

November 23, 2011

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: 2012 IRM Rate Application
EB-2011-0207
Interrogatory Responses**

Enclosed please find Woodstock Hydro Services Inc. responses to the interrogatories filed by Energy Probe, the Vulnerable Energy Consumers Coalition, ("VECC") , and Ontario Energy Board Staff (" OEB Staff") the above noted proceeding. WHSI did not receive Interrogatories from School Energy Coaliton ("SEC").

The Interrogatory Responses are being filed in the following manner;

- separately through the Board's web portal,
- via email to all Parties cc'd on this letter,
- 2 paper copies and one CD with electronic copy of the files to the Board Secretary,
- 1 paper copy and 1 CD with electronic copy of the files to Jay Shepherd, (SEC)
- 1 paper copy and 1 CD with electronic copy of the files to Randy Aiken (Energy Probe)
- 1 paper copy and 1 CD with electronic copy of the files to David MacIntosh (Energy Probe)

The following excel spreadsheets have also been included in the filing material;

Woodstock_2006-0010 Final OPA CDM Results.xls
Woodstock_2010 Final CDM Results Summary.xls
Woodstock_Attachment A-D – LRAM Application r2final.xls

Should you require further information or clarification please contact me at 519-537-7172 ext. 240 or peitel@woodstockhydro.com.

Respectfully submitted,



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cc: David MacIntosh, Energy Probe
Randy Aiken, Energy Probe
Jay Shepherd, SEC
Wayne McNally, SEC
Shelly Grice, P.Eng, VECC
Michael Buonaguro, VECC

1 **Incremental Capital Module**

2 **1. Ref: Incremental Capital Workform, Sheet E1.1 and Sheet E2.1**

3

4 **Sheet E1.1**

Threshold Parameters

Price Cap Index

| | |
|--------------------------|--------|
| Price Escalator (GDP-IP) | 1.30% |
| Less Productivity Factor | -0.72% |
| Less Stretch Factor | -0.40% |

Price Cap Index **0.18%**

Growth

| | | |
|--|--------------------|---|
| ICM Billing Determinants for Growth - Numerator : 2011 Re-Based Forecast | <u>\$7,932,308</u> | A |
| ICM Billing Determinants for Growth - Denominator : 2010 Audited RRR | <u>\$7,498,083</u> | B |

Growth **5.79%** C = A / B

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1 **Sheet E2.1**

| | | |
|------------------------------------|----------------------------|--|
| Price Cap Index | 0.18% | A |
| Growth | 5.79% | B |
| Dead Band | 20% | C |
| Average Net Fixed Assets | | |
| Gross Fixed Assets Opening | \$ 39,535,406 | |
| Add: CWIP Opening | \$ 200,000 | |
| Capital Additions | \$ 2,919,673 | |
| Capital Disposals | -\$ 178,962 | |
| Capital Retirements | -\$ 200,000 | |
| Deduct: CWIP Closing | \$ - | |
| Gross Fixed Assets - Closing | \$42,276,117 | |
| Average Gross Fixed Assets | <u>\$40,905,762</u> | |
| Accumulated Depreciation - Opening | \$ 17,253,672 | |
| Depreciation Expense | \$ 2,060,280 | D |
| Disposals | -\$ 178,962 | |
| Retirements | \$ - | |
| Accumulated Depreciation - Closing | \$19,134,990 | |
| Average Accumulated Depreciation | <u>\$18,194,331</u> | |
| Average Net Fixed Assets | <u>\$22,711,431</u> | E |
| Working Capital Allowance | | |
| Working Capital Allowance Base | \$36,041,163 | |
| Working Capital Allowance Rate | 15% | |
| Working Capital Allowance | <u>\$ 5,406,174</u> | F |
| Rate Base | <u>\$28,117,605</u> | G = E + F |
| Depreciation | D \$ 2,060,280 | H |
| Threshold Test | 201.63% | I = 1 + (G / H) * (B + A * (1 + B)) + C |

2 **Threshold CAPEX** \$ 4,154,210 **J = H * I**

3

4 **Board staff notes that the Incremental Capital Workform does not appear to be pulling in**
5 **the correct data into sheet E1.1 with respect to load growth. The revised Sheet E2.1**
6 **depicted above recalculates the materiality threshold and resulting threshold CAPEX**
7 **using a load growth of 5.79%.**

8

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1 **a) Please confirm that the “ICM Billing Determinant for Growth: 2010 Audited RRR’ is**
2 **correct and the resulting Threshold CAPEX is consistent with Woodstock’s**
3 **information. If so Board staff will enter the correct information on sheet E1.1 as**
4 **displayed above.**

5 **Response:**

6 Woodstock Hydro confirms that the “ICM Billing Determinant for Growth” Audited RRR” as
7 displayed above is correct, and that the resulting Threshold CAPEX is consistent with
8 Woodstock’s information.

