 38% (eg. deposit insurance company).

Taxable income from line 360			L
Amount Z1 from Part 9 of Schedule 27		M	
Amount QQ from Part 13 of Schedule 27		N	
Taxable resource income from line 435 above		O	
Amount used to calculate the credit union deduction (amount E in Part 3 of Schedule 17)		P	
Total of amounts M, N, O, and P		►	Q
Amount L **minus** amount Q (if negative, enter "0")			R

Amount R	x	Number of days in the tax year before 2008 / Number of days in the tax year	365 / 365	x 7 %	=	S1
Amount R	x	Number of days in the tax year in 2008 / Number of days in the tax year	/ 365	x 7.5 %	=	S2
Amount R	x	Number of days in the tax year in 2009 / Number of days in the tax year	/ 365	x 8 %	=	S3
Amount R	x	Number of days in the tax year after 2009 / Number of days in the tax year	/ 365	x 9 %	=	S4

General tax reduction – total of amounts S1, S2, S3, and S4 (enter amount S on line 639) . . . . . . S

Refundable portion of Part I tax

Canadian-controlled private corporations throughout the tax year

Aggregate investment income (amount O from Part 1 of Schedule 7)	**440**	x 26 2 / 3 % =	A
Foreign non-business income tax credit from line 632			
Deduct:			
Foreign investment income (amount L from Part 2 of Schedule 7)	**445**	x 9 1 / 3 % = (if negative, enter "0") ►	B
Amount A **minus** amount B (if negative, enter "0")			C

Taxable income from line 360

Deduct:

Amount on line 400, 405, 410, or 425, whichever is the least			
Foreign non-business income tax credit from line 632		x 25 / 9 =	
Foreign business income tax credit from line 636		x 3 =	
			►

x 26 2 / 3 % = D

Part I tax payable minus investment tax credit refund (line 700 **minus** line 780)			
Deduct: Corporate surtax from line 600			
Net amount		►	E
Refundable portion of Part I tax – Amount C, D, or E, whichever is the least	**450**		F

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Refundable dividend tax on hand

Refundable dividend tax on hand at the end of the preceding tax year	460			
Deduct: Dividend refund for the previous tax year	465			
			►	G
Add the total of:				
Refundable portion of Part I tax from line 450 above				
Total Part IV tax payable from line 360 of Schedule 3				
Net refundable dividend tax on hand transferred from a predecessor corporation on amalgamation, or from a wound-up subsidiary corporation	480			
			►	H
Refundable dividend tax on hand at the end of the tax year – Amount G **plus** amount H	485			

Dividend refund

Private and subject corporations at the time taxable dividends were paid in the tax year

Taxable dividends paid in the tax year from line 460 of Schedule 3		x 1 / 3	I
Refundable dividend tax on hand at the end of the tax year from line 485 above			J
Dividend refund – Amount I or J, whichever is less (enter this amount on line 784)			

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Part I tax

Base amount of Part I tax – 38.00 % of taxable income (line 360 or amount Z, whichever applies) . . . . **550** ______ A

Corporate surtax calculation

Base amount from line A above . . . . ______ 1

Deduct:

10 % of taxable income (line 360 or amount Z, whichever applies) . . . . ______ 2

Investment corporation deduction from line 620 below . . . . ______ 3

Federal logging tax credit from line 640 below . . . . ______ 4

Federal qualifying environmental trust tax credit from line 648 below . . . . ______ 5

For a mutual fund corporation or an investment corporation throughout the tax year, enter amount a, b, or c below on line 6, whichever is the least:

28.00 % of taxable income from line 360 . . . . ______ a

28.00 % of taxed capital gains . . . . ______ b

Part I tax otherwise payable . . . . ______ c

(line A **plus** lines C and D **minus** line F)

→ ______ 6

Total of lines 2 to 6 . . . . ______ 7

Net amount (line 1 **minus** line 7) . . . . ______ 8

Corporate surtax

line 8 ______ x 4 % x Number of days in the tax year before 2008 / Number of days in the tax year = 365 / 365 = **600** ______ B

Recapture of investment tax credit from line OO in Part 17 of Schedule 31 . . . . **602** ______ C

Calculation for the refundable tax on the Canadian-controlled private corporation's (CCPC) investment income
(if it was a CCPC throughout the tax year)

Aggregate investment income from line 440 . . . . ______ i

Taxable income from line 360 . . . . ______

Deduct:

Amount on line 400, 405, 410, or 425, whichever is the least . . . . ______

Net amount . . . . ______ ► ______ ii

Refundable tax on CCPC's investment income – 6 2 / 3 % of whichever is less: amount i or ii . . . . **604** ______ D

Subtotal (add lines A, B, C, and D) ______ E

Deduct:

Small business deduction from line 430 . . . . ______ 9

Federal tax abatement . . . . **608** ______

Manufacturing and processing profits deduction from amount BB or amount RR of Schedule 27 . . . . **616** ______

Investment corporation deduction . . . . **620** ______

(taxed capital gains **624** ______)

Additional deduction – credit unions from Schedule 17 . . . . **628** ______

Federal foreign non-business income tax credit from Schedule 21 . . . . **632** ______

Federal foreign business income tax credit from Schedule 21 . . . . **636** ______

Accelerated tax reduction from amount N . . . . **637** ______

Resource deduction from line 438 . . . . ______ 10

General tax reduction for CCPCs from amount K . . . . **638** ______

General tax reduction from amount S . . . . **639** ______

Federal logging tax credit from Schedule 21 . . . . **640** ______

Federal political contribution tax credit . . . . **644** ______

Federal political contributions **646** ______

Federal qualifying environmental trust tax credit . . . . **648** ______

Investment tax credit from Schedule 31 . . . . **652** ______

Subtotal ______ ► ______ F

Part I tax payable – Line E **minus** line F (enter amount G on line 700) . . . . ______ G

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Summary of tax and credits

Federal tax

Part I tax payable	700	
Part I.3 tax payable from Schedule 33, 34, or 35	704	
Part II surtax payable from Schedule 46	708	
Part IV tax payable from Schedule 3	712	
Part IV.1 tax payable from Schedule 43	716	
Part VI tax payable from Schedule 38	720	
Part VI.1 tax payable from Schedule 43	724	
Part XIII.1 tax payable from Schedule 92	727	
Part XIV tax payable from Schedule 20	728	
Total federal tax		

Add provincial or territorial tax:

Provincial or territorial jurisdiction **750** Ontario
(if more than one jurisdiction, enter "multiple" and complete Schedule 5)

Net provincial or territorial tax payable (except Québec, Ontario, and Alberta)	760	
Provincial tax on large corporations (New Brunswick and Nova Scotia)	765	
Total tax payable	770	A

Deduct other credits:

Investment tax credit refund from Schedule 31	780	
Dividend refund	784	
Federal capital gains refund from Schedule 18	788	
Federal qualifying environmental trust tax credit refund	792	
Canadian film or video production tax credit refund (Form T1131)	796	
Film or video production services tax credit refund (Form T1177)	797	
Tax withheld at source	800	
Total payments on which tax has been withheld	801	
Allowable refund for non-resident-owned investment corporations from Schedule 26	804	
Provincial and territorial capital gains refund from Schedule 18	808	
Provincial and territorial refundable tax credits from Schedule 5	812	
Tax instalments paid	840	
Total credits	890	B

Refund code **894** Overpayment

Balance (line A **minus** line B)

Direct deposit request

To have the corporation's refund deposited directly into the corporation's bank account at a financial institution in Canada, or to change banking information you already gave us, complete the information below:

☐ Start ☐ Change information **910** Branch number

914 Institution number **918** Account number

If the result is negative, you have an **overpayment**.
If the result is positive, you have a **balance unpaid**.
Enter the amount on whichever line applies.
Generally, we do not charge or refund a difference of $2 or less.

Balance unpaid

Enclosed payment **898**

If the corporation is a Canadian-controlled private corporation throughout the tax year, does it qualify for the one-month extension of the date the balance of tax is due? **896** 1 Yes ☐ 2 No [X]

Certification

I, **950** Greco (Last name) **951** Terry (First name) **954** Vice-President (Position, office, or rank)

am an authorized signing officer of the corporation. I certify that I have examined this return, including accompanying schedules and statements, and that the information given on this return is, to the best of my knowledge, correct and complete. I further certify that the method of calculating income for this tax year is consistent with that of the previous year except as specifically disclosed in a statement attached to this return.

955 2007-05-08 (Date (yyyy/mm/dd)) — Signature of the authorized signing officer of the corporation: T. Greco — **956** (705) 759-6566 (Telephone number)

Is the contact person the same as the authorized signing officer? If *No*, complete the information below **957** 1 Yes [X] 2 No ☐

958 Name **959** Telephone number

Language of correspondence – Langue de correspondance

990 Indicate your language of correspondence by entering 1 for English or 2 for French.
Indiquez votre langue de correspondance en inscrivant 1 pour anglais ou 2 pour français.

1 English / Anglais [X] 2 Français / French ☐

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Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 1

NET INCOME (LOSS) FOR INCOME TAX PURPOSES

Corporation's name	Business Number	Tax year end Year Month Day
PUC Distribution Inc.	86709 6778 RC0001	2006-12-31

- The purpose of this schedule is to provide a reconciliation between the corporation's net income (loss) as reported on the financial statements and its net income (loss) for tax purposes. For more information, see the T2 *Corporation Income Tax Guide*.
- Please provide us with the applicable details in the identification area, and complete the applicable lines that contain a numbered black box. You should report amounts in accordance with the Generally Accepted Accounting Principles (GAAP).
- Sections, subsections, and paragraphs referred to on this schedule are from the *Income Tax Act*.

Net income (loss) after taxes and extraordinary items per financial statements			-329,739 A
Add:			
Amortization of tangible assets	104	2,764,612	
Subtotal of additions		2,764,612 ▶	2,764,612
Other additions:			
Miscellaneous other additions:			
601 retail settlement variances	291	1,307,586	
Subtotal of other additions	199	1,307,586 ▶	1,307,586
Total additions	500	4,072,198 ▶	4,072,198
Deduct:			
Capital cost allowance from Schedule 8	403	2,036,892	
Subtotal of deductions		2,036,892 ▶	2,036,892
Other deductions:			
Miscellaneous other deductions:			
Subtotal of other deductions	499	0 ▶	0
Total deductions	510	2,036,892 ▶	2,036,892
Net income (loss) for income tax purposes – enter on line 300 of the T2 return			1,705,567

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Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 4

CORPORATION LOSS CONTINUITY AND APPLICATION

Name of corporation	Business Number	Tax year end Year Month Day
PUC Distribution Inc.	86709 6778 RC0001	2006-12-31

- For use by a corporation to determine the continuity and use of available losses; to determine the current-year non-capital loss, farm loss, restricted farm loss, and limited partnership loss; to determine the amount of restricted farm loss and limited partnership loss that may be applied in a year; and to request a loss carryback to previous years.
- The corporation can choose whether or not to deduct an available loss from income in a tax year. It can deduct losses in any order. However, for each type of loss, deduct the oldest loss first.
- In accordance with subsection 111(4) of the Income Tax Act, when control has been acquired no amount of capital loss incurred for a tax year ending (TYE) before that time is deductible in computing taxable income in a TYE after that time AND no amount of capital loss incurred in a TYE after that time is deductible in computing taxable income of a TYE before that time.
- When control has been acquired, subsection 111(5) provides for similar treatment of non-capital and farm losses, except as listed in paragraphs 111(5)(a) & (b).
- For information on these losses, see the *T2 Corporation – Income Tax Guide*.
- File one completed copy of this schedule with the T2 return, or send it by itself to the tax centre where the return is filed.
- Parts, sections, subsections, and paragraphs referred to on this schedule are from the federal *Income Tax Act*.

Part 1 – Non-capital losses

Determination of current-year non-capital loss

Net income (loss) for income tax purposes		1,705,567
Deduct: (increase a loss)		
Net capital losses deducted in the year (enter as a positive amount)		
Taxable dividends deductible under sections 112, 113, or subsection 138(6)		
Amount of Part VI.1 tax deductible		
Amount deductible as prospector's and grubstaker's shares – Paragraph 110(1)(d.2)		
Subtotal (if positive, enter "0")		
Deduct: (increase a loss)		
Section 110.5 and/or subparagraph 115(1)(a)(vii) – Addition for foreign tax deductions		
Subtotal		
Add: (decrease a loss)		
Current-year farm loss		
Current-year non-capital loss (if positive, enter "0")		

Continuity of non-capital losses and request for a carryback

	Line		
Non-capital loss at the end of preceding tax year		1,961,509	
Deduct: Non-capital loss expired *	100		
Non-capital losses at beginning of tax year	102	1,961,509	
Add: Non-capital losses transferred on an amalgamation or the windup of a subsidiary corporation	105		
Current-year non-capital loss (from calculation above)	110		1,961,509
Deduct:			
Other adjustments (includes adjustments for an acquisition of control)	150		
Section 80 – Adjustments for forgiven amounts	140		
Subsection 111(10) – Adjustments for fuel tax rebate			
Deduct:			
Amount applied against taxable income (enter on line 331 of the T2 return)	130	1,705,567	
Amount applied against taxable dividends subject to Part IV tax	135		1,705,567
Subtotal			255,942
Deduct – Request to carry back non-capital loss to:			
First preceding tax year to reduce taxable income	901		
Second preceding tax year to reduce taxable income	902		
Third preceding tax year to reduce taxable income	903		
First preceding tax year to reduce taxable dividends subject to Part IV tax	911		
Second preceding tax year to reduce taxable dividends subject to Part IV tax	912		
Third preceding tax year to reduce taxable dividends subject to Part IV tax	913		
Non-capital losses – Closing balance	180		255,942

* A non-capital loss expires as follows:
- After **7** tax years if it arose in a tax year ending before March 23, 2004;
- After **10** tax years if it arose in a tax year ending after March 22, 2004 and ending before 2006; or
- After **20** tax years if it arose in a tax year ending in 2006 and later.

Election under paragraph 88(1.1)(f)

Paragraph 88(1.1)(f) election indicator .... 190 Yes ☐
Loss from a wholly owned subsidiary deemed to be a loss of the parent from its immediately preceding tax year.

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Part 2 - Capital losses

Continuity of capital losses and request for a carryback

Capital losses at end of preceding tax year	200		
Capital losses transferred on an amalgamation or the windup of a subsidiary corporation	205		
Deduct:			
Other adjustments (includes adjustments for an acquisition of control)	250		
Section 80 – Adjustments for forgiven amounts	240		
		Subtotal	
Add:			
Current-year capital loss (from Schedule 6 calculation)		210	
Non capital losses from a preceding tax year* that expired this year		A	
Allowable business investment losses (ABIL) incurred in the same preceding tax year* referred to at line A		B	
Enter amount from line A or B, whichever is less	215		
Allowable business investment loss expired as non-capital loss: line 215 divided by inclusion rate** 75.0000 %		220	
		Subtotal	

Note: If there has been an amalgamation or a windup of a subsidiary, do a separate calculation of the allowable business investment loss expired as non-capital loss for each predecessor or subsidiary. Add all these amounts and enter the total at line 220 above.

Deduct: Amount applied against current-year capital gain (see Note 1)		225	
		Subtotal	

Deduct – Request to carry back capital loss to: (see Note 2)

	Capital gain (100%)		Amount carried back (100%)		
First preceding tax year		951			
Second preceding tax year		952			
Third preceding tax year		953			
Capital losses – Closing balance				280	

Note 1
On line 332 of the T2 return, enter the amount from line 225 multiplied by 50%.

Note 2
Enter on lines 225, 951, 952, or 953, whichever applies, the actual amount of the loss. At the time of the application of the loss carryback, the net capital loss amount will be calculated at the inclusion rate of the year to which the net capital loss is applied.

* Losses from a preceding tax year to be entered at line A and line B are the following:
- If the loss was incurred in a tax year ending before March 23, 2004, enter the loss from the 8th preceding tax year, which has expired this year;
- If the loss was incurred in a tax year ending after March 22, 2004 and before 2006, enter the loss from the 11th preceding tax year, which has expired this year.
- If the loss was incurred in a tax year ending in 2006 and later, enter the loss from the 21th preceding tax year, which has expired this year.

** The inclusion rate is the one that you used to calculate your ABIL referred to at line B. Therefore, use one of the following inclusion rates, whichever applies:
- For ABILs incurred in 1999 and preceding tax years, use 0.75.
- For ABILs incurred in 2000 and 2001 tax years, the inclusion rate is equal to amount M on Schedule 6 - version T2SCH6(01).
- For ABILs incurred in 2002 and later tax years, use 0.5.