9

1

2 **2. Ref: Manager's Summary, p.21**

3

4 In the Manager's Summary, Woodstock presents 2012 forecasted capital expenditures of
5 \$7,377,996 include costs for the Commerce Way TS Project of \$4,427,330.

6

7 **a) Please confirm that none of the capital expenditures equaling \$7,337,996 have**
8 **previously been included in Woodstock's rate base.**

9

10 **Response:**

11 WHSI confirms that none of the capital expenditures equaling \$7,337,996 have previously been
12 included in Woodstock's rate base.

13

14 **b) Please provide a breakdown of the projects included in the total forecasted capital**
15 **expenditure of \$7,377,996 excluding the Commerce Way TS project.**

16

17 **Response:**

| 2012 Capital Project Forecast | | | | | | | | | | | | | | | | | | | |
|---|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|------------------|-----------------|------------------|--------------------|--------------------|
| Project Description | 1830 | 1835 | 1840 | 1845 | 1850 | 1855 | 1860 | 1908 | 1915 | 1920 | 1925 | 1930 | 1935 | 1940 | 1945 | 1955 | 1980 | 1995 | TOTAL |
| Commerce Way TS Capital Contribution | | | | | | | | | | | | | | | | | | \$4,100,000 | \$4,100,000 |
| Commerce Way Egress | | | \$ 50,466 | \$ 60,466 | | | \$216,398 | | | | | | | | | | | | \$ 327,330 |
| Subdivisions and New Services | \$ 9,291 | \$ 12,388 | \$278,726 | \$133,169 | \$185,817 | \$ 62,538 | \$ 50,825 | | | | | | | | | | | \$ (406,417) | \$ 326,336 |
| Commerce Way Egress | \$ 80,300 | \$ 61,800 | | | \$ - | | | | | | | | | | | | | | \$ 142,100 |
| Albert St Conversion | \$ 75,550 | \$ 30,700 | \$ 11,350 | \$ 15,000 | \$ - | \$ 18,025 | | | | | | | | | | | | | \$ 150,625 |
| Catharine St Rebuild | \$ 95,900 | \$ 34,700 | \$ 54,850 | \$ 40,110 | \$ 9,350 | \$ 80,100 | | | | | | | | | | | | | \$ 315,010 |
| F8-22 Conversion | \$216,400 | \$ 84,950 | \$ 36,700 | \$ 20,000 | \$153,300 | \$ 24,350 | | | | | | | | | | | | | \$ 535,700 |
| Whites Lane Conversion | | | \$ 70,100 | \$ 36,400 | \$ 87,700 | \$ 29,400 | | | | | | | | | | | | | \$ 223,600 |
| South Alley Rebuild | | | \$ 70,100 | \$ 36,400 | \$ 87,700 | \$ 29,400 | | | | | | | | | | | | | \$ 223,600 |
| Dundas St East LTLT Elimination | \$ 25,700 | \$ 35,400 | | | \$ 24,100 | \$ 11,760 | | | | | | | | | | | | | \$ 96,960 |
| Pole Replacement | \$ 61,600 | \$ 28,250 | \$ - | \$ - | \$ 15,700 | \$ 3,645 | | | | | | | | | | | | | \$ 109,195 |
| Pole/Duct Cleanup | \$ - | \$ - | \$ 705 | \$ 6,145 | \$ - | \$ 17,050 | | | | | | | | | | | | | \$ 23,900 |
| U/G Vault Lid Maint | | | \$ 8,290 | \$ 27,350 | \$ - | | | | | | | | | | | | | | \$ 35,640 |
| Replace Elevator in Main Office to meet TSSA Safety Bulletin 243 10_Single Bulk head Cylinders requirements | | | | | | | | \$ 70,000 | | | | | | | | | | | \$ 70,000 |
| Replace Roll-Up Garage Door | | | | | | | | 5000 | | | | | | | | | | | \$ 5,000 |
| Ergonomic Equipment resulting from Ergonomic Assessments | | | | | | | | | \$ 5,000 | | | | | | | | | | \$ 5,000 |
| Tools, Shop and Garage Equipment to replace equipment at end of useful life | | | | | | | | | | | | | | \$ 20,000 | | | | | \$ 20,000 |
| Install Air Conditioning in Lower Server Room | | | | | | | \$ 10,000 | | | | | | | | | | | | \$ 10,000 |
| Replace Boardroom and Ladies Washroom Furniture at end of useful life | | | | | | | | | \$ 10,000 | | | | | | | | | | \$ 10,000 |
| New Workstations and Storage Equipment | | | | | | | | | \$ 3,000 | | | | | | | | | | \$ 3,000 |
| Replace 1999 FRHT MCV Chassis/Digger/Derrick that reached end of useful life in 2009 | | | | | | | | | | | | \$400,000 | | | | | | | \$ 400,000 |
| Purchase Used Forklift, deferred from 2011 | | | | | | | | | | | | | \$ 40,000 | | | | | | \$ 40,000 |
| Replace Computer Hardware at end of useful life (workstations, peripherals, servers, printers) | | | | | | | | | | \$100,000 | | | | | | | | | \$ 100,000 |
| New and Upgraded Software to meet regulatory and operational requirements | | | | | | | | | | | \$60,000 | | | | | | | | \$ 60,000 |
| New/Replace Measurement and Testing Equipment | | | | | | | | | | | | | | \$ 20,000 | | | | | \$ 20,000 |
| Telephone Equipment New (new work stations) and Replacement -units at end of useful life or broken | | | | | | | | | | | | | | | | \$ 5,000 | | | \$ 5,000 |
| SCADA Radio Units | | | | | | | | | | | | | | | | | \$ 20,000 | | \$ 20,000 |
| Total | \$564,741 | \$ 288,188 | \$581,287 | \$375,040 | \$563,667 | \$276,268 | \$267,223 | \$ 85,000 | \$ 18,000 | \$100,000 | \$60,000 | \$400,000 | \$ 40,000 | \$ 20,000 | \$ 20,000 | \$ 5,000 | \$ 20,000 | \$3,693,583 | \$7,377,996 |