Part 3 – Farm losses

Continuity of farm losses and request for a carryback

Farm losses at end of preceding tax year			
Deduct: Farm loss expired after 10 tax years	300		
Farm losses at beginning of tax year	302		
Add: Farm losses transferred on an amalgamation or the windup of a subsidiary corporation	305		
Current-year farm loss	310		
Deduct:			
Other adjustments (includes adjustments for an acquisition of control)	350		
Section 80 – Adjustments for forgiven amounts	340		
Amount applied against taxable income (enter on line 334 of the T2 return)	330		
Amount applied against taxable dividends subject to Part IV tax	335		
Subtotal			
Deduct – Request to carry back farm loss to:			
First preceding tax year to reduce taxable income	921		
Second preceding tax year to reduce taxable income	922		
Third preceding tax year to reduce taxable income	923		
First preceding tax year to reduce taxable dividends subject to Part IV tax	931		
Second preceding tax year to reduce taxable dividends subject to Part IV tax	932		
Third preceding tax year to reduce taxable dividends subject to Part IV tax	933		
Farm losses – Closing balance	380		

Part 4 – Restricted farm losses

Current-year restricted farm loss

Total losses for the year from farming business .... 485 ________ C

Minus the deductible farm loss:

$2,500 plus D or E, whichever is less .... $ 2,500

(Amount C above ________ – $2,500) divided by 2 = ________ D

$ 6,250 E ________ 2,500 F

Current-year restricted farm loss (amount C minus amount F) (enter this amount on line 410) ....

Continuity of restricted farm losses and request for a carryback

Restricted farm losses at end of preceding tax year			
Deduct: Restricted farm loss expired after 10 tax years	400		
Restricted farm losses at beginning of tax year	402		
Add: Restricted farm losses transferred on an amalgamation or the windup of a subsidiary corporation	405		
Current-year restricted farm loss (enter on line 233 of Schedule 1)	410		
Deduct:			
Amount applied against farming income (enter on line 333 of the T2 return)	430		
Section 80 – Adjustments for forgiven amounts	440		
Other adjustments	450		
Subtotal			
Deduct – Request to carry back restricted farm loss to:			
First preceding tax year to reduce farming income	941		
Second preceding tax year to reduce farming income	942		
Third preceding tax year to reduce farming income	943		
Restricted farm losses – Closing balance	480		

Note

The total losses for the year from all farming businesses are calculated without including scientific research expenses.

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Part 5 – Listed personal property losses

Continuity of listed personal property loss and request for a carryback

Listed personal property losses at end of preceding tax year			
Deduct: Listed personal property loss expired after seven tax years		500	
Listed personal property losses at beginning of tax year		502	
Add: Current-year listed personal property loss (from Schedule 6)		510	
Subtotal			
Deduct:			
Amount applied against listed personal property gains (enter on line 655 of Schedule 6)	530		
Other adjustments	550		
Subtotal			
Deduct – Request to carry back listed personal property loss to:			
First preceding tax year to reduce listed personal property gains	961		
Second preceding tax year to reduce listed personal property gains	962		
Third preceding tax year to reduce listed personal property gains	963		
Listed personal property losses – Closing balance		580	

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Part 7 – Limited partnership losses

Current-year limited partnership losses

1	2	3	4	5	6	7
Partnership identifier	Fiscal period ending	Corporation's share of limited partnership loss	Corporation's at-risk amount	Total of corporation's share of partnership investment tax credit, farming losses, and resource expenses	Column 4 **minus** column 5 If negative, enter "0".	Current-year limited partnership losses Column 3 - 6
600	602	604	606	608		620

Total (enter this amount on line 222 of Schedule 1)

Limited partnership losses from prior tax years that may be applied in the current year

1	2	3	4	5	6	7
Partnership identifier	Fiscal period ending	Limited partnership losses at end of preceding tax year	Corporation's at-risk amount	Total of corporation's share of partnership investment tax credit, business or property losses, and resource expenses	Column 4 **minus** column 5 If negative, enter "0".	Limited partnership losses that may be applied in the year The lesser of columns 3 and 6
630	632	634	636	638		650

Continuity of limited partnership losses that can be carried forward to future tax years

Partnership identifier	Limited partnership losses at end of preceding tax year	Limited partnership losses transferred on an amalgamation or the windup of a subsidiary	Current-year limited partnership losses (from column 620)	Limited partnership losses applied (cannot exceed column 650)	Limited partnership losses closing balance (662 + 664 + 670 - 675)
660	662	664	670	675	680

Total (enter this amount on line 335 of the T2 return)

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Non-Capital Loss Continuity Workchart

Part 6 – Analysis of balance of losses by year of origin

Non-capital losses

Year of origin	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce: Taxable income	Applied to reduce: Part IV tax	Balance at end of year
Current	N/A				N/A		
2005		N/A		N/A			
2004	1,961,509	N/A		N/A	1,705,567		255,942
2003		N/A		N/A			
2002		N/A		N/A			
2001		N/A		N/A			
2001		N/A		N/A			
2000		N/A		N/A			*
Total	1,961,509				1,705,567		255,942

Farm losses

Year of origin	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce: Taxable income	Applied to reduce: Part IV tax	Balance at end of year
Current	N/A				N/A		
2005		N/A		N/A			
2004		N/A		N/A			
2003		N/A		N/A			
2002		N/A		N/A			
2001		N/A		N/A			
2001		N/A		N/A			
2000		N/A		N/A			
1999		N/A		N/A			
1998		N/A		N/A			
1997		N/A		N/A			*
Total							

Restricted farm losses

Year of origin	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce: Taxable income	Applied to reduce: Part IV tax	Balance at end of year
Current	N/A				N/A	N/A	
2005		N/A		N/A		N/A	
2004		N/A		N/A		N/A	
2003		N/A		N/A		N/A	
2002		N/A		N/A		N/A	
2001		N/A		N/A		N/A	
2001		N/A		N/A		N/A	
2000		N/A		N/A		N/A	
1999		N/A		N/A		N/A	
1998		N/A		N/A		N/A	
1997		N/A		N/A		N/A	*
Total						N/A	

* This balance expires this year and will not be available next year.

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SCHEDULE 8

CAPITAL COST ALLOWANCE (CCA)

Name of corporation	Business Number	Tax year end Year Month Day
PUC Distribution Inc.	86709 6778 RC0001	2006-12-31

For more information, see the section called "Capital Cost Allowance" in the *T2 Corporation Income Tax Guide*.

Is the corporation electing under regulation 1101(5q)? **101** 1 Yes ☐ 2 No ☒ X

	1 Class number 200	Description	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of last year) 201	3 Cost of acquisitions during the year (new property must be available for use)* 203	4 Net adjustments** 205	5 Proceeds of dispositions during the year (amount not to exceed the capital cost) 207	6 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)*** 211	7 Reduced undepreciated capital cost	8 CCA rate % 212	9 Recapture of capital cost allowance (line 107 of Schedule 1) 213	10 Terminal loss (line 404 of Schedule 1) 215	11 Capital cost allowance (column 7 **multiplied** by column 8; or a lower amount) (line 403 of Schedule 1)**** 217	12 Undepreciated capital cost at the end of the year (column 6 **plus** column 7 **minus** column 11) 220
1	1		49,496,678	2,851,259		0	1,425,630	50,922,307	4	0	0	2,036,892	50,311,045
		Total	49,496,678	2,851,259			1,425,630	50,922,307				2,036,892	50,311,045

* Include any property acquired in previous years that has now become available for use. This property would have been previously excluded from column 3. List separately any acquisitions that are not subject to the 50% rule, see Regulation 1100(2) and (2.2).

** Include amounts transferred under section 85, or on amalgamation and winding-up of a subsidiary. See the *T2 Corporation Income Tax Guide* for other examples of adjustments to include in column 4.

*** The net cost of acquisitions is the cost of acquisitions (column 3) plus or minus certain adjustments from column 4. For exceptions to the 50% rule, see Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

**** If the tax year is shorter than 365 days, prorate the CCA claim. Some classes of property do not have to be prorated. See the *T2 Corporation Income Tax Guide* for more information.

T2 SCH 8 (06)

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PUC Distribution Inc.
86709 6778 RC0001

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SCHEDULE 9

RELATED AND ASSOCIATED CORPORATIONS

Name of corporation	Business Number	Tax year end Year Month Day
PUC Distribution Inc.	86709 6778 RC0001	2006-12-31

This schedule is to be completed by a corporation having one or more of the following:
- related corporation(s)
- associated corporations(s)

	Name 100	Country of residence (if other than Canada) 200	Business Number (Canadian corporation only) (see note 1) 300	Relationship code (see note 2) 400	Number of common shares owned 500	% of common shares owned 550	Number of preferred shares owned 600	% of preferred shares owned 650	Book value of capital stock 700
1.	PUC Inc		89839 7518 RC0001	1	2,000	100.000			4,656,146
2.	PUC Services Inc		87626 3526 RC0001	3					
3.	PUC Telecom Inc.		88614 1811 RC0001	3					
4.	PUC Energies Inc		87626 3724 RC0001	3					

Note 1: Enter "NR" if a corporation is not registered.
Note 2: Enter the code number of the relationship that applies from the following order: 1 – Parent 2 – Subsidiary 3 – Associated 4 – Related, but not associated.

T2 SCH 9(99)

Canada

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SCHEDULE 23

AGREEMENT AMONG ASSOCIATED CANADIAN-CONTROLLED PRIVATE CORPORATIONS TO ALLOCATE THE BUSINESS LIMIT

- For use by a Canadian-controlled private corporation (CCPC) to identify all associated corporations and to assign a percentage for each associated corporation. This percentage will be used to allocate the business limit for purposes of the small business deduction. Information from this schedule will also be used to determine the date the balance of tax is due and to calculate the reduction to the business limit.
- An associated CCPC that has more than one tax year ending in a calendar year, is required to file an agreement for each tax year ending in that calendar year.

Column 1: Enter the legal name of each of the corporations in the associated group. Include non-CCPCs and CCPCs that have filed an election under subsection 256(2) of the *Income Tax Act* not to be associated for purposes of the small business deduction.

Column 2: Provide the Business Number for each corporation (if a corporation is not registered, enter "NR").

Column 3: Enter the association code that applies to each corporation:
1 - Associated for purposes of allocating the business limit (unless code 5 applies)
2 - CCPC that is a "third corporation" that has elected under subsection 256(2) not to be associated for purposes of the small business deduction
3 - Non-CCPC that is a "third corporation" as defined in subsection 256(2)
4 - Associated non-CCPC
5 - Associated CCPC to which code 1 does not apply because of a subsection 256(2) election made by a "third corporation"

Column 4: Enter the business limit for the year of each corporation in the associated group. The business limit is computed at line 4 on page 4 of each respective corporation's T2 return.

Column 5: Assign a percentage to allocate the business limit to each corporation that has an association code 1 in column 3. The total of all percentages in column 5 cannot exceed 100%.

Column 6: Enter the business limit allocated to each corporation by multiplying the amount in column 4 by the percentage in column 5. Add all business limits allocated in column 6 and enter the total at line A. Ensure that the total at line A falls within the range for the calendar year to which the agreement applies:

Calendar year	Acceptable range
2004	$225,001 to $250,000
2005	$250,001 to $300,000
2006	maximum $300,000
2007	$300,001 to $400,000

If the calendar year to which this agreement applies is after 2007, ensure that the total at line A does not exceed $400,000.

Allocating the business limit

Date filed (do not use this area) . . . . . **025** Year Month Day

Enter the calendar year to which the agreement applies . . . . . **050** Year 2006

Is this an amended agreement for the above-noted calendar year that is intended to replace an agreement previously filed by any of the associated corporations listed below? . . . . . **075** 1 Yes [ ] 2 No [X]

	1 Names of associated corporations **100**	2 Business Number of associated corporations **200**	3 Asso-ciation code **300**	4 Business limit for the year (before the allocation) $	5 Percentage of the business limit % **350**	6 Business limit allocated* $ **400**	
1	PUC Distribution Inc.	86709 6778 RC0001	1	300,000	57.4175	172,253	
2	PUC Inc	89839 7518 RC0001	1	300,000	42.5825	127,748	
3	PUC Services Inc	87626 3526 RC0001	1	300,000			
4	PUC Telecom Inc.	88614 1811 RC0001	1	300,000			
5	PUC Energies Inc	87626 3724 RC0001	1	300,000			
				Total	100.0000	300,001	A

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Business limit reduction under subsection 125(5.1)

The business limit reduction is calculated in the small business deduction area of the T2 return. One of the factors used in this calculation is the "Large corporation amount" at line 415 of the T2 return. If the corporation is a member of an associated group** of corporations in the current tax year, the amount at line 415 of the T2 return is equal to 0.225% x (A - $10,000,000) where, "A" is the total of taxable capital employed in Canada*** of each corporation in the associated group for its last tax year ending in the preceding calendar year.

*Each corporation will enter on line 410 of the T2 return, the amount allocated to it in column 6. However, if the corporation's tax year is less than 51 weeks, prorate the amount in column 6 by the number of days in the tax year divided by 365, and enter the result on line 410 of the T2 return.

Special rules apply if a CCPC has more than one tax year ending in a calendar year and is associated in more than one of those years with another CCPC that has a tax year ending in the same calendar year. In this case, the business limit for the second (or subsequent) tax year(s) will be equal to the lesser of the business limit determined for the first tax year ending in the calendar year and the business limit determined for the second (or subsequent) tax year(s) ending in the same calendar year.

** The associated group includes the corporation filing this schedule and each corporation that has an "association code" of 1 or 4 in column 3.

*** "Taxable capital employed in Canada" has the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4 of the *Income Tax Act*.

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2006-12-31

PUC Distribution Inc.
86709 6778 RC0001

Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 36

AGREEMENT AMONG RELATED CORPORATIONS – PART I.3 TAX

- Members of a related group of corporations should use this schedule to allocate the capital deduction of $50,000,000 among the members of the related group. **Do not file this agreement if no members of the related group have to pay Part I.3 tax.**
- In cases where a related corporation has more than one taxation year ending in a calendar year, it has to file an agreement for each of those taxation years.
- A corporation that is related to any other corporation at any time in a taxation year of the corporation that ends in a calendar year may file such an agreement.
- In accordance with subsection 181.5(7) of the federal *Income Tax Act*, a Canadian-controlled private corporation is not considered to be related to another corporation for purposes of the capital deduction unless it is also associated with that corporation.

Agreement

Date filed (do not use this area) . . . . . **010** Year Month Day

Is this an amended agreement? . . . . . **020** 1 Yes ☐ 2 No ☒

Calendar year to which the agreement applies . . . . . **030** Year 2006

Note: This agreement must include all the information indicated below for all members of the related group, including members to which no amount of capital deduction is allocated for the year. However, any member that is exempt from Part 1.3 tax under subsection 181.1(3) does not have to be included.

	Names of all corporations which are members of the related group **200**	Business Number (if a corporation is not registered, enter "NR") **300**	Allocation of capital deduction for the year $ **400**	Taxation year end to which this agreement applies* (YYYY/MM/DD) **500**
	PUC Distribution Inc.	86709 6778 RC0001	24,260,489	
1	PUC Inc	89839 7518 RC0001		
2	PUC Services Inc	87626 3526 RC0001	25,739,511	
3	PUC Telecom Inc.	88614 1811 RC0001		
4	PUC Energies Inc	87626 3724 RC0001		

Total (cannot be more than $50,000,000) 50,000,000

* Entries are only required in this column for a corporation that has more than one taxation year ending in the same calendar year and is related in two or more of those taxation years to another corporation that has a taxation year ending in that calendar year. The capital deduction of the first corporation for each such taxation year at the end of which it is related to the other corporation is an amount equal to its capital deduction for the first such taxation year. Enter the taxation year end to which this agreement applies.

ˆ2 SCH 36 (04)

Canada

GENERAL INFORMATION

However, we may reassess a T2 return for a taxation year at **any time** if:

- the person filing the return has made any misrepresentation that is attributable to neglect, ca wilful default, or has committed any fraud in filing the return or in supplying any information;
- the person filing the return has filed Form T2029, *Waiver in Respect of the Normal Reasses* within that taxation year's normal reassessment period that has not been revoked.

ii. Actual Ontario CT23 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;

Response
Please see below

Ontario — Ministry of Finance
Corporations Tax
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

2006 CT23 Corporations Tax and Annual Return

For taxation years commencing after December 31, 2003

Corporations Tax Act – Ministry of Finance (MOF)
Corporations Information Act – Ministry of Government Services (MGS)

This form is a combination of the Ministry of Finance (MOF) **CT23 Corporations Tax Return** and the Ministry of Government Services (MGS) **Annual Return**. Page 1 is a common page required for both Returns. For tax purposes, depending on which criteria the corporation satisfies, it must complete either the **Exempt from Filing (EFF)** declaration on page 2 or file the **CT23 Return** on pages 3-17. Corporations that **do not** meet the EFF criteria but **do** meet the Short-Form criteria, may request and file the **CT23 Short-Form Return** (see page 2).