c) Please confirm that none of the projects included in the 2012 forecasted capital expenditures are discretionary in nature.

Response:

WHSI confirms that none of the projects included in the 2012 forecasted capital expenditures are discretionary in nature.

3. Ref: Manager's Summary, p.12 and p.21

Ref: Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, p. 10

In the Manager's Summary, Woodstock requests approval of a rate rider to recover incremental costs of \$4,427,330. Woodstock also presents total capital expenditures of \$7,377,996. In the Board's updated Filing Requirements it is established that the maximum eligible incremental capital amount allowable for recovery is the total non-discretionary capital expenditures minus the threshold amount.

a) If Woodstock confirms that the Threshold Value derived in Board Staff Interrogatory No.1 is correct then please confirm that the incremental capital amount Woodstock is eligible to recover is \$3,223,786 (\$7,377,996 minus \$4,154,210).

Response:

WHSI confirms that the Threshold Value derived in Board Staff Interrogatory No. 1 is correct and that the incremental capital amount as determined by the Incremental Capital Module is \$3,223,786.

1 **b) If Woodstock is of the view that the eligible amount to be recovered through an**
2 **incremental capital rate rider should remain \$4,427,330, please provide the**
3 **justification for this treatment.**
4

5 **Response:**

6 Based on the response to 3 a) this is not applicable.
7

1

2 **4. Ref: Manager's Summary, p.25**

3 **Ref: Supplemental Report of the Board on 3rd Generation Incentive Regulation for**
4 **Ontario's Electricity Distributors (EB-2007-0673) Appendix B, page IX**

5

6 In the second noted reference, the Board indicated that distributors will be expected to file a
7 proposal on the manner in which it intends to allocate the incremental revenue requirement to the
8 various customer rate classes, the rationale for the selected approach and a discussion on the
9 merits of alternative allocations considered.

10

11 **a) Please confirm that the incremental revenue requirement was allocated to the**
12 **various customer rate classes on the basis of distribution revenue. If so, please**
13 **provide the rationale from a cost causality standpoint of using this approach.**

14

15 **Response:**

16 WHSI confirms that the incremental revenue requirement was allocated to the various
17 customer classes on the basis of distribution revenue as calculated by the Incremental Capital
18 Module. The Commerce Way TS project was necessary due to general load growth in the
19 WHSI and surrounding area for both residential and general service customers. The benefit of
20 increased capacity and reliability of supply will be shared by all customers and recovered on
21 the basis of distribution revenue.

22

b) Did Woodstock consider allocating the incremental revenue requirement on the same basis as the recovery of transmission connection costs (i.e. using the rate class share of transmission connection revenue)? If so, please provide the rationale for rejecting this approach. If not, please comment on whether this approach should be considered from a cost causality standpoint.

Response:

For the purposes of this application WHSI did not consider allocating the incremental revenue requirement on the same basis as the recovery of transmission connection costs. In order to maintain consistency in the allocation assumed in WHSI's distribution rates, that includes rate base cost components which eventually will include the capital additions associated with the new TS, WHSI determined it was reasonable to allocate the incremental revenue requirement on the basis of distribution revenue.

c) Please provide a table that compares the incremental revenue requirement allocated to each rate class when using: (a) distribution revenue as the allocator; and (b) using the rate class share of transmission connection revenues.

Response:

The following table compares the incremental revenue requirement as originally calculated by the OEB Incremental Capital Module. WHSI notes that the ICM model contained formula errors which may impact the final revenue requirement amount.

| Rate Class | Total Distribution Revenue By Rate Class | Total % Distribution Revenue by Rate Class | Revenue Requirement Based on Distribution Revenue | Total Transmission Connection Costs by Rate Class | Total % Costs by Rate Class | Revenue Requirement Based on Transmission Connection Revenue | Variance |
|---------------------------------------|--|--|---|---|-----------------------------|--|-------------|
| Residential | \$4,865,333 | 61.3% | \$303,835 | \$557,042 | 29.5% | \$146,117 | \$157,718 |
| General Service Less Than 50 kW | \$1,047,824 | 13.2% | \$65,436 | \$198,573 | 10.5% | \$52,087 | \$13,348 |
| General Service 50 to 999 kW | \$1,363,314 | 17.2% | \$85,138 | \$719,978 | 38.1% | \$188,856 | (\$103,719) |
| General Service Greater Than 1,000 kW | \$412,415 | 5.2% | \$25,755 | \$399,813 | 21.2% | \$104,874 | (\$79,120) |
| Unmetered Scattered Load | \$25,067 | 0.3% | \$1,565 | \$2,657 | 0.1% | \$697 | \$868 |
| Street Lighting | \$218,501 | 2.8% | \$13,645 | \$10,454 | 0.6% | \$2,742 | \$10,903 |
| TOTAL | \$7,932,454 | 100.0% | \$495,374 | \$1,888,517 | 100.0% | \$495,374 | \$0 |

d) Please provide the rationale for proposing to recover the incremental revenue requirement using both fixed and variable rate riders.

Response:

Similar to other distribution rate base assets, the Commerce Way TS is an asset which, through WHSI's contribution to HONI is made available for use to all WHSI customers. As such, WHSI believes that the rate riders should reflect the fixed component, as well as variable component consistent with WHSI current distribution rates. Other than WHSI's operation and maintenance costs associated with the wholesale metering assets, the costs for the Commerce Way TS project are fixed. WHSI's costs for debt financing and repayment, as well as amortization remain the same regardless of the volumetric activity.

The 2007 Cost Allocation Model recognized that both capital and operating costs should be split between fixed and variable rates.

Further, WHSI's billing system is able to accommodate both fixed and variable rate riders and administrative costs to maintain two rate riders as opposed to one rate rider, are not expected to be significant.

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e) Please recalculate the rate riders derived by allocating the incremental revenue requirement allocated to each rate using the rate class share of transmission connection revenues and recovery by means of: (i) a variable rate rider; (ii) a fixed rate rider; and (iii) a fixed and variable rate rider.