The **Annual Return** (common page 1 and MGS Schedule A on pages 18 and 19, and Schedule K on page 20) contains non-tax information collected under the authority of the *Corporations Information Act* for the purpose of maintaining a public database of corporate information. This return must be completed by Ontario share-capital corporations or Foreign-Business share-capital corporations that have an extra-provincial licence to operate in Ontario.

CLIENT'S COPY

MGS Annual Return Required? *(Not required if already filed or Annual Return exempt. Refer to Guide)* [X] Yes [ ] No — **Page 1 of 20**

Ministry Use

Corporation's Legal Name *(including punctuation)*	PUC Distribution Inc.
Ontario Corporations Tax Account No. (MOF)	1800173
Mailing Address	765 Queen Street East P.o. Box 9000 Sault Ste Marie ON CA P6A 6P2
This Return covers the Taxation Year — Start (year month day)	2006-01-01
End (year month day)	2006-12-31
Has the mailing address changed since last filed CT23 Return?	[ ] Yes
Date of Change (year month day)	
Date of Incorporation or Amalgamation (year month day)	2000-02-18
Registered/Head Office Address	765 Queen Street East P.o. Box 9000 Sault Ste Marie ON CA P6A 6P2
Ontario Corporation No. (MGS)	1800173
Location of Books and Records	765 Queen Street E Sault Ste. Marie ON CA P6A 6P2
Canada Revenue Agency Business No. (If applicable, enter)	86709 6778 RC0001
Name of person to contact regarding this CT23 Return	Terry Greco
Telephone No.	(705) 759-6566
Fax No.	
Jurisdiction Incorporated	Ontario
Address of Principal Office in Ontario *(Extra-Provincial Corporations only)* (MGS)	Ontario Canada
If not incorporated in Ontario, indicate the date Ontario business activity commenced and ceased: Commenced (year month day)	
Ceased (year month day)	
	[X] *Not Applicable*
Former Corporation Name *(Extra-Provincial Corporations only)* (MGS)	[X] *Not Applicable*
Preferred Language / *Langue de préférence*	[X] English *anglais* [ ] French *français*

Ministry Use

Information on Directors/Officers/Administrators must be completed on MGS Schedule A or K as appropriate. If additional space is required for Schedule A, only this schedule may be photocopied. State number submitted (MGS). No. of Schedule(s):

If there is **no change** to the Directors'/Officers'/Administrators' information previously submitted to MGS, please check (X) this box. Schedule(s) A and K are not required (MGS). [X] No Change

Certification (MGS)

I certify that all information set out in the **Annual Return** is true, correct and complete.

Name of Authorized Person *(Print clearly or type in full)*
Terry Greco

Title: D [ ] Director O [X] Officer P [ ] Other individuals having knowledge of the Corporation's business activities

Note: Sections 13 and 14 of the *Corporations Information Act* provide penalties for making false or misleading statements or omissions.

CORPORATE TAXPREP - 2006 CT23 - 2006 V.2.1 - 070A

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

CT23 Page 3 of 20

CT23 Corporations Tax Return

Identification continued (for CT23 filers only)

Please check applicable (X) box(es) and complete required information.

Type of corporation

1

1 [ ] Canadian-controlled Private (CCPC) all year (Generally a private corporation of which 50% or more shares are owned by Canadian residents.) (fed.s.125(7)(b))

2 [ ] Other Private

3 [ ] Public

4 [ ] Non-share Capital

5 [X] Other *(specify)* ▼

Electrity Act

Share Capital with full voting rights owned by Canadian Residents (nearest percent) ______ %

2

1 [ ] Family Farm corporation s.1(2)

2 [ ] Family Fishing corporation s.1(2)

3 [ ] Mortgage Investment corporation s.47

4 [ ] Credit Union s.51

5 [ ] Bank Mortgage subsidiary s.61(4)

6 [ ] Bank s.1(2)

7 [ ] Loan and Trust corporation s.61(4)

8 [ ] Non-resident corporation s.2(2)(a) or (b)

9 [ ] Non-resident corporation s.2(2)(c)

10 [ ] Mutual Fund corporation s.48

11 [ ] Non-resident owned Investment corporation s.49

12 [ ] Non-resident ship or aircraft under reciprocal agreement with Canada s.28(b)

14 [ ] Bare Trustee corporation

15 [ ] Branch of Non-resident s.63(1)

16 [ ] Financial institution prescribed by Regulation only

17 [ ] Investment Dealer

18 [ ] Generator of electrical energy for sale or producer of steam for use in the generation of electrical energy for sale

19 [ ] Hydro successor, municipal electrical utility or subsidiary of either

20 [ ] Producer and seller of steam for uses other than for the generation of electricity

21 [ ] Insurance Exchange s.74.4

22 [ ] Farm Feeder Finance Co-operative corporation

23 [ ] Professional corporation (incorporated professionals only)

[ ] This is the first year filing after incorporation or an amalgamation (If checked, attach Ontario Schedule 24.)

[ ] Amended Return

[ ] Taxation year end change – Canada Revenue Agency approval required

[ ] Final taxation year up to dissolution *(Note: for discontinued businesses, see guide.)*

[ ] Final taxation year before amalgamation

[ ] The corporation has a floating fiscal year end

[ ] There has been a transfer or receipt of asset(s) involving a corporation having a Canadian permanent establishment outside Ontario

[ ] There was an acquisition of control to which subsection 249(4) of the federal *Income Tax Act* (ITA) applies since the previous taxation year

If checked, date control was acquired — year / month / day

[ ] The corporation was involved in a transaction where all or substantially all (90% or more) of the assets of a non-arm's length corporation were received in the taxation year and subsection 85(1) or 85(2) of the federal ITA applied to the transaction (If checked, attach Ontario Schedule 44.)

[ ] First year filing of a parent corporation after winding-up a subsidiary corporation(s) under section 88 of the federal ITA during the taxation year. (If checked, attach Ontario Schedule 24.)

[ ] Section 83.1 of the CTA applies (redirection of payments for certain electricity corporations)

Yes	No	
	X	Was the corporation inactive throughout the taxation year?
X		Has the corporation's Federal T2 Return been filed with the Canada Revenue Agency?
		Are you requesting a refund due to:
	X	the Carry-back of a Loss?
X		an Overpayment?
	X	a Specified Refundable Tax Credit?
	X	Are you a member of a Partnership or Joint Venture?

Complete if applicable

Ontario Retail Sales Tax Vendor Permit no. (Use head office no.)

Ontario Employer Health Tax Account no. (Use head office no.)

Specify major business activity

CORPORATE TAXPREP - 2006 CT23 - 2006 V.2.1 - 070A

Income Tax

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Allocation – If you carry on a business through a permanent establishment in a jursdiction outside Ontario, you may allocate that portion of taxable income deemed earned in that jurisdiction to that jurisdiction (s.39) (Int.B. 3008).

DOLLARS ONLY

Net Income (loss) for Ontario purposes (per reconciliation schedule, page 15)	±	From 690	1,705,567
Subtract: Charitable donations	–	1	
Subtract: Gifts to Her Majesty in right of Canada or a province and gifts of cultural property *(Attach schedule 2)*	–	2	
Subtract: Taxable dividends deductible, per federal Schedule 3	–	3	
Subtract: Ontario political contributions *(Attach Schedule 2A)* (Int.B. 3002R)	–	4	
Subtract: Federal Part VI.1 tax ____ x 3	–	5	
Subtract: Prior years' losses applied – Non-capital losses	–	From 704	1,705,567
Net capital losses (page 16) From 715 ____ x inclusion rate 50.000000 % =	–	714	
Farm losses	–	From 724	
Restricted farm losses	–	From 734	
Limited partnership losses	–	From 754	
Taxable Income (Non-capital loss)	=	10	

Addition to taxable income for unused foreign tax deduction for federal purposes + 11 ____

Adjusted Taxable Income 10 + 11 (if 10 is negative, enter 11) = 20 ____

Taxable Income

Number of Days in Taxation Year

From 10 (or 20 if applicable) ____ x 30 100.0000 % (Ontario Allocation) x 12.5 % x 33 (Days after Dec. 31, 2002 and before Jan. 1, 2004) ____ ÷ 73 (Total Days) 365 = + 29 ____

From 10 (or 20 if applicable) ____ x 30 100.0000 % (Ontario Allocation) x 14 % x 34 (Days after Dec. 31, 2003) 365 ÷ 73 (Total Days) 365 = + 32 ____

Income Tax Payable (before deduction of tax credits) 29 + 32 = 40 ____

Incentive Deduction for Small Business Corporations (IDSBC) (s.41)

If this section is not completed, the IDSBC will be denied.

Did you claim the federal Small Business Deduction (fed.s.125(1)) in the taxation year or would you have claimed the federal Small Business Deduction had the provisions of fed.s.125(5.1) not been applicable in the taxation year? (X) ☐ Yes ☒ No

Income from active business carried on in Canada for federal purposes (fed.s.125(1)(a)) 50 ____

Federal taxable income, less adjustment for foreign tax credit (fed.s.125(1)(b)) + 51 ____

Add: Losses of other years deducted for federal purposes (fed.s.111) + 52 ____

Subtract: Losses of other years deducted for Ontario purposes (s.34) – 53 ____

= ____ ▸ 54 ____

Federal Business limit (line 410 of the T2 Return) for the year before the application of fed.s.125(5.1) 55 172,253

Ontario Business Limit Calculation

320,000 x 31 (Days after Dec. 31, 2002 and before Jan. 1, 2004) ____ ÷ * ** 365 = + 46 ____

400,000 x 34 (Days after Dec. 31, 2003) 365 ÷ * ** 365 = + 47 400,000

Business Limit for Ontario purposes 46 + 47 = 44 400,000 x 48 57.4175 % (Percentage of Federal Business limit (from T2 Schedule 23). Enter 100% if not associated.) = 45 229,670

Income eligible for the IDSBC From 30 100.0000 % ***Ontario Allocation x 56 (Least of 50, 54 or 45) ____ = 60 ____

Note: *Modified by s.41(6) and (7) for corporations that are members of a partnership. (Refer to Guide.)*

* Note: *Adjust accordingly for a floating taxation year and use 366 for a leap year.*

** Note: *Ontario Allocation for IDSBC purposes may differ from* 30 *if Taxabe Income is allocated to foreign jurisdictions. See special rules (s.41(4)).*

Continued on Page 5

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 5 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

ncome Tax *continued from Page 4*

		Number of Days in Taxation Year		
		Days after Dec. 31, 2002 and before Jan. 1, 2004 ÷ Total Days		
:alculation of IDSBC Rate	7 % x	31 ÷ 73 365	= + 89	
		Days after Dec. 31, 2003 ÷ Total Days		
	8.5 % x	34 365 ÷ 73 365	= + 90	8.5000
DSBC Rate for Taxation Year 89 + 90			= 78	8.5000
:laim	From 60 . x From 78 8.5000 %		= 70	.

:orporations claiming the IDSBC must complete the Surtax section below if the corporation's taxable income or if associated, the associated group's taxable income) is greater than the amount 400,000 in 114 below.

Surtax on Canadian-controlled Private Corporations (s.41.1)

Applies if you have claimed the Incentive Deduction for Small Business Corporations.

Associated Corporation - The Taxable Income of associated corporations is the taxable income or the taxation year ending on or before the date of this corporation's taxation year end.

Taxable Income of the corporation — From 10 (or 20 if applicable) + 80 .

f you are a member of an associated group (X) 81 X (Yes)

Name of associated corporation (Canadian & foreign) (if insufficient space, attach schedule)	Ontario Corporations Tax Account No. (MOF) (if applicable)	Taxation Year End		* Taxable Income (if loss, enter nil)
See schedule			+ 82	.
			+ 83	.
			+ 84	.
Aggregate Taxable Income 80 + 82 + 83 + 84, etc.			= 85	.

	Number of Days in Taxation Year		
	Days after Dec. 31, 2002 and before Jan. 1, 2004 ÷ Total Days		
320,000 x	31 ÷ 73 365	= + 115	.
	Days after Dec. 31, 2003 ÷ Total Days		
400,000 x	34 365 ÷ 73 365	= + 116	400,000 .
	115 + 116	=	400,000 .

— 114 400,000 .

(If negative, enter nil) = 86 .

		Number of Days in Taxation Year		
		Days after Dec. 31, 2002 ÷ Total Days		
:alculation of Specified Rate for Surtax	4.6670 % x	38 365 ÷ 73 365	= + 97	4.6670

From 86 . x From 97 4.6670 % = 87 .

From 87 . x From 60 . ÷ From 114 400,000 . = 88 .

Surtax Lesser of 70 or 88 = 100

Note: Short Taxation Years – Special rules apply where the taxation year is less than 51 weeks for the corporation and/or any corporation associated with it.

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Income Tax *continued from Page 5*

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Additional Deduction for Credit Unions (s.51(4)) *(Attach schedule 17)* 110

Manufacturing and Processing Profits Credit (M&P) (s.43)

Applies to Eligible Canadian Profits from manufacturing and processing, farming, mining, logging and fishing carried on in Canada, as determined by regulations.

Eligible Canadian Profits from mining are the "resource profits from the mining operations", as determined for Ontario depletion purposes, after deducting depletion and resource allowances but excluding amounts from sale of Canadian resource property, rentals or royalties. If you are claiming this credit, attach a copy of Ontario schedule 27.

The whole of the active business income qualifies as Eligible Canadian Profits if: **a)** your active business income from sources other than manufacturing and processing, mining, farming, logging or fishing is 20% or less of the total active business income and **b)** the total active business income is $250,000 or less.

Eligible Canadian Profits + 120

Subtract: Income eligible for the Incentive Deduction for Small Business Corporations (IDSBC) − From 56

Add: Adjustment for Surtax on Canadian-controlled private corporations

From 100 ÷ From 30 100.0000 % ÷ From 78 8.5000 % = 121
*Ontario Allocation

Lesser of 56 or 121 + 122

120 − 56 + 122 = 130

Taxable Income + From 10

Subtract: Income eligible for the Incentive Deduction for Small Business Corporations (IDSBC) − From 56
Add: Adjustments for Surtax on Canadian-controlled private corporations + From 122
Subtract: Taxable Income 10 X Allocation % to jurisdictions outside Canada % − 140
Subtract: Amount by which Canadian and foreign investment income exceeds net capital losses − 141

10 − 56 + 122 − 140 − 141 = 142

Claim

Number of Days in Taxation Year

143 (Lesser of 130 or 142) X From 30 100.0000 % (Ontario Allocation) X 1.5 % X Days after Dec. 31, 2002 and before Jan. 1, 2004: 33 ÷ 73 Total Days: 365 = + 154

143 (Lesser of 130 or 142) X From 30 100.0000 % (Ontario Allocation) X 2 % X Days after Dec. 31, 2003: 34 365 ÷ 73 Total Days: 365 = + 156

M&P claim for taxation year 154 + 156 = 160

Note: Ontario Allocation for M&P Credit purposes may differ from 30 *if Taxable Income is allocated to foreign jurisdictions. See special rules (s.43(1))*

Manufacturing and Processing Profits Credit for Electrical Generating Corporations = 161

Manufacturing and Processing Profits Credit for Corporations that Produce and Sell Steam for uses other than the Generation of Electricity = 162

Credit for Foreign Taxes Paid (s.40)

Applies if you paid tax to a jurisdiction outside Canada on foreign investment income (Int.B. 3001R). *(Attach schedule).* 170

Credit for Investment in Small Business Development Corporations (SBDC)

Applies if you have an unapplied, previously approved credit from prior years' investments in new issues of equity shares in Small Business Development Corporations. Any unused portion may be carried forward indefinitely and applied to reduce subsequent years' income taxes. (Refer to the former *Small Business Development Corporations Act*)

Eligible Credit 175 Credit Claimed 180

Subtotal of Income Tax 40 − 70 + 100 − 110 − 160 − 161 − 162 − 170 − 180 = 190

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Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 7 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

Income Tax *continued from Page 6*

Specified Tax Credits *(Refer to Guide)*

Ontario Innovation Tax Credit (OITC) (s.43.3) *Applies* to scientific research and experimental development in Ontario.
Eligible Credit From 5620 OITC Claim Form *(Attach original Claim Form)* + 191

Co-operative Education Tax Credit (CETC) (s.43.4) *Applies* to employment of eligible students.
Eligible Credit From 5798 CT23 Schedule 113 *(Attach Schedule 113)* + 192

Ontario Film & Television Tax Credit (OFTTC) (s.43.5)
Applies to qualifying Ontario labour expenditures for eligible Canadian content film and television productions. Name of Production 204
Eligible Credit From 5850 of the Certificate of Eligibility issued by the Ontario Media Development Corporation (OMDC)
(Attach the original Certificate of Eligibility) + 193

Graduate Transitions Tax Credit (GTTC) (s.43.6) No. of Graduates From 6596 194
Applies to employment of eligible unemployed post secondary graduates, for employment commencing prior to July 6, 2004 and expenditures incurred prior to January 1, 2005.
Eligible Credit From 6598 CT23 Schedule 115 *(Attach Schedule 115)* + 195