Response:

i) Variable rate rider

| Incremental Revenue Requirement Using Class Share of Transmission Connection Revenues - Variable Rate Rider | | | | | | | |
|---|---|-----------------------------|--|--------------------|----------------|---|--|
| Rate Class | Total Transmission Connection Costs by Rate Class | Total % Costs by Rate Class | Revenue Requirement Based on Transmission Connection Revenue | Billed kWh | Billed kW | Distribution Volumetric Rate kWh Rate Rider | Distribution Volumetric Rate kW Rate Rider |
| | A | B | C | D | E | F = C / D | G = C / E |
| Residential | \$557,042 | 29.5% | \$146,117 | 126,660,107 | - | \$ 0.0012 | |
| General Service Less Than 50 kW | \$198,573 | 10.5% | \$52,087 | 49,817,450 | - | \$ 0.0010 | |
| General Service 50 to 999 kW | \$719,978 | 38.1% | \$188,856 | | 395,652 | | \$ 0.4773 |
| General Service Greater Than 1,000 kW | \$399,813 | 21.2% | \$104,874 | | 148,980 | | \$ 0.7039 |
| Unmetered Scattered Load | \$2,657 | 0.1% | \$697 | 615,829 | - | \$ 0.0011 | |
| Street Lighting | \$10,454 | 0.6% | \$2,742 | 2,490,098 | 8,539 | | \$ 0.3211 |
| TOTAL | \$1,888,517 | 100.0% | \$495,374 | 179,583,484 | 553,171 | | |

ii) Fixed rate rider

| Incremental Revenue Requirement Using Class Share of Transmission Connection Revenues - Fixed Rate Rider | | | | | |
|--|---|-----------------------------------|---|--|---------------------------------|
| Rate Class | Total Transmission Connection Costs by Rate Class | Total % Costs by Rate Class | Revenue Requirement Based on Transmission Connection Revenue | Billed Customers or Connections | Service Charge Rate Rider |
| | A | B | C | D | E = C / D/12 |
| Residential | \$557,042 | 29.5% | \$146,117 | 13,785 | \$ 0.88 |
| General Service Less Than 50 kW | \$198,573 | 10.5% | \$52,087 | 1,171 | \$ 3.71 |
| General Service 50 to 999 kW | \$719,978 | 38.1% | \$188,856 | 193 | \$ 81.54 |
| General Service Greater Than 1,000 kW | \$399,813 | 21.2% | \$104,874 | 7 | \$ 1,248.50 |
| Unmetered Scattered Load | \$2,657 | 0.1% | \$697 | 135 | \$ 0.43 |
| Street Lighting | \$10,454 | 0.6% | \$2,742 | 4,369 | \$ 0.05 |
| TOTAL | \$1,888,517 | 100.0% | \$495,374 | 19,660 | |

1 iii) Variable and fixed rate riders

| Incremental Revenue Requirement Using Class Share of Transmission Connection Revenues - Fixed Rate Rider and Variable Rate Rider | | | | | | | |
|--|--|---|--|--------------------------------|--|---|-----------------------|
| Rate Class | Fixed Charge Revenue per Tab D1.1 ICM Module | Variable Charge Revenue per Tab D1.1 ICM Module | Total Distribution Revenue per Tab D1.1 ICM Module | Service Charge % Revenue | Distribution Volumetric Rate % Revenue kWh | Distribution Volumetric Rate % Revenue kW | Total % of Revenue |
| | A | B | C = A + B | D = A / C | E = B / C | F = B / C | G = D + E + F |
| Residential | \$2,104,142 | \$2,761,190 | \$4,865,333 | 43.2% | 56.8% | | 100% |
| General Service Less Than 50 kW | \$345,398 | \$702,426 | \$1,047,824 | 33.0% | 67.0% | | 100% |
| General Service 50 to 999 kW | \$328,803 | \$1,034,511 | \$1,363,314 | 24.1% | | 75.9% | 100% |
| General Service Greater Than 1,000 kW | \$39,786 | \$372,629 | \$412,415 | 9.6% | 0.0% | 90.4% | 100% |
| Unmetered Scattered Load | \$17,431 | \$7,636 | \$25,067 | 69.5% | 30.5% | | 100% |
| Street Lighting | \$132,119 | \$86,382 | \$218,501 | 60.5% | | 39.5% | 100% |
| TOTAL | \$2,967,679 | \$4,964,775 | \$7,932,454 | | | | |