Ontario Book Publishing Tax Credit (OBPTC) (s.43.7)
Applies to qualifying expenditures in respect of eligible literary works by eligible Canadian authors.
Eligible Credit From 6900 OBPTC Claim Form *(Attach **both** the original Claim Form and the Certificate of Eligibility)* + 196

Ontario Computer Animation and Special Effects Tax Credit (OCASE) (s.43.8)
Applies to labour relating to computer animation and special effects on an eligible production.
Eligible Credit From 6700 of the Certificate of Eligibility issued by the Ontario Media Development Corporation (OMDC)
(Attach the original Certificate of Eligibility) + 197

Ontario Business-Research Institute Tax Credit (OBRITC) (s.43.9)
Applies to qualifying R&D expenditures under an eligible research institute contract.
Eligible Credit From 7100 OBRITC Claim Form *(Attach original Claim Form)* + 198

Ontario Production Services Tax Credit (OPSTC) (s.43.10)
Applies to qualifying Ontario labour expenditures for eligible productions where the OFTTC has not been claimed.
Eligible Credit From 7300 of the Certificate of Eligibility issued by the Ontario Media Development Corporation (OMDC)
(Attach the original Certificate of Eligibility) + 199

Ontario Interactive Digital Media Tax Credit (OIDMTC) (s.43.11)
Applies to qualifying labour expenditures of eligible products for the taxation year.
Eligible Credit From 7400 of the Certificate of Eligibility issued by the Ontario Media Development Corporation (OMDC)
(Attach the original Certificate of Eligibility) + 200

Ontario Sound Recording Tax Credit (OSRTC) (s.43.12)
Applies to qualifying expenditures in respect of eligible Canadian sound recordings
Eligible Credit From 7500 OSRTC Claim Form *(Attach **both** the original Claim Form and the Certificate of Eligibility)* + 201

Apprenticeship Training Tax Credit (ATTC) (s.43.13) No. of Apprentices From 5896 202
Applies to employment of eligible apprentices.
Eligible Credit From 5898 CT23 Schedule 114 *(Attach Schedule 114)* + 203

Other (specify) + 203.1

Total Specified Tax Credits 191 + 192 + 193 + 195 + 196 + 197 + 198 + 199 + 200 + 201 + 203 + 203.1 = 220

Specified Tax Credits *Applied to reduce Income Tax* = 225

Income Tax 190 − 225 **OR Enter NIL if reporting Non-Capital Loss** *(amount cannot be negative)* = 230

To determine if the Corporate Minimum Tax (CMT) is applicable to your Corporation, see **Determination of Applicability** section for the CMT on **Page 8.** If CMT is not applicable, transfer amount in 230 to Income Tax in **Summary** section on **Page 17.**

OR

If CMT is not applicable for the current taxation year but your corporation has CMT Credit Carryovers that you want to apply to reduce income tax otherwise payable, then proceed to and complete the **Application of CMT Credit Carryovers** section part B, on **Page 8.**

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Corporate Minimum Tax (CMT)

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Total Assets of the corporation	+ 240	53,115,654	
Total Revenue of the corporation		+ 241	57,861,619

The above amounts include the corporation's and associated corporations' share of any partnership(s) / joint venture(s) total assets and total revenue.

If you are a member of an associated group (X) 242 (Yes)

Name of associated corporation (Canadian & foreign) *if insufficient space attach schedule*	Ontario Corporations Tax Account No. (MOF) (if applicable)	Taxation Year End	Total Assets	Total Revenue
			+ 243	+ 244
			+ 245	+ 246
			+ 247	+ 248
Aggregate Total Assets 240 + 243 + 245 + 247, etc.			= 249 53,115,654	
Aggregate Total Revenue 241 + 244 + 246 + 248, etc.				= 250 57,861,619

Determination of Applicability

Applies if ***either*** Total Assets 249 exceeds $5,000,000 ***or*** Total Revenue 250 exceeds $10,000,000.

Short Taxation Years – Special rules apply for determining total revenue where the taxation year of the corporation or any associated corporation or any fiscal period of any partnership(s) / joint venture(s) of which the corporation or associated corporation is a member, is less than 51 weeks.

Associated Corporation – The total assets or total revenue of associated corporations is the total assets or total revenue for the taxation year ending on or before the date of the claiming corporation's taxation year end.

If CMT is applicable to current taxation year, complete section **Calculation: CMT** below and **Corporate Minimum Tax Schedule 101**.

Calculation: CMT *(Attach Schedule 101.)*

Gross CMT Payable - - CMT Base From Schedule 101 2136 ____ (If negative, enter zero) X From 30 100.0000 % X (Ontario Allocation) 4 % = 276 ____

Subtract: Foreign Tax Credit for CMT purposes *(Attach Schedule)*	− 277	
Subtract: Income Tax	− From 190	
Net CMT Payable (If negative, enter Nil on Page 17.)	= 280	

If 280 is less than zero and you do not have a CMT credit carryover, transfer 230 from Page 7 to **Income Tax Summary, on Page 17.**

If 280 is less than zero and you have a CMT credit carryover, complete A & B below.

If 280 is greater than or equal to zero, transfer 230 to **Page 17** and transfer 280 to **Page 17, and to Part 4 of Schedule 101: Continuity of CMT Credit Carryovers.**

CMT Credit Carryover available From Schedule 101 From 2333 48,179

Application of CMT Credit Carryovers

A.	Income Tax (before deduction of specified credits)		+ From 190	
	Gross CMT Payable	+ From 276		
	Subtract: Foreign Tax Credit for CMT purposes	− From 277		
	If 276 − 277 is negative, enter NIL in 290	=	− 290	
	Income Tax eligible for CMT Credit		= 300	
B.	Income Tax (after deduction of specified credits)		+ From 230	
	Subtract: CMT credit used to reduce income taxes		− 310	
	Income Tax		= 320	*Transfer to page 17*

If A & B apply, 310 ***cannot exceed the lesser of*** 230, 300 ***and your CMT credit carryover available*** 2333.

If only B applies, 310 ***cannot exceed the lesser of*** 230 ***and your CMT credit carryover available*** 2333.

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Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 9 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

Capital Tax *(Refer to Guide and Int.B. 3011R)*

f your corporation is a Financial Institution (s.58(2)), complete lines 480 and 430 on page 10 then proceed to page 13.

f your corporation is not a member of an associated group and/or partnership ind the Gross Revenue and Total Assets as calculated on page 10 in 480 ind 430 are both $3,000,000 or less, your corporation is exempt from Capital Tax for the taxation year, except for a branch of a non-resident corporation. A corporation that meets these criteria should disregard all other Capital Tax items (including the calculation of Taxable Capital). Enter NIL in 550 on page 12 and complete the return from that point. All other corporations must compute their Taxable Capital in order to determine their Capital Tax payable.

Members of a partnership (limited or general) or a joint venture, must attach all financial statements of each partnership or joint venture of which they are a member. The Paid-up Capital of each corporate partner must include its share of liabilities that would otherwise be included if the partnership were a corporation. If Investment Allowance is claimed, Total Assets must be adjusted by adding the corporation's share of the partnership's Total Assets and by deducting investments in the partnership as it appears on the corporation's balance sheet, in addition to any other required adjustments (s.61(5)). Special rules apply to limited partnerships (Int.B. 3017R).

Any Assets and liabilities of a corporation that are being utilized in a joint venture must be included along with the corporation's other Assets and liabilities when calculating its Taxable Paid-up Capital.

Special rules and rates apply to Non-Resident corporations (s.63, s.64 and s.69(3)).

Paid-up Capital of Non-resident: Paid-up capital employed in Canada of a non-resident subject to tax by virtue of s.2(2)(a) or 2(2)(b), and whose **business is not carried on solely in Canada** is deemed to be the **greater** of (1) taxable Income in Canada divided by 8 percent or (2) total assets in Canada minus certain indebtedness in accordance with the provisions of s.63(1)(a) (Int.B. 3010).

Paid-up Capital

Paid-up capital stock (Int.B. 3012R and 3015R)	+	350	4,656,146
Retained earnings (if deficit, deduct) (Int.B. 3012R)	±	351	-1,182,037
Capital and other surpluses, excluding appraisal surplus (Int.B.3012R)	+	352	
Loans and advances *(Attach schedule)* (Int.B. 3013R)	+	353	41,940,000
Bank loans (Int.B. 3013R)	+	354	
Bankers acceptances (Int.B. 3013R)	+	355	
Bonds and debentures payable (Int.B. 3013R)	+	356	
Mortgages payable (Int.B. 3013R)	+	357	
Lien notes payable (Int.B. 3013R)	+	358	
Deferred credits (including income tax reserves, and deferred revenue where it would also be included in paid-up capital for the purposes of the large corporations tax) (Int.B. 3013R)	+	359	3,191,660
Contingent, investment, inventory and similar reserves (Int.B. 3012R)	+	360	
Other reserves not allowed as deductions for income tax purposes *(Attach schedule)* (Int.B. 3012R)	+	361	
Share of partnership(s) or joint venture(s) paid-up capital *(Attach schedule(s))* (Int.B. 3017R)	+	362	
Subtotal	=	370	48,605,769
Subtract: Amounts deducted for income tax purposes in excess of amounts booked *(Retain calculations. Do not submit.)* (Int.B. 3012R)	−	371	
Deductible R & D expenditures and ONTTI costs deferred for income tax if not already deducted for book purposes (Int.B. 3015R)	−	372	
Total Paid-up Capital	=	380	48,605,769
Subtract: Deferred mining exploration and development expenses (s.62(1)(d)) (Int.B. 3015R)	−	381	
Electrical Generating Corporations Only – All amounts with respect to electrical generating assets, except to the extent that they have been deducted by the corporation in computing its income for income tax purposes for the current or any prior taxation year, that are deductible by the corporation under clause 11(10)(a) of the *Corporations Tax Act*, and the assets are used both in generating electricity from a renewable or alternative energy source and are qualifying property as prescribed by regulation	−	382	
Net Paid-up Capital	=	390	48,605,769

Eligible Investments *(Refer to Guide and Int.B. 3015R)*

Attach computations and list of corporation names and investment amounts. Short-term investments (bankers acceptances, commercial paper, etc.) are eligible for the allowance only if issued for a term of and held for 120 days or more prior to the year end of the investor corporation.

Bonds, lien notes and similar obligations, (similar obligations, e.g. stripped interest coupons, applies to taxation years ending after October 30, 1998)	+	402	
Mortgages due from other corporations	+	403	
Shares in other corporations (certain restrictions apply) *(Refer to Guide)*	+	404	
Loans and advances to unrelated corporations	+	405	
Eligible loans and advances to related corporations (certain restrictions apply) *(Refer to Guide)*	+	406	6,065,281
Share of partnership(s) or joint venture(s) eligible investments *(Attach schedule)*	+	407	
Total Eligible Investments	=	410	6,065,281

Continued on Page 10

Capital Tax *continued from Page 9*

Total Assets (Int.B. 3015R) — *DOLLARS ONLY*

Total Assets per balance sheet	+	420	53,115,654
Mortgages or other liabilities deducted from assets	+	421	
Share of partnership(s)/joint venture(s) total assets *(Attach schedule)*	+	422	
Subtract: Investment in partnership(s)/joint venture(s)	−	423	
Total Assets as adjusted	=	430	53,115,654
Amounts in 360 and 361 (if deducted from assets)	+	440	
Subtract: Amounts in 371, 372 and 381	−	441	
Subtract: Appraisal surplus if booked	−	442	
Add or Subtract: Other adjustments (specify on an attached schedule)	±	443	
Total Assets	=	450	53,115,654
Investment Allowance (410 ÷ 450) x 390 — **Not to exceed** 410	=	460	5,550,297
Taxable Capital 390 − 460	=	470	43,055,472
Gross Revenue (as adjusted to include the share of any partnership(s)/joint venture(s) Gross Revenue)		480	57,861,619
Total Assets (as adjusted)	From	430	53,115,654

Calculation of Capital Tax for all Corporations except Financial Institutions

***Note:** This version (2006) of the CT23 may only be used for a taxation year that commenced after December 31, 2003.*
Financial Institutions use calculations on page 13.

Important: If the corporation is a family farm corporation, family fishing corporation or a credit union that is not a Financial Institution, complete only Section A below.

OR If the corporation is **not** a member of an associated group and/or partnership, complete Section B below, then review only the Capital Tax calculations in Section C below, selecting and completing the one specific subsection (e.g. C3) that applies to the corporation.

OR If the corporation **is** a member of an associated group and/or partnership, complete Section B below and Section D on page 11, and if applicable, complete Section E or Section F on page 12. Note: if the corporation is a member of a connected partnership, please refer to the CT23 Guide for additional instructions before completing the Capital Tax section.

SECTION A

This section applies only if the corporation is a family farm corporation, a family fishing corporation or a credit union that is not a Financial Institution (Int.B. 3018).
Enter NIL in 550 on page 12 and complete the return from that point.

SECTION B

Calculation of Taxable Capital Deduction (TCD) — **Number of Days in Taxation Year**

	Days		Total Days		Box	Amount
5,000,000 x	Days before Jan. 1, 2005: 35	÷ 73	365	= +	500	
7,500,000 x	Days after Dec. 31, 2004 and before Jan. 1, 2006: 36	÷ 73	365	= +	501	
10,000,000 x	Days after Dec. 31, 2005 and before Jan. 1, 2007: 37 365	÷ 73	365	= +	502	10,000,000
Taxable Capital Deduction (TCD) 500 + 501 + 502				=	503	10,000,000

SECTION C

This section applies if the corporation is **not** a member of an associated group and/or partnership.

C1. If 430 and 480 on page 10 are both $3,000,000 or less, enter NIL in 550 on page 12 and complete the return from that point.

C2. If Taxable Capital in 470 **is equal to or less than the TCD** in 503, enter NIL in 550 on page 12 and complete the return from that point.

C3. If Taxable Capital in 470 **exceeds the TCD** in 503, complete the following calculation and transfer the amount from 523 to 543 on page 12, and complete the return from that point.

+ From 470 ______
− From 503 ______
= 471 ______ x From 30 100.0000 % (Ontario Allocation) x 0.3 % x 555 365 (Days in taxation year) / 365 (366 if leap year) = + 523 ______

If floating taxation year, refer to Guide.

Transfer to 543 on page 12 and complete the return from that point

continued on Page 11

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 11 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

Capital Tax Calculation *continued from Page 10*

SECTION D

This section applies ONLY to a corporation that is a member of an associated group (excluding Financial Institutions and corporations exempt from Capital Tax) and/or partnership. You must check either 509 or 524 and complete this section before you can calculate your Capital Tax Calculation under either Section E or Section F.

D1. [ ] 509 (X if applicable) All corporations that you are associated with do **not** have a permanent establishment in Canada.

If Taxable Capital 470 on page 10 is equal to or less than the TCD 503 on page 10, enter NIL in 550 on page 12 and complete the return from that point.

If Taxable Capital 470 on page 10 exceeds the TCD 503 on page 10, proceed to **Section E**, enter the TCD amount in 542 in Section E, and complete Section E and the return from that point.

D2. [X] 524 (X if applicable) One or more of the corporations that you are associated with **maintains** a permanent establishment in Canada.

You and your associated group may continue to allocate the TCD by completing the Calculation below. Or, the associated group **may file an election** under subsection 69(2.1) of the *Corporations Tax Act*, whereby total assets are used to allocate the TCD among the associated group. Once a ss.69(2.1) election is filed, all members of the group will then be required to file in accordance with the election and allocate a portion (portion is henceforth referred to as **Net Deduction**) of the capital tax effect relating to the TCD to each corporation in the group on the basis of the ratio that each corporation's total assets multiplied by its Ontario allocation is to the total assets of the group.

The total asset amounts and Ontario allocation percentages to be used for this calculation must be taken from each corporation's financial information from its last taxation year ending in the immediately preceding calendar year.

In addition, although each corporation in the associated group may deduct its Net Deduction amount as apportioned by the total asset formula, the group may, at the group's option, reallocate the group's total Net Deduction among the group on what ever basis the corporate group wishes, as long as the total of the reallocated amounts does not exceed the group's total Net Deduction amount originally calculated for the associated group.

Calculation

Do **not** complete this calculation if ss.69(2.1) election is filed

Taxable Capital From 470 on page 10 . . . . . + From 470 ______ .

Determine aggregate taxable capital of an associated group (excluding financial institutions and corporations exempt from capital tax) and/or partnership having a permanent establishment in Canada

Names of associated corporations (excluding Financial Institutions and corporations exempt from Capital Tax) having a permanent establishment in Canada *(if insufficient space, attach schedule)*	Ontario Corporations Tax Account No. (MOF) (if applicable)	Taxation Year End		Taxable Capital
			+ 531	.
			+ 532	.
			+ 533	.
Aggregate Taxable Capital 470 + 531 + 532 + 533, etc.			= 540	.

If 540 above is equal to or less than the TCD 503 on page 10, the corporation's Capital Tax for the taxation year, is NIL.

Enter NIL in 523 in section E on page 12, as applicable.

If 540 above is greater than the TCD 503 on page 10, the corporation must compute its share of the TCD below in order to calculate its Capital Tax for the taxation year under Section E on page 12.

From 470 ______ . ÷ From 540 ______ . × From 503 ______ . = 541 ______ .

Transfer to 542 in Section E on page 12

Ss.69(2.1) Election Filed

[X] 591 (X if applicable) **Election filed.** *Attach a copy of Schedule 591 with this CT23 Return.* Proceed to **Section F** on page 12.

continued on Page 12

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Capital Tax Calculation *continued from Page 11*

SECTION E

This section applies if the corporation **is** a member of an associated group and/or partnership whose total **aggregate** Taxable Capital [540] on page 11 exceeds the TCD [503] on page 10.

Complete the following calculation and transfer the amount from [523] to [543], and complete the return from that point.

+ From [470]	.					
− [542]	.					
= [471]	.	x From [30] 100.0000 % Ontario Allocation	x 0.3 %	x [555] 365 (Days in taxation year) ÷ 365 (366 if leap year)	= + [523] .	Total Capital Tax for the taxation year. *Transfer to [543] and complete the return from that point*

SECTION F

This section applies if a corporation is a member of an associated group and the associated group has filed a ss.69(2.1) election

+ From [470] 43,055,472 .	x From [30] 100.0000 % Ontario Allocation	x 0.3 %	= + [561]	129,166 .
− Capital tax deduction from [995] relating to **your corporation's** Capital Tax deduction, on Schedule 591			− From [995]	.
			= [562]	129,166 .

Capital Tax [562] 129,166 . x [555] 365 (Days in taxation year) ÷ 365 (366 if leap year) = [563] 129,166 . — Total Capital Tax for the taxation year. *Transfer to [543] and complete the return from that point*

If floating taxation year, refer to Guide.

Capital Tax before application of specified credits	= [543]	129,166 .
Subtract: Specified Tax Credits applied to reduce capital tax payable *(Refer to Guide)*	− [546]	.
Capital Tax [543] − [546] *(amount cannot be negative)*	= [550]	129,166 . *Transfer to Page 17*

Continued on Page 13

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 13 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

Capital Tax *continued from Page 12*

Calculation of Capital Tax for Financial Institutions

1.1 Credit Unions only

For taxation years commencing **after May 4, 1999** enter NIL in 550 on page 12, and complete the return from that point.

1.2 Other than Credit Unions

Retain details of calculations for amounts in boxes 565 and 570. Do not submit with this tax return.)

565 ________ . (Lesser of adjusted Taxable Paid Up Capital and Basic Capital Amount in accordance with Division B.1) x 0.6 % x From 30 100.0000 % (Ontario Allocation) x 555 365 (Days in taxation year) ÷ * 365 (366 if leap year) = + 569 ________ .

570 ________ . (Adjusted Taxable Paid Up Capital in accordance with Division B.1 in excess of Basic Capital Amount) x 571 ________ (Capital Tax Rate *(Refer to Guide)*) x From 30 100.0000 % (Ontario Allocation) x 555 365 (Days in taxation year) ÷ * 365 (366 if leap year) = + 574 ________ .

Capital Tax for Financial Institutions – other than Credit Unions (before Section 2) 569 + 574 = 575 ________ .

* *If floating taxation year, refer to Guide.*

2. Small Business Investment Tax Credit

Retain details of eligible investment calculation and, if claiming an investment in CSBIF, retain the original letter approving the credit issued in accordance with the Community Small Business Investment Fund Act. Do not submit with this tax return.)

Allowable Credit for Eligible Investments − 585 ________ .

Financial Institutions: Claiming a tax credit for investment in Community Small Business Investment Fund (CSBIF)? (X) ☐ Yes

Capital Tax - Financial Institutions 575 − 585 = 586 ________ .

Transfer to 543 on Page 12

Premium Tax (s.74.2 & 74.3) *(Refer to Guide)*

1) Uninsured Benefits Arrangements 587 ________ . x 2 % = 588 ________ .
   Applies to Ontario-related uninsured benefits arrangements.

2) Unlicensed Insurance (enter premium tax payable in 588 and attach a detailed schedule of calculations. If subject to tax under (1) above, add both taxes together and enter total tax in 588.)
   Applies to Insurance Brokers and other persons placing insurance for persons resident or property situated in Ontario with unlicensed insurers.

Deduct: Specified Tax Credits applied to reduce premium tax *(Refer to Guide)* − 589 ________ .

Premium Tax 588 − 589 = 590 ________ .
Transfer to page 17

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DOLLARS ONLY

Reconcile net income (loss) for federal income tax purposes with net income (loss) for Ontario purposes if amounts differ

Net Income (loss) for federal income tax purposes, per federal T2 Schedule 1	± 600		1,705,567 (Transfer to Page 15)

Add:

Federal capital cost allowance	+ 601	2,036,892
Federal cumulative eligible capital deduction	+ 602	
Ontario taxable capital gain	+ 603	
Federal non-allowable reserves. Balance beginning of year	+ 604	
Federal allowable reserves. Balance end of year	+ 605	
Ontario non-allowable reserves. Balance end of year	+ 606	
Ontario allowable reserves. Balance beginning of year	+ 607	
Federal exploration expenses (e.g. CEDE, CEE, CDE, COGPE)	+ 608	
Federal resource allowance *(Refer to Guide)*	+ 609	
Federal depletion allowance	+ 610	
Federal foreign exploration and development expenses	+ 611	
All Crown charges, royalties, rentals, etc. deducted for Federal purposes *(Refer to Guide)*	+ 617	

Management fees, rents, royalties and similar payments to non-arms' length non-residents

Number of Days in Taxation Year

612 ______ × 5 / 12.5 × [33 Days after Dec. 31, 2002 and before Jan. 1, 2004] ______ ÷ [73 Total Days] 365 = + 633 ______

612 ______ × 5 / 14 × [34 Days after Dec. 31, 2003] 365 ÷ [73 Total Days] 365 = + 634 ______

Total add-back amount for Management fees, etc. 633 + 634 =	+ 613	
Federal Scientific Research Expenses claimed in year from line 460 of fed. form T661 excluding any negative amount in 473 from Ont. CT23 Schedule 161	+ 615	
Add any negative amount in 473 from Ont. CT23 Schedule 161	+ 616	
Federal allowable business investment loss	+ 620	
Total of other items not allowed by Ontario but allowed federally *(Attach schedule)*	+ 614	
Total of Additions 601 to 611 + 617 + 613 + 615 + 616 + 620 + 614	=	2,036,892 ▶ 640 2,036,892 (Transfer to Page 15)

Deduct:

Ontario capital cost allowance (excludes amounts deducted under 675)	+ 650	2,036,892
Ontario cumulative eligible capital deduction	+ 651	
Federal taxable capital gain	+ 652	
Ontario non-allowable reserves. Balance beginning of year	+ 653	
Ontario allowable reserves. Balance end of year	+ 654	
Federal non-allowable reserves. Balance end of year	+ 655	
Federal allowable reserves. Balance beginning of year	+ 656	
Ontario exploration expenses (e.g. CEDE, CEE, CDE, COGPE) *(Retain calculations. Do not submit.)*	+ 657	
Ontario depletion allowance	+ 658	
Ontario resource allowance *(Refer to Guide)*	+ 659	
Ontario current cost adjustment *(Attach schedule)*	+ 661	
CCA on assets used to generate electricity from natural gas, alternative or renewable resources.	+ 675	
Subtotal of deductions for this page 650 to 659 + 661 + 675	681	2,036,892 (Transfer to Page 15)

Continued on Page 15

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 15 of 20
PUC Distribution Inc.	1800173	2006-12-31	DOLLARS ONLY

Reconcile net income (loss) for federal income tax purposes with net income (loss) for Ontario purposes if amounts differ

continued from Page 14

Net Income (loss) for federal income tax purposes, per federal Schedule 1			From ± 600	1,705,567
Total of Additions on page 14			From = 640	2,036,892
Sub Total of deductions on page 14	From = 681	2,036,892		

Deduct:

Ontario New Technology Tax Incentive (ONTTI) Gross-up
(*Applies* only to those corporations whose Ontario allocation is less than 100% in the current taxation year.)

Capital Cost Allowance (Ontario) (CCA) on prescribed qualifying intellectual property deducted in the current taxation year 662 ____

ONTTI Gross-up deduction calculation:

Gross-up of CCA

From 662 ____ x 100 / (From 30) 100.0000 Ontario Allocation − From 662 ____ = 663 ____

Workplace Child Care Tax Incentive (WCCT)
(*Applies* to eligible expenditures incurred prior to January 1, 2005.)

Qualifying expenditures: 665 ____ x 30 % x 100 / (From 30) 100.0000 Ontario allocation = 666 ____

Workplace Accessibility Tax Incentive (WATI)
(*Applies* to eligible expenditures incurred prior to January 1, 2005.)

Qualifying expenditures: 667 ____ x 100 % x 100 / (From 30) 100.0000 Ontario allocation = 668 ____

Number of Employees accommodated 669 ____

Ontario School Bus Safety Tax Incentive (OSBSTI)
(*Applies* to the eligible acquisition of school buses purchased after May 4, 1999 and before January 1, 2006.) *(Refer to Guide)*

Qualifying expenditures: 670 ____ x 30 % x 100 / (From 30) 100.0000 Ontario allocation = 671 ____

Educational Technology Tax Incentive (ETTI)
(*Applies* to eligible expenditures incurred prior to January 1, 2005.)

Qualifying expenditures: 672 ____ x 15 % x 100 / (From 30) 100.0000 Ontario allocation = 673 ____

Ontario allowable business investment loss	+ 678	
Ontario Scientific Research Expenses claimed in year in 477 **from Ont. CT23 Schedule 161**	+ 679	
Amount added to income federally for an amount that was negative on federal form T661, line 454 or 455 (if filed after June 30, 2003)	+ 677	
Total of other deductions allowed by Ontario *(Attach schedule)*	+ 664	

Total of Deductions 681 + 663 + 666 + 668 + 671 + 673 + 678 + 679 + 677 + 664 = 2,036,892 ▸ 680 2,036,892

Net income (loss) for Ontario Purposes 600 + 640 − 680 = 690 1,705,567 *Transfer to Page 4*

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DOLLARS ONLY

Continuity of Losses Carried Forward

		Non-Capital Losses (1)	Total Capital Losses	Farm Losses	Restricted Farm Losses	Listed Personal Property Losses	Limited Partnership Losses (6)
Balance at Beginning of Year		700 (2) 1,961,509	710 (2)	720 (2)	730	740	750
Add:	Current year's losses (7)	701	711	721	731	741	751
	Losses from predecessor corporations (3)	702	712	722	732		752
Subtotal		703	713	723	733	743	753
Subtract:	Utilized during the year to reduce taxable income	704 (2) 1,705,567	715 (2) (4)	724 (2)	734 (2) (4)	744 (4)	754 (4)
	Expired during the year	705		725	735	745	
	Carried back to prior years to reduce taxable income (5)	706 (2) to Page 17	716 (2) to Page 17	726 (2) to Page 17	736 (2) to Page 17	746	
Subtotal		707 1,705,567	717	727	737	747	757
Balance at End of Year		709 (8) 255,942	719	729	739	749	759

Analysis of Balance at End of Year by Year of Origin

Year of Origin (oldest year first) year month day	Non-Capital Losses	Non-Capital Losses of Predecessor Corporations	Total Capital Losses from Listed Personal Property only	Farm Losses	Restricted Farm Losses
800 9th preceding taxation year 1998-09-30	817 (9)	860 (9)		850	870
801 8th preceding taxation year 1999-09-30	818 (9)	861 (9)		851	871
802 7th preceding taxation year 2000-09-30	819 (9)	862 (9)		852	872
803 6th preceding taxation year 2001-09-30	820	830	840	853	873
804 5th preceding taxation year 2001-12-31	821	831	841	854	874
805 4th preceding taxation year 2002-12-31	822	832	842	855	875
806 3rd preceding taxation year 2003-12-31	823	833	843	856	876
807 2nd preceding taxation year 2004-12-31	824 255,942	834	844	857	877
808 1st preceding taxation year 2005-12-31	825	835	845	858	878
809 Current taxation year 2006-12-31	826	836	846	859	879
Total	829 255,942	839	849	869	889

Notes:

(1) Non-capital losses include allowable business investment losses, fed.s.111(8)(b), as made applicable by s.34.

(2) Where acquisition of control of the corporation has occurred, the utilization of losses can be restricted. See fed.s.111(4) through 111(5.5), as made applicable by s.34.

(3) Includes losses on amalgamation (fed.s.87(2.1) and s.87(2.11)) and/or wind-up (fed.s.88(1.1) and 88(1.2)), as made applicable by s.34.

(4) To the extent of applicable gains/income/at-risk amount only.

(5) Generally a three year carry-back applies. See fed.s.111(1) and fed.s.41(2)(b), as made applicable by s.34.

(6) Where a limited partner has limited partnership losses, attach loss calculations for each partnership.

(7) Include amount from 11 if taxable income is adjusted to claim unused foreign tax credit for federal purposes.

(8) Amount in 709 must equal total of 829 + 839.

(9) Include non-capital losses incurred in taxation years ending after March 22, 2004.

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End	CT23 Page 17 of 20
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Request for Loss Carry-Back (s.80(16))

Applies to corporations requesting a reassessment of the return of one or more previous taxation years under s.80(16) with respect to one or more types of losses carried back.

- If, after applying a loss carry-back to one or more previous years, there is a balance of loss available to carry forward to a future year, it is the corporation's responsibility to claim such a balance for those years following the year of loss within the limitations of fed.s.111, as made applicable by s.34.
- Where control of a corporation has been acquired by a person or group of persons, certain restrictions apply to the carry-forward and carry-back provisions of losses under fed.s.111(4) through 111(5.5), as made applicable by s.34.
- Refunds arising from the loss carry-back adjustment may be applied by the Minister of Finance to amounts owing under **any Act administered by the Ministry of Finance**.
- Any late filing penalty applicable to the return for which the loss is being applied will not be reduced by the loss carry-back.
- The application of a loss carry-back will be available for interest calculation purposes on the day that is the latest of the following:
  1) the first day of the taxation year after the loss year,
  2) the day on which the corporation's return for the loss year is delivered to the Minister, or
  3) the day on which the Minister receives a request in writing from the corporation to reassess the particular taxation year to take into account the deduction of the loss.
- If a loss is being carried back to a **predecessor corporation**, enter the predecessor corporation's account number and taxation year end in the spaces provided under Application of Losses below.

Application of Losses

	Predecessor Ontario Corporation's Tax Account No. (MOF)	Taxation Year Ending year month day	Non-Capital Losses	Total Capital Losses	Farm Losses	Restricted Farm Losses
Total amount of loss			910	920	930	940
Deduct: Loss to be carried back to preceding taxation years and applied to reduce taxable income						
i) 3rd preceding	901	2003-12-31	911	921	931	941
ii) 2nd preceding	902	2004-12-31	912	922	932	942
iii) 1st preceding	903	2005-12-31	913	923	933	943
Total loss to be carried back			From 706	From 716	From 726	From 736
Balance of loss available for carry-forward			919	929	939	949

Summary

Income Tax	+ From 230 or 320	
Corporate Minimum Tax	+ From 280	
Capital Tax	+ From 550	129,166
Premium Tax	+ From 590	
Total Tax Payable	= 950	129,166
Subtract: Payments	− 960	132,038
Capital Gains Refund (s.48)	− 965	
Qualifying Environmental Trust Tax Credit *(Refer to Guide)*	− 985	
Specified Tax Credits *(Refer to Guide)*	− 955	
Other, specify	−	
Balance	= 970	-2,872
If payment due	Enclosed * 990	
If overpayment: Refund *(Refer to Guide)*	= 975	2,872
Apply to (year month day)	980	*(Includes credit interest)*

* Make your cheque (drawn on a Canadian financial institution) or a money order in Canadian funds, payable to the **Minister of Finance** and print your Ontario Corporation's Tax Account No. (MOF) on the back of cheque or money order. *(Refer to Guide for other payment methods.)*

Certification

I am an authorized signing officer of the corporation. I certify that this CT23 return, including all schedules and statements filed with or as part of this CT23 return, has been examined by me and is a true, correct and complete return and that the information is in agreement with the books and records of the corporation. I further certify that the financial statements accurately reflect the financial position and operating results of the corporation as required under section 75 of the *Corporations Tax Act*. The method of computing income for this taxation year is consistent with that of the previous year, except as specifically disclosed in a statement attached.

Name *(please print)*
Terry Greco

Title
Vice-President

Full Residence Address

Signature: T. Greco — Date: 2007-05-08

Note: Section 76 of the *Corporations Tax Act* provides penalties for making false or misleading statements or omissions.

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Corporate Minimum Tax (CMT)
CT23 Schedule 101

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Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Part 1: Calculation of CMT Base

Banks – Net income/loss as per report accepted by Superintendent of Financial Institutions (SFI) under the Bank Act (Canada), adjusted so consolidation/equity methods are not used.

Life insurance corporations – Net income/loss before Special Additional Tax as determined under s.57.1(2)(c) or (d)

Net Income/Loss (unconsolidated, determined in accordance with GAAP)			± 2100	-329,739
Subtract (to the extent reflected in net income/loss):				
Provision for recovery of income taxes / benefit of current income taxes	+ 2101			
Provision for deferred income taxes (credits) / benefit of future income taxes	+ 2102			
Equity income from corporations	+ 2103			
Share of partnership(s)/joint venture(s) income	+ 2104			
Dividends received/receivable deductible under fed.s.112	+ 2105			
Dividends received/receivable deductible under fed.s.113	+ 2106			
Dividends received/receivable deductible under fed.s.83(2)	+ 2107			
Dividends received/receivable deductible under fed.s.138(6)	+ 2108			
Federal Part VI.1 tax paid on dividends declared and paid, under fed.s.191.1(1) ______ x 3	+ 2109			
Subtotal	=		– 2110	
Add (to extent reflected in net income/loss):				
Provision for current taxes / cost of current income taxes	+ 2111			
Provision for deferred income taxes (debits) / cost of future income taxes	+ 2112			
Equity losses from corporations	+ 2113			
Share of partnership(s)/joint venture(s) losses	+ 2114			
Dividends that have been deducted to arrive at net income per Financial Statements s.57.4(1.1) (excluding dividends under fed.s.137(4.1))	+ 2115			
Subtotal	=		+ 2116	

Add/Subtract:

Amounts relating to s.57.9 election/regulations for disposals etc. of property for current/prior years

** Fed.s.85	+ 2117		or – 2118	
** Fed.s.85.1	+ 2119		or – 2120	
** Fed.s.97	+ 2121		or – 2122	
** Amounts relating to amalgamations (fed.s.87) as prescribed in regulations for current/prior years	+ 2123		or – 2124	
** Amounts relating to wind-ups (fed.s.88) as prescribed in regulations for current/ prior years	+ 2125		or – 2126	
** Amounts relating to s.57.10 election/ regulations for replacement re fed.s13(4), 14(6) and 44 for current/prior years	+ 2127		or – 2128	
Interest allowable under ss.20(1)(c) or (d) of ITA to the extent not otherwise deducted in determining CMT adjusted net income			– 2150	

Subtotal (Additions) =	+ 2129	
Subtotal (Subtractions) =	– 2130	
** Other adjustments	± 2131	
Subtotal ± 2100 – 2110 + 2116 + 2129 – 2130 ± 2131	= 2132	-329,739
** Share of partnership(s)/joint venture(s) **adjusted** net income/loss	± 2133	
Adjusted net income (loss) (if loss, transfer to 2202 in *Part 2: Continuity of CMT Losses Carried Forward.*)	= 2134	-329,739
Deduct: * CMT losses: pre-1994 Loss + From 2210		
* CMT losses: other eligible losses + 2211		
=	– 2135	

* CMT losses applied cannot exceed adjusted net income or increase a loss

** *Retain calculations. Do not submit with this schedule.*

CMT Base	= 2136	

Transfer to CMT Base on Page 8 of the CT23 or Page 6 of the CT8

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Corporate Minimum Tax (CMT)
CT23 Schedule 101

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Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Part 2: Continuity of CMT Losses Carried Forward

Balance at Beginning of year NOTES (1), (2)		+ 2201	2,125,836
Add: Current year's losses	+ 2202 329,739		
Losses from predecessor corporations on amalgamation NOTE (3)	+ 2203		
Losses from predecessor corporations on wind-up NOTE (3)	+ 2204		
Amalgamation (X) 2205 Yes Wind-up (X) 2206 Yes			
Subtotal	= 329,739	+ 2207	329,739
Adjustments (attach schedule)		± 2208	
CMT losses available 2201 + 2207 ± 2208		= 2209	2,455,575
Subtract: Pre-1994 loss utilized during the year to reduce adjusted net income	+ 2210		
Other eligible losses utilized during the year to reduce adjusted net income NOTE (4)	+ 2211		
Losses expired during the year	+ 2212		
Subtotal	=	− 2213	
Balances at End of Year NOTE (5) 2209 − 2213		= 2214	2,455,575

Notes:

1) Pre-1994 CMT loss (see s.57.1(1)) should be included in the balance at beginning of the year. Attach schedule showing computation of pre-1994 CMT loss.
2) Where acquisition of control of the corporation has occured, the utilization of CMT losses can be restricted. (see s.57.5(3) and a 57.5(7))
3) Include and indicate whether CMT losses are a result of an amalgamation to which fed.s.87 applies and/or a wind-up to which fed.s.88(1) applies. (see s.57.5(8) and s.57.5(9))
4) CMT losses must be used to the extent of the lesser of the adjusted net income 2134 and CMT losses available 2209.
5) Amount in 2214 must equal sum of 2270 + 2290.

Part 3: Analysis of CMT Losses Year End Balance by Year of Origin

For a pre-1994 loss, use the date of the last taxation year end before your corporation's first taxation year commencing after 1993.

	Year of Origin (oldest year first) year month day	CMT Losses of Corporation	CMT Losses of Predecessor Corporations
2240	9th preceding taxation year 1998-09-30	2260	2280
2241	8th preceding taxation year 1999-09-30	2261	2281
2242	7th preceding taxation year 2000-09-30	2262	2282
2243	6th preceding taxation year 2001-09-30	2263	2283
2244	5th preceding taxation year 2001-12-31	2264	2284
2245	4th preceding taxation year 2002-12-31	2265	2285
2246	3rd preceding taxation year 2003-12-31	2266	2286
2247	2nd preceding taxation year 2004-12-31	2267 1,387,081	2287
2248	1st preceding taxation year 2005-12-31	2268 738,755	2288
2249	Current taxation year 2006-12-31	2269 329,739	2289
Totals		2270 2,455,575	2290

The sum of amounts 2270 + 2290 must equal amount in 2214.

CORPORATE TAXPREP - 2006 V.2.1

Corporate Minimum Tax (CMT)
CT23 Schedule 101

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Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
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Part 4: Continuity of CMT Credit Carryovers

Balance at Beginning of year NOTE (1) .... + 2301 48,179 .

Add: Current year's CMT Credit (280 on page 8 of the CT23 or 347 on page 6 of the CT8. If negative, enter NIL) + From 280 or 347 .

Gross Special Additional Tax NOTE (2) 312 on page 5 of CT8. (Life Insurance corporations only. Others enter NIL.) .... + From 312 .

Subtract Income Tax (190 on page 6 of the CT23 or page 4 of the CT8) .... − From 190 .

Subtotal (If negative, enter NIL) ... = . ► − 2305 .

Current year's CMT credit (If negative, enter NIL) 280 or 347 − 2305 ... = . ► + 2310 .

CMT Credit Carryovers from predecessor corporations NOTE (3) .... + 2325 .

Amalgamation (X) 2315 Yes Wind-up (X) 2320 Yes

Subtotal 2301 + 2310 + 2325 .... = 2330 48,179 .

Adjustments *(Attach schedule)* .... ± 2332 .

CMT Credit Carryover available 2330 ± 2332 .... = 2333 48,179 .

Transfer to Page 8 of the CT23 or Page 6 of the CT8

Subtract: CMT Credit utilized during the year to reduce income tax (310 on page 8 of the CT23 or 351 on page 6 of the CT8.) + From 310 or 351 .

CMT Credit expired during the year .... + 2334 .

Subtotal .... = . ► − 2335 .

Balances at End of Year NOTE (4) 2333 − 2335 .... = 2336 48,179 .

Notes:

1) Where acquisition of control of the corporation has occurred, the utilization of CMT credits can be restricted. (see s.43.1(5))
2) The CMT credit of life insurance corporations can be restricted (see s.43.1(3)(b)).
3) Include and indicate whether CMT credits are a result of an amalgamation to which fed.s.87 applies and/or a wind-up to which fed.s.88(1) applies. (see s.43.1(4))
4) Amount in 2336 must equal sum of 2370 + 2390.

Part 5: Analysis of CMT Credit Carryovers Year End Balance by Year of Origin

	Year of Origin (oldest year first) year month day	CMT Credit Carryovers of Corporation	CMT Credit Carryovers of Predecessor Corporation(s)
2340	9th preceding taxation year 1998-09-30	2360	2380
2341	8th preceding taxation year 1999-09-30	2361	2381
2342	7th preceding taxation year 2000-09-30	2362	2382
2343	6th preceding taxation year 2001-09-30	2363	2383
2344	5th preceding taxation year 2001-12-31	2364	2384
2345	4th preceding taxation year 2002-12-31	2365	2385
2346	3rd preceding taxation year 2003-12-31	2366 48,179	2386
2347	2nd preceding taxation year 2004-12-31	2367	2387
2348	1st preceding taxation year 2005-12-31	2368	2388
2349	Current taxation year 2006-12-31	2369	2389
Totals		2370 48,179	2390

The sum of amounts 2370 + 2390 *must equal amount in* 2336.

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Corporate Minimum Tax (CMT)
CT23 Schedule 101 – Supporting Schedule

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
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CMT Losses Carried Forward Workchart (continued)

Predecessor Corporations Only – Wind-Up

Indicate the amounts of eligible CMT losses from predecessor corporations. **Do not include** these amounts in the 'opening balance' of the Filing Corporation.

Year of Origin YYYY/MM/DD	Opening Balance	Add	Adjustment	Deduction	Expired	Closing Balance
1997-09-30						
1998-09-30						
1999-09-30						
2000-09-30						
2001-09-30						
2001-12-31						
2002-12-31						
2003-12-31						
2004-12-31						
2005-12-31						
Total						

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Corporate Minimum Tax (CMT)
CT23 Schedule 101 – Supporting Schedule

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
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CMT Losses Carried Forward Workchart

(i) Continuity of Pre-1994 CMT Losses

	Corporation's Pre-1994 Loss	Predecessors' Pre-1994 Loss Amalgamation	Predecessors' Pre-1994 Loss Wind-Up
Date of the last tax year end before the corp's 1st tax year commencing after 1993			
Pre-1994 Loss (per schedule)			
Less: Claimed in prior taxation years commencing after 1993			
Pre-1994 Loss available for the current year			
Less: Deducted in the current year (max. = adj. net income for the year)			
Expired after 10 years			
Pre-1994 Loss Carryforward			

(ii) Continuity of Other Eligible CMT Losses – Filing Corporation (for losses occurring in tax years commencing after 1993)

	Year of Origin YYYY/MM/DD	Opening Balance	Adjustment	Deduction	Expired	Closing Balance
10th Prior Year	1997-09-30					
9th Prior Year	1998-09-30					
8th Prior Year	1999-09-30					
7th Prior Year	2000-09-30					
6th Prior Year	2001-09-30					
5th Prior Year	2001-12-31					
4th Prior Year	2002-12-31					
3rd Prior Year	2003-12-31					
2nd Prior Year	2004-12-31	1,387,081				1,387,081
1st Prior Year	2005-12-31	738,755				738,755
	Total	2,125,836				2,125,836

Predecessor Corporations Only – Amalgamation

Indicate the amounts of eligible CMT losses from predecessor corporations. **Do not include** these amounts in the 'opening balance' of the Filing Corporation.

Year of Origin YYYY/MM/DD	Opening Balance	Add	Adjustment	Deduction	Expired	Closing Balance
1997-09-30						
1998-09-30						
1999-09-30						
2000-09-30						
2001-09-30						
2001-12-31						
2002-12-31						
2003-12-31						
2004-12-31						
2005-12-31						
Total						

CORPORATE TAXPREP - 2006 V.2.1

Corporate Minimum Tax (CMT)
CT23 Schedule 101 – Supporting Schedule

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

CMT Credit Carryovers Workchart

Filing Corporation

	Year of Origin YYYY/MM/DD	Opening Balance	Adjustment	Deduction	Expired	Closing Balance
10th Prior Year	1997-09-30					
9th Prior Year	1998-09-30					
8th Prior Year	1999-09-30					
7th Prior Year	2000-09-30					
6th Prior Year	2001-09-30					
5th Prior Year	2001-12-31					
4th Prior Year	2002-12-31					
3rd Prior Year	2003-12-31	48,179				48,179
2nd Prior Year	2004-12-31					
1st Prior Year	2005-12-31					
	Total	48,179				48,179

Predecessor Corporations Only – Amalgamation

Indicate the amounts of CMT credit carryovers from predecessor corporations. **Do not include** these amounts in the 'opening balance' of the Filing Corporation.

Year of Origin YYYY/MM/DD	Opening Balance	Add	Adjustment	Deduction	Expired	Closing Balance
1997-09-30						
1998-09-30						
1999-09-30						
2000-09-30						
2001-09-30						
2001-12-31						
2002-12-31						
2003-12-31						
2004-12-31						
2005-12-31						
Total						

Predecessor Corporations Only – Wind-Up

Indicate the amounts of CMT credit carryovers from predecessor corporations. **Do not include** these amounts in the 'opening balance' of the Filing Corporation.

Year of Origin YYYY/MM/DD	Opening Balance	Add	Adjustment	Deduction	Expired	Closing Balance
1997-09-30						
1998-09-30						
1999-09-30						
2000-09-30						
2001-09-30						
2001-12-31						
2002-12-31						
2003-12-31						
2004-12-31						
2005-12-31						
Total						

CORPORATE TAXPREP - 2006 V.2.1

Ontario

Ministry of Finance
Corporations Tax Branch
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Surtax on Canadian-Controlled Private Corporations

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Name of Associated Corporation (Canadian and Foreign)	Corporations Tax Number	Taxation Year End	Taxation Income (if loss, enter nil)
PUC Inc	1800179	2006-12-31	+
PUC Services Inc	1800180	2006-12-31	+
PUC Telecom Inc.	1800181	2006-12-31	+
PUC Energies Inc	1800176	2006-12-31	+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
			+
		Total *Transfer to* 85 *of the CT23*	=

CORPORATE TAXPREP - 2006 V.2.1 Page 1 of 1

Ontario Ministry of Finance
Corporations Tax
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

2006 Capital Tax Election of Associated Group Agreement for Allocation of Taxable Capital Deduction (TCD)

CT23 SCHEDULE 591

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

The following associated group of corporations includes all the corporations in this associated group (excluding financial institutions and corporations exempt from capital tax) having a permanent establishment in Canada and are hereby making an election under subsection 69(2.1) of the *Corporation Tax Act* to allocate the tax effect of the group's taxable capital deduction (TCD) as calculated in section B on page 10 of the CT23 for all taxation years which end in the 2006 calendar year, based on each corporation's total assets and Ontario allocation factor from each corporation's last taxation year ending in the 2005 calendar year.

Applies to taxation years ending in the 2006 calendar year.

Corporation having a permanent establishment in Canada	Last taxation year ending in 2005 calendar year	Ontario Allocation **A**	Total Assets **T**	Net Deduction A x [TE x (T÷X)] **ND**	Allocation of Net Deduction **AND**
Corporation Tax Account Number (if applicable) 1800173	YEAR MONTH DAY 2005-12-31	100.0000	62,473,835	12,351	995
Corporation Name: PUC Distribution Inc.					
Tax Effect (TE) of Taxable Capital Deduction **TCD** From CT23, Page 10, Section B 503	10,000,000 x 0.3 % = **TE**	30,000			
Corporation Tax Account Number (if applicable) 1800179	YEAR MONTH DAY 2005-12-31	100.0000	60,902,223	12,040	995
Corporation Name: PUC Inc					
Tax Effect (TE) of Taxable Capital Deduction **TCD** From CT23, Page 10, Section B 503	10,000,000 x 0.3 % = **TE**	30,000			
Corporation Tax Account Number (if applicable) 1800180	YEAR MONTH DAY 2005-12-31	100.0000	25,069,628	4,956	995 29,999
Corporation Name: PUC Services Inc					
Tax Effect (TE) of Taxable Capital Deduction **TCD** From CT23, Page 10, Section B 503	10,000,000 x 0.3 % = **TE**	30,000			
Corporation Tax Account Number (if applicable) 1800181	YEAR MONTH DAY 2005-12-31	100.0000	1,942,753	384	995
Corporation Name: PUC TELECOM INC.					
Tax Effect (TE) of Taxable Capital Deduction **TCD** From CT23, Page 10, Section B 503	10,000,000 x 0.3 % = **TE**	30,000			
Corporation Tax Account Number (if applicable) 1800178	YEAR MONTH DAY 2005-12-31	100.0000	1,357,390	268	995
Corporation Name: PUC ENERGIES INC.					
Tax Effect (TE) of Taxable Capital Deduction **TCD** From CT23, Page 10, Section B 503	10,000,000 x 0.3 % = **TE**	30,000			

If insufficient space, attach list.

Total Assets of Associated Group having permanent establishments in Canada **X** 151,745,829

959 **Total Net Deductions** of Associated Group having permanent establishments in Canada . . . **TND** 29,999

994 **Total Allocated Net Deductions** of Associated Group having permanent establishments in Canada . . . .**TAND** 29,999

Ontario Tax Instalments

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Ontario tax instalments

For the taxation year ended: 2007-12-31

The following is a list of Ontario instalments payable for the current taxation year. The last column indicates the instalments payable to the Ontario Ministry of Revenue. The instalments are due no later than on the dates indicated, otherwise non-deductible interest will be charged. A cheque or money order should be made payable to the Minister of Finance. Payment may be made either to a chartered bank in Ontario or filed with an instalment form and addressed to:

Ministry of Revenue (Ontario)
Corporation Tax Branch
P.O. Box 620
33 King Street West
Oshawa, Ontario
L1H 8E9

Quaterly instalment

Date	Instalments required	Instalments paid	Cumulative difference	Instalments payable
Total				

Date	Instalments required	Instalments paid	Cumulative difference	Instalments payable
2007-01-31	10,764			10,764
2007-02-28	10,764			10,764
2007-03-31	10,764			10,764
2007-04-30	10,764			10,764
2007-05-31	10,764			10,764
2007-06-30	10,764			10,764
2007-07-31	10,764			10,764
2007-08-31	10,764			10,764
2007-09-30	10,764			10,764
2007-10-31	10,764			10,764
2007-11-30	10,764			10,764
2007-12-31	10,762			10,762
Total	129,166			129,166

Ontario

Ministry of Finance
Corporations Tax Branch
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Paid-Up Capital: Loans and Advances

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Loans or Advances Credited or Advanced to Corporation
(includes accounts payable to related parties outstanding at the taxation year end for 120 days or more, and accounts payable to non-related parties outstanding for 365 days or more at the taxation year end)

PUC Inc	+	41,940,000
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
	+	
Total Transfer to 353 of the CT23	=	41,940,000

CORPORATE TAXPREP - 2006 V.2.1 Page 1 of 1

PUC Distribution Inc 06.206
2007-05-08 16:31

2005-12-31

PUC Distribution Inc.
Tax Account No. (MOF): 1800173

Non-Capital Loss Continuity Workchart – Ontario

Non-capital losses

Year	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce taxable income	Balance at end of year
Current	N/A				N/A	
2005		N/A		N/A		
2004	1,961,509	N/A		N/A	1,705,567	255,942
2003		N/A		N/A		
2002		N/A		N/A		
2001		N/A		N/A		
2001		N/A		N/A		
2000		N/A		N/A		*
Total	1,961,509				1,705,567	255,942

Farm losses

Year	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce taxable income	Balance at end of year
Current	N/A				N/A	
2005		N/A		N/A		
2004		N/A		N/A		
2003		N/A		N/A		
2002		N/A		N/A		
2001		N/A		N/A		
2001		N/A		N/A		
2000		N/A		N/A		
1999		N/A		N/A		
1998		N/A		N/A		
1997		N/A		N/A		*
Total						

Restricted farm losses

Year	Balance at beginning of year	Loss incurred in current year	Adjustments and transfers	Loss carried back Parts I & IV	Applied to reduce taxable income	Balance at end of year
Current	N/A				N/A	
2005		N/A		N/A		
2004		N/A		N/A		
2003		N/A		N/A		
2002		N/A		N/A		
2001		N/A		N/A		
2001		N/A		N/A		
2000		N/A		N/A		
1999		N/A		N/A		
1998		N/A		N/A		
1997		N/A		N/A		*
Total						

* This balance expires this year and will not be available next year.

Ontario

Ministry of Finance
Corporations Tax Branch
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Ontario Capital Cost Allowance
Schedule 8

Corporation's Legal Name	Ontario Corporations Tax Account No. (MOF)	Taxation Year End
PUC Distribution Inc.	1800173	2006-12-31

Is the corporation electing under regulation 1101(5q)? 1 [ ] Yes 2 [X] No

1 Class number	2 Ontario undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the prior year's CCA schedule)	3 Cost of acquisitions during the year (new property must be available for use) See note 1 below	4 Net adjustments (show negative amounts in brackets)	5 Proceeds of dispositions during the year (amount not to exceed the capital cost)	6 Ontario undepreciated capital cost (column 2 plus column 3 or minus column 4 minus column 5)	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) See note 2 below	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Recapture of capital cost allowance	11 Terminal loss	12 Ontario capital cost allowance (column 8 multiplied by column 9; or a lower amount)	13 Ontario undepreciated capital cost at the end of the year (column 6 minus column 12)
1	49,496,678	2,851,259		0	52,347,937	1,425,630	50,922,307	4	0	0	2,036,892	50,311,045
Totals	49,496,678	2,851,259			52,347,937	1,425,630	50,922,307				2,036,892	50,311,045

Enter in boxes 650 . . . . 650 . . . . 650 on the CT23.

Note 1. Include any property acquired in previous years that has now become available for use. This property would have been previously excluded from column 3. List separately any acquisitions that are not subject to the 50% rule. See Regulation 1100(2) and (2.2) of the *Income Tax Act* (Canada).

Note 2. The net cost of acquisitions is the cost of acquisitions plus or minus certain adjustments from column 4.

Note 3. If the taxation year is shorter than 365 days, prorate the CCA claim.

Note 4. Ontario recapture should be included in net income after deducting the federal recapture and the Ontario terminal loss is deducted from net income after including the federal terminal loss.

CORPORATE TAXPREP - 2006 V.2.1 Page 1 of 1

iii. Financial statements that were submitted with the tax returns to the Ministry of Finance;

Response
Please see below

Financial Statements of

PUC DISTRIBUTION INC.

Year ended December 31, 2006

KPMG LLP
Chartered Accountants
111 Elgin Street at Queen
Suite 200
PO Box 578
Sault Ste Marie ON P6A 5M6

Telephone (705) 949-5011
Fax (705) 949-0011
Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholder of PUC Distribution Inc.

We have audited the balance sheet of PUC Distribution Inc. as at December 31, 2006 and the statements of operations 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

March 9, 2007

PUC DISTRIBUTION INC.

Balance Sheet

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Accounts receivable	$ 6,031,724	$ 2,037,542
Unbilled revenue	5,970,114	8,931,643
Payment in lieu of taxes recoverable	325	6,445
Inventories	1,425,186	1,263,831
Prepaid expenses and deposits	154,182	140,782
Receivable from related party, PUC Services Inc.	2,777,097	10,833,492
	16,358,628	23,213,735
Capital assets (note 2):		
Land, buildings and equipment	76,170,010	74,198,638
Less accumulated amortization	40,630,885	38,746,152
	35,539,125	35,452,486
Regulatory assets (note 3)	1,217,901	3,159,785
	$ 53,115,654	$ 61,826,006
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,652,853	$ 15,165,783
Customer deposits	1,048,692	916,375
	7,701,545	16,082,158
Long-term debt (note 4)	41,940,000	41,940,000
Shareholders' equity		
Share capital:		
Authorized:		
Unlimited special shares, non-voting, non-cumulative, redeemable at $10,000 per share		
10,000 Common shares		
Issued and outstanding:		
2,000 Common shares	4,656,146	4,656,146
Deficit	(1,182,037)	(852,298)
	3,474,109	3,803,848
Contingent liability (note 6)		
	$ 53,115,654	$ 61,826,006

See accompanying notes to financial statements.

On behalf of the Board:

______________________ Director ______________________ Director

1

PUC DISTRIBUTION INC.

Statement of Operations and Deficit

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Distribution revenue	$ 11,209,507	$ 10,839,403
Energy charges	45,728,363	52,663,389
Other related charges	166,932	148,057
	57,104,802	63,650,849
Cost of power	45,728,363	52,663,389
Gross profit	11,376,439	10,987,460
Investment income	334,831	307,848
Other revenue	421,986	589,424
	12,133,256	11,884,732
Expenses:		
Distribution and transmission	3,482,096	3,200,544
Billing and collecting	941,104	843,055
Community relations	428,532	465,985
Administration	1,870,707	2,482,203
Interest on long term debt	2,807,650	2,807,650
Interest on customer deposits	38,043	19,014
Capital tax	130,151	136,800
Amortization	2,764,612	2,668,236
	12,462,995	12,623,487
Loss for the year	(329,739)	(738,755)
Deficit, beginning of year	(852,298)	(113,543)
Deficit, end of year	$ (1,182,037)	$ (852,298)

See accompanying notes to financial statements.

2

PUC DISTRIBUTION INC.

Statement of Cash Flows

Year ended December 31, 2006 with comparative figures for 2005

		2006		2005
Cash flows from operating activities:				
Loss for the year	$	(329,739)	$	(738,755)
Items not involving cash:				
Amortization		2,764,612		2,668,236
Retail settlement variances		634,298		9,613
		3,069,171		1,939,094
Change in non-cash operating working capital:				
Accounts receivable		(3,994,182)		2,488,370
Unbilled revenue		2,961,529		(1,442,059)
Payment in lieu of taxes recoverable		6,120		(546)
Inventory		(161,356)		(196,926)
Prepaid expenses		(13,400)		(23,744)
Accounts payable		(8,512,930)		8,055,262
Customer deposits		132,317		(90,210)
		(6,512,730)		10,729,142
Cash flows from financing activities:				
Contributions in aid of construction		504,785		509,850
Cash flows from investing activities:				
Advances to PUC Services		8,056,395		(8,311,230)
Purchase of capital assets		(3,356,036)		(3,761,856)
Recovery of regulatory assets		1,307,586		834,094
		6,007,945		(11,238,992)
Cash position, end of year	$	-	$	-
Supplemental cash flow information:				
Cash paid during the year for:				
Interest	$	2,807,650	$	2,807,650
Payments in lieu of taxes		132,038		143,825
Cash received during the year for:				
Payments in lieu of income taxes		8,016		6,400

See accompanying notes to financial statements.

3

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

PUC Distribution Inc. (the "Company") is incorporated under the Ontario Business Corporations Act and as a wholly-owned subsidiary of PUC Inc. is the electric distribution utility for residents of the City of Sault Ste. Marie.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with the Canadian generally accepted accounting principles for rate regulated entities.

(b) Regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

Under the OEBA and the decisions of the OEB, distribution charges for the electricity distribution business were to be increased annually over three years (2001, 2002 and 2003) to achieve an annual rate of return of 9.88% on the amount of common equity deemed to be allocated to this business.

Distribution charges were also to be increased to permit the recovery of costs incurred by the Corporation to prepare for the opening of the competitive electricity market in Ontario ("Market Opening"). The Company has capitalized some of these costs as regulatory assets [note 3].

In January 2004, the Company filed applications to adjust its distribution charges to provide for the recovery of its regulatory assets over a four year period. The applications were approved by the OEB effective March 1, 2004.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

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1. Significant accounting policies (continued):

In January 2005, the Company filed rate applications to adjust its distribution charges to provide for the full theoretical regulatory rate of return of 9.88% and continued recovery of its regulatory assets. As mandated by the OEB, the rate increase is subject to a financial commitment by the Company to invest $387,000 in conservation and demand management activities by September 30, 2007. The rate applications and applications for the approval of its conservation and demand management programs have since been approved by the OEB.

On August 2, 2005, the Company filed its Electricity Distribution Rate Application for 2006 distribution rates, for rates to be effective May 1, 2006. The 2006 rates were approved by the OEB at a level less than requested and will result in a return of less than the revised regulated rate of return of 9%.

The corporation has applied to be in the first group of LDCs to file for rebased rates in 2007 which would be effective May 1, 2008.

(c) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and replacement cost.

(d) Revenue recognition:

The Company recognizes service revenue on the accrual basis and includes an estimate of unbilled revenue for electricity consumed since the date of each customer's last meter reading.

(e) Measurement of uncertainty:

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

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

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

1. Significant accounting policies (continued):

(f) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs and overheads. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market values at the date of their contribution.

When identifiable assets, such as buildings, distribution station equipment and equipment and furniture are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets such as transmission and distribution facilities is removed from the accounts at the end of their estimated service life.

Amortization of capital assets is charged to operations on a straight-line basis using the following rates:

Asset	Rate
Building	2 to 4%
Plant and equipment	2 1/2 to 20%
Transmission and distribution	2 1/2 to 4%

Construction in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

1. **Significant accounting policies (continued):**

   (g) Asset retirement obligations:

   The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

   Some of the Company's transmission and distribution assets may have asset retirement obligations. As the Company expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Company is legally required to remove, an asset retirement obligation will be recognized at that time.

   (h) Customer deposits:

   Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits and invested in term deposits, which are held in trust by PUC Services Inc. Interest is paid on customer balances at rates established from time to time by the Company in accordance with regulation.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

1. Significant accounting policies (continued):

(i) Payment in lieu of taxes:

As a municipally owned utility, the Company is exempt from Federal corporate income taxes. However, under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The Company provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, provisions are not made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from customers.

As at December 31, 2006, future tax assets of $4,797,217 (2005 - $4,750,230) based on substantively enacted income tax rates have not been recorded.

2. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 648 510	$ -	$ 648,510	$ 623,945
Building	1,166 784	559 010	607,774	611,140
Plant and equipment	21,444 098	9,164 299	12,279,799	12,519,554
Transmission and distribution	52,910 618	30,907 576	22,003,042	21,697,847
	$ 76,170 010	$ 40,630 885	$ 35,539,125	$ 35,452,486

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

3. Net regulatory assets (liabilities):

Net regulatory asets (liabilities) comprise:

	2006	2005
Regulatory asset recovery account	$ 2,759,790	$ -
Market opening	-	549,399
Pension contributions	294,315	30,993
OEB annual cost	186,448	116,379
Smart meters	(57,946)	-
Payments in lieu of taxes	-	(146,784)
Settlement variances	(1,964,706)	2,609,798
	$ 1,217,901	$ 3,159,785

Comparative figures have been reclassed within categories to reflect current year reporting and have been adjusted by $647,829 to reflect recoveries available in 2005 and reflected in 2006 reporting.

The regulatory assets and liabilities balances of the Company are defined as follows:

(a) Regulatory assets recovery account:

The OEB ordered that the approved regulatory asset balances be aggregated into a single regulatory account. Approved regulatory assets of $3,307,234 consisted of transition costs of $561,574, OEB annual costs of $45,234 and settlement variances of $4,052,491, less recoveries of $1,352,065 which were transferred to the "regulatory asset recovery account". This approved balance will be recovered over a period ending March 31, 2008. The account is credited with recovery amounts and is debited by OEB-prescribed carrying charges. Considering the above and additional transactions during the year the balance as of the end of December 31, 2006 was $2,759,790.

(b) Pension contributions:

The OEB has allowed the LDC to defer the incremental OMERS pension expenditures for the fiscal years starting after January 1,2005 and to end on April 30, 2006. Accordingly, the Company has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. The balance at the end of December 31, 2006 was $294,315.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

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3. Net regulatory assets (liabilities) (continued):

(c) OEB annual cost:

The OEB has allowed the LDC to defer a portion of the OEB annual cost assessments for the fiscal years starting after January 1, 2004 and to end on April 30, 2006. Accordingly, the Company has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

Under such regulation, the deferred expenditures would have been expensed under Canadian GAAP for unregulated businesses. In April 2006, the OEB approved the recovery of the deferred amount of $ 45,234. Accordingly, the balance was transferred to the regulatory asset recovery account for recovery commencing May 1, 2006 and ending March 31, 2008. Considering the above and additional transactions during the year the balance as of the end of December 31, 2006 was $186,448.

(d) Smart meters:

Effective May 1, 2006, the OEB has allowed the LDC to defer capital expenditures, operating expenditures, depreciation expense and revenues relating to smart meters. Accordingly, the Company has deferred these items in accordance with the criteria set out in the AP Handbook.

Under such regulation, in 2006 smart meter customer revenues of $ $57,946 were deferred. The manner and timing of disposition of these smart meter regulatory assets have not been determined by the OEB at this time.

(e) Settlement variances:

The OEB has allowed the LDC to defer settlement variances from May 1, 2002 to December 31, 2006. This balance represents the variances between amounts charged by LDC to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by LDC after May 1, 2002. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Company has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

3. Net regulatory assets (liabilities) (continued):

Settlement variances of $4,052,491 relating to the period from May 1, 2002 to December 31, 2004, were approved for recovery by the OEB and are included in the regulatory asset recovery account balance. The remaining balance, representing settlement variances arising after January 1,2005, is deferred in a regulatory liability account. The manner and timing of disposition of the variance have not been determined by the OEB.

Considering the above and additional transactions during the year the balance as of the end of December 31, 2006 was $1,964,706.

4. Long-term debt:

	2006	2005
Note payable to parent company, PUC Inc., with 8.5% interest payable quarterly and principal payable one year after demand	$ 11,650,000	$ 11,650,000
Note payable to parent company, PUC Inc., with interest payable quarterly at rates periodically negotiated and principal payable one year after demand, average interest rate for 2006 was 5% (2005, 5%)	30,290,000	30,290,000
Total	$ 41,940,000	$ 41,940,000

5. Related party transactions:

The following entities are related parties of the Company:

The Corporation of the City of Sault Ste. Marie (City) - 100% shareholder of PUC Inc.

PUC Inc. (Inc.) - sole shareholder of the Company

PUC Services Inc. (Services) - 100% owned by PUC Inc.

PUC Telecom Inc. (Telecom) - 100% owned by PUC Inc.

PUC Energies Inc. (Energies) - 100% owned by PUC Inc.

Sault Ste. Marie Public Utilities Commission (Utility) - 100% owned by the Corporation of the City of Sault Ste. Marie.

PUC DISTRIBUTION INC.

Notes to Financial Statements

Year ended December 31, 2006

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5. Related party transactions (continued):

The Company has a management, operation and maintenance agreement with one of its related companies, PUC Services Inc., which expires January 1, 2011 under which PUC Services Inc. manages, controls, administers and operates the business of the Company.

The Company provides electricity to the City which is the shareholder of the parent corporation, PUC Inc. Electrical energy is sold to the City at the same prices and terms as other electricity customers. The amount charged to the City for electricity consumed by streetlights is $593,744 (2005 - $452,140) and for other electricity consumption is $1,323,292 (2005 - $1,103,036).

The Company charges a related company, PUC Telecom Inc., pole rental charges which amounted to $36,006 (2005 - $35,447).

Occupancy fees were charged by the Utility in the amount of $139,389 (2005 - $120,145).

Management fees were charged by PUC Services Inc. in the amount of $2,543,735 (2005 - $2,610,651) for an allocation of joint administrative and other expenses.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

6. Contingent liability:

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if PUC Distribution Inc. fails to make a payment required by a default notice issued by the IESO.

7. Fair value of financial instruments:

The carrying values of accounts receivable, receivable from PUC Services Inc. customer deposits and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

It is not practicable to determine the fair value of the notes payable as there are no principal repayment terms.

iv. Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for the 2006 tax year; and

Response
Please see below

Canada Revenue Agency / Agence du revenu du Canada

Shawinigan-Sud QC G9N 7S6

Page 1 of 6

Date of mailing	June 29, 2007
Business Number	86709 6778 RC0001
Taxation year-end	December 31, 2006

0004550

PUC DISTRIBUTION INC
765 QUEEN STREET EAST,
SAULT STE MARIE ON
P6A 6P2

CORPORATION NOTICE OF ASSESSMENT

RESULTS

This notice explains the results of our assessment of the T2 Corporation Income Tax Return for the taxation year indicated above. It also explains any changes we may have made to the return.

Result of this Assessment :	$	0.00
Prior balance:	$	0.00
		=================
Total balance:	$	0.00

Please refer to the Summary and Explanation for additional information.

Canada Revenue Agency | Agence du revenu du Canada

PUC DISTRIBUTION INC

Page 2 of 6

Date of mailing	June 29, 2007
Business Number	86709 6778 RC0001
Taxation year-end	December 31, 2006

CORPORATION NOTICE OF ASSESSMENT

SUMMARY OF ASSESSMENT

	$ Reported	$ Assessed
Federal Tax:		
Part I	0.00	0.00
Part I.3	0.00	0.00
Part II	0.00	0.00
Part IV	0.00	0.00
Part IV.1	0.00	0.00
Part VI	0.00	0.00
Part VI.1	0.00	0.00
Part XIII.1	0.00	0.00
Part XIV	0.00	0.00
Total Federal Tax:		$ 0.00
Net balance:		$ 0.00
Result of this assessment:		$ 0.00
Prior balance:		$ 0.00
Total balance:		$ 0.00

William V. Baker
Commissioner of Revenue

EXPLANATION

Non-capital losses from preceding taxation years applied against net income and/or Part IV tax exceeds balance on our records. Therefore, the amount of non-capital losses applied against net income and/or dividends subject to Part IV tax has been reduced accordingly.

Please visit our Web site at www.cra.gc.ca/requests-business for information about online requests available to business clients. This service allows clients to electronically request certain financial actions, additional remittance vouchers and other communication products, as well as reproductions of previously issued correspondence.

The Canada Revenue Agency also offers the convenience of Direct Deposit. For information about this service, please visit our Web site at www.cra.gc.ca or contact the number provided below.

Did you know you may be eligible to file your return using our Corporation Internet Filing service? For information on eligibility criteria and the service in general, please visit www.cra.gc.ca/corporation-internet.

Detach and return this **REMITTANCE FORM** with your payment.

Ontario

Ministry of Finance
Corporations Tax Branch - Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Account No.
1800173

35
PX5003

PUC DISTRIBUTION INC.
C/O TERRY GRECO
765 QUEEN ST E
PO BOX 9000
SAULT STE MARIE ON
P6A 6P2

Remittance Advice - Payment-in-Lieu (PI

Electricity Act, 1998
Corporations Tax Act, R.S.O. 1990

Taxation Year End: (YYYYMMDD)	
Payment Amount: $	
Taxation Year End: (YYYYMMDD)	2 0 0 6 1 2 3 1
Payment Amount: $	
Total Payment Enclosed: $	

Ontario

Ministry of Finance
Corporations Tax Branch - Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Assessment

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
from 2006/01/01 to 2006/12/31

	Account No.	Assessment Date (year, month, day)	Page
PUC DISTRIBUTION INC.	1800173	2007/05/25	1 of 1

ASSESSMENT NO. 98

Tax: Federal and Provincial PIL		129,166.00
Assessment Interest		479.07CR
Total Assessment Liability		128,686.93
SUMMARY OF 2006/12/31 TAXATION YEAR TRANSACTIONS		
Payments/Transfers	✓ 132,038.00CR	
Sub-Total		132,038.00CR
CREDIT BALANCE AVAILABLE IN THIS TAXATION YEAR		3,351.07CR

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of tax, penalty and interest for which you are assessed.

Total tax assessed as per company estimate

✓ agreed to
tax return

Tax (Re)Assessment Enquiries:
• Toronto (416) 730-5585
• FAX (416) 730-5593

Account Billing Enquiries & Change of Address Information:
• Oshawa and Local (905) 433-6708
• Toronto (416) 920-9048 ext. 3036
• Toll-Free 1-800-262-0784 ext. 3036
• FAX (905) 433-5197

002 PX5003

0000007

v. Any correspondence between the Ministry of Finance and PUC regarding any tax items, or tax filing positions that may be in dispute, or under consideration or review, that may affect the tax situation of the utility for 2006 or future years.

Response
PUC Distribution was the subject of a PILs audit in August of 2007. A reassessment has not yet been received, however it is expected that any reassessment will reduce loss carry-forwards that would have been fully utilized in 2007.

2) Ref: Exhibit 4/ Pages 62-65 2008 Taxable Income

a) This exhibit shows an income tax rate of 34.5%. Will PUC use the federal income tax rate of 19.5% for 2008, introduced by the federal government on October 30, 2007, to prepare its final rate order? The combined income tax rate should be 33.5%.

Response
PUC Distribution will use the combined income tax rate of 33.5% in its final rate order.

b) Under the regulatory framework, the distributor is allowed to recover an amount for interest on rate base. This amount may be the deemed amount or a lower amount based on projected actual interest to be incurred. The equity return on rate base occurs after the deduction of interest. Only excess interest is included as a penalty, or a deduction, in the PILs calculations. Please refer to schedule 7-3 in the 2006 EDR Handbook.

Please explain why the Applicant feels it is appropriate.
that the proposed interest add-back and deduction in the PILs calculation is supported by the Board's PILs/ tax methodology.

Response
Please refer to part d).

c) If the distributor intends to pay more interest to its shareholder than allowed by the Ministry of Finance in completing the annual tax returns, why does the distributor expect the ratepayers to fund the PILs/ tax excess cost?

Response

PUC Distribution is taking the maximum interest deduction allowable in order to minimize PILs payable and impact to ratepayers.

d) Please provide a revised calculation of the 2008 PILs expense, excluding the interest additions and deductions, and using the new tax rate of 33.5%.

Response

The calculation of the 2008 PILs expense has been revised. Please see below.

Line Item	T2S1 line #	Total for Legal Entity	Non-Distribution Eliminations	Utility Amount
Income before PILs/Taxes	A	2,003,745	0	2,003,745
Additions:				
Interest and penalties on taxes	103	0	0	0
Amortization of tangible assets	104	3,310,977	0	3,310,977
Amortization of intangible assets	106	0	0	0
Recapture of capital cost allowance from Schedule 8	107	0	0	0
Gain on sale of eligible capital property from Schedule 10	108	0	0	0
Income or loss for tax purposes- joint ventures or partnerships	109	0	0	0
Loss in equity of subsidiaries and affiliates	110	0	0	0
Loss on disposal of assets	111	0	0	0
Charitable donations	112	0	0	0
Taxable Capital Gains	113	0	0	0
Political Donations	114	0	0	0
Deferred and prepaid expenses	116	0	0	0
Scientific research expenditures deducted on financial statements	118	0	0	0
Capitalized interest	119	0	0	0
Non-deductible club dues and fees	120	0	0	0
Non-deductible meals and entertainment expense	121	0	0	0
Non-deductible automobile expenses	122	0	0	0
Non-deductible life insurance premiums	123	0	0	0
Non-deductible company pension plans	124	0	0	0
Tax reserves beginning of year	125	0	0	0
Reserves from financial statements- balance at end of year	126	0	0	0
Soft costs on construction and renovation of buildings	127	0	0	0
Book loss on joint ventures or partnerships	205	0	0	0
Capital items expensed	206	0	0	0
Debt issue expense	208	0	0	0
Development expenses claimed in current year	212	0	0	0
Financing fees deducted in books	216	0	0	0
Gain on settlement of debt	220	0	0	0
Non-deductible advertising	226	0	0	0
Non-deductible interest	227	0	0	0
Non-deductible legal and accounting fees	228	0	0	0

Recapture of SR&ED expenditures	231	0	0	0
Share issue expense	235	0	0	0
Write down of capital property	236	0	0	0
Amounts received in respect of qualifying environment trust per paragraphs 12(1)(z.1) and 12(1)(z.2)	237	0	0	0
Interest Expensed on Capital Leases	290	0	0	0
Realized Income from Deferred Credit Accounts	291	0	0	0
Pensions	292	0	0	0
Non-deductible penalties	293	0	0	0
Debt Financing Expenses for Book Purposes	294	0	0	0
Other Additions (see OtherAdditions sheet)	295	0	0	0
Total Additions		**3,310,977**	**0**	**3,310,977**
Deductions:				
Gain on disposal of assets per financial statements	401	0	0	0
Dividends not taxable under section 83	402	0	0	0
Capital cost allowance from Schedule 8	403	2,768,651	0	2,768,651
Terminal loss from Schedule 8	404	0	0	0
Cumulative eligible capital deduction from Schedule 10	405	1,013	0	1,013
Allowable business investment loss	406	0	0	0
Deferred and prepaid expenses	409	0	0	0
Scientific research expenses claimed in year	411	0	0	0
Tax reserves end of year	413	0	0	0
Reserves from financial statements - balance at beginning of year	414	0	0	0
Contributions to deferred income plans	416	0	0	0
Book income of joint venture or partnership	305	0	0	0
Equity in income from subsidiary or affiliates	306	0	0	0
Interest capitalized for accounting deducted for tax	390	0	0	0
Capital Lease Payments	391	0	0	0
Non-taxable imputed interest income on deferral and variance accounts	392	0	0	0
Financing Fees for Tax Under S.20(1)(e)	393	0	0	0
Other Deductions (see OtherDeductions sheet)	394	0	0	0
Total Deductions		**2,769,665**	**0**	**2,769,665**
Net Income for Tax Purposes		**2,545,057**	**0**	**2,545,057**

Charitable donations from Schedule 2	311	0	0	0
Taxable dividends deductible under section 112 or 113, from Schedule 3 (item 82)	320	0	0	0
Non-capital losses of preceding taxation years from Schedule 7-1	331	0	0	0
Net-capital losses of preceding taxation years from Schedule 7-1	332	0	0	0
Limited partnership losses of preceding taxation years from Schedule 4	335	0	0	0
TAXABLE INCOME		**2,545,057**	**0**	**2,545,057**

	Source or Input	Tax Payable	Inclusion in Revenue Req.	
Regulatory Taxable Income	TxblIncome	2,545,057		
Combined Income Tax Rate	TaxRates	33.500%		
Total Income Taxes		852,594		
Investment Tax Credits	-			
Miscellaneous Tax Credits	-			
Total Tax Credits		-		
Income Tax Provision		852,594	1,282,096	*grossed-up for income taxes*
Ontario Capital Tax	CapitalTaxes	98,059	98,059	*not grossed-up*
Large Corporations Tax	CapitalTaxes	-	-	*grossed-up for income taxes*
Total PILs		**950,653**	**1,380,155**	*amount for Output*

e) PUC received a Decision from the Board on January 8, 2008 regarding an application for a 2007 PILs adjustment. Is there anything in that Decision which might affect the current 2008 Test Year rate application for PILs?

Response
The January 2008 decision does not affect the 2008 Test Year application for PILs.

3) Ref: Exhibit 4/ Pages 58-61 2007 Taxable Income

a) Please provide the calculations of the 2007 CCA deduction of $2,178,193 that appears on Page 59. Please use the format that appears on Page 67 for the 2008 CCA Schedule.

Response
Please see below

Class	Class Description	UCC Opening Balance	Additions	Dispositions	UCC Before 1/2 Yr Adjustment	1/2 Year Rule {1/2 Additions Less Disposals}	Reduced UCC	Rate %	CCA	UCC Ending Balance
1	Distribution System - 1988 to 22-Feb-2005	50,311,045	0	0	50,311,045	0	50,311,045	4%	2,012,442	48,298,603
2	Distribution System - pre 1988	0	0	0	0	0	0	6%	0	0
8	General Office/Stores Equip	0	0	0	0	0	0	20%	0	0
10	Computer Hardware/ Vehicles	0	0	0	0	0	0	30%	0	0
10.1	Certain Automobiles	0	0	0	0	0	0	30%	0	0
12	Computer Software	0	31,725	0	31,725	15,863	15,863	100%	15,863	15,863
13 1	Lease # 1	0	0	0	0	0	0		0	0
13 2	Lease #2	0	0	0	0	0	0		0	0
13 3	Lease # 3	0	0	0	0	0	0		0	0
13 4	Lease # 4	0	0	0	0	0	0		0	0
14	Franchise	0	0	0	0	0	0		0	0
17	New Electrical Generating Equipment Acq'd after Feb 27/00 Other Than Bldgs	0	0	0	0	0	0	8%	0	0
43.1	Certain Energy-Efficient Electrical Generating Equipment	0	0	0	0	0	0	30%	0	0
45	Computers & Systems Software acq'd post Mar 22/04	0	0	0	0	0	0	45%	0	0
46	Data Network Infrastructure Equipment (acq'd post Mar 22/04)	0	0	0	0	0	0	30%	0	0
47	Distribution System - post 22-Feb-2005	0	3,747,213	0	3,747,213	1,873,607	1,873,607	8%	149,889	3,597,324
98	No CCA	0	0	0	0	0	0		0	0
			3,831,238	0		1,915,619	0		0	0
			3,831,238	0			0		0	0
	TOTAL	50,311,045	11,441,414	0	54,089,983	3,805,088	52,200,514		2,178,193	51,911,790

b) Will PUC fully utilize the tax loss carry-forward in the 2007 tax year?

Response
PUC will fully utilize the loss carry-forward in the 2007 tax year.

4) Ref: Exhibit1/Page 148 2008 Pro Forma Financial Statements

a) Please explain why the net income shown of $1,571,858 is not the regulatory net income of $2,003,745 that is derived from 2008 rate base.

Response

Balance per pro forma statements	$1,571,858
add actual interest included in pro forma	$1,984,620
deduct deemed interest for tax deduction	-$1,512,734
	$2,043,744
less regulatory asset carrying charges (accounted for with regulatory asset recovery)	-$40,000
Regulatory net income	$2,003,744

b) Please explain why the income tax expense amount shown of $1,687,136 includes capital tax of $98,059. Please refer to Exhibit 4/ Page 64.

Response
The capital amount should not be included with income tax expense but should be included on another expense line; however the net income will not change.

c) Please explain why the income tax expense shown is grossed-up rather than the expense of $1,040,845 shown in Exhibit 4/ Page 64.

Response
The grossed-up amount is the amount that will be payable and is therefore included in expense and revenue.