| Incremental Revenue Requirement Using Class Share of Transmission Connection Revenues - Fixed Rate Rider and Variable Rate Rider | | | | | | | | | | | |
|--|---|------------------------------|---|---|-----------------------------------|--|-------------|-----------|---------------------------------|--|---|
| Rate Class | Revenue Requirement Based on Transmission Connection Revenue | Service Charge Revenue | Distribution Volumetric Rate Revenue kWh | Distributio n Volumetric Rate Revenue kW | Total Revenue by Rate Class | Billed Customers or Connections | Billed kWh | Billed kW | Service Charge Rate Rider | Distribution Volumetric Rate kWh Rate Rider | Distribution Volumetric Rate kW Rate Rider |
| | H | I = D * H | J = E * H | K = F * H | L = I + J + K | M | N | O | P = I / M / 12 | Q = J / N | R = K / O |
| Residential | \$146,117 | \$63,192 | \$82,925 | \$0 | \$146,117 | 13,785 | 126,660,107 | - | \$ 0.38 | \$ 0.0007 | |
| General Service Less Than 50 kW | \$52,087 | \$17,170 | \$34,918 | \$0 | \$52,087 | 1,171 | 49,817,450 | - | \$ 1.22 | \$ 0.0007 | |
| General Service 50 to 999 kW | \$188,856 | \$45,548 | \$0 | \$143,308 | \$188,856 | 193 | 122,660,771 | 395,652 | \$ 19.67 | | \$ 0.3622 |
| General Service Greater Than 1,000 kW | \$104,874 | \$10,117 | \$0 | \$94,757 | \$104,874 | 7 | 69,723,917 | 148,980 | \$ 120.44 | | \$ 0.6360 |
| Unmetered Scattered Load | \$697 | \$485 | \$212 | \$0 | \$697 | 135 | 615,829 | - | \$ 0.30 | \$ 0.0003 | |
| Street Lighting | \$2,742 | \$1,658 | \$0 | \$1,084 | \$2,742 | 4,369 | 2,490,098 | 8,539 | \$ 0.03 | | \$ 0.1270 |
| TOTAL | \$495,374 | \$138,170 | \$118,055 | \$239,149 | \$495,374 | | | | | | |

5. Ref: 2012 IRM3 Rate Generator, Sheet 13-14. Sheet 13 reproduced below.

| Rate Description | Unit | Amount | Effective Until Date | Proposed Amount | Effective Until Date |
|--|------|--------|----------------------|-----------------|----------------------|
| Residential | | | | | |
| Service Charge | \$ | 12.72 | | | |
| Rate Rider for Recovery of Late Payment Penalty Litigation Costs | \$ | 0.22 | July 31, 2012 | | |
| Rate Rider for Recovery of Incremental Capital Costs (2012) | \$ | | | 0.79 | April 30, 2014 |

In the Rate Generator, Woodstock has entered April 30, 2014 as the sunset date for the fixed and variable rate riders for the recovery of incremental revenue requirement.

a) Please confirm that Woodstock is using the April 30, 2014 sunset date since its next cost of service application is scheduled to be filed for the 2015 rate year.

Response:

WHSI requests to have the incremental revenue requirement rate riders remain in effect until its next cost of service application. WHSI intends to file its next cost of service application for the 2015 rate year, and therefore confirms that the sunset date should be April 30, 2015.

6. Ref: Application, Page 27 of 861

On page 27, Woodstock stated that "WHSI consulted with KPMG on this matter, who stated that the term of the Agreement with Hydro One will dictate the amortization term of the intangible asset. If there is no agreement outlining a term, the useful life of the asset should be used. Woodstock further stated that "The signed Connection Cost Recovery Agreement (CCRA) between Hydro One and WHSI stated the term of this Agreement commences on the date first written above and terminates on the 25th anniversary of the In Service Date"

a) Please provide evidence as to why the capital contribution was classified as intangible assets by KPMG and provide further explanation as to the 25-year term of the Agreement.

Response:

It is our view that the capital contribution represents an intangible asset under IAS 38 for various reasons:

1. The asset is identifiable per paragraph 12 since the item arises from the contractual rights established in the agreement between WHSI and Hydro One.

IAS 38 Paragraph 12:

"An asset is identifiable if it either:

- (a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or*
- (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations."*

- 1
2
3 2. Under the terms of the agreement, WHSI has the legal right, for 25 years, to obtain the
4 benefits of a percentage of the capacity of the underlying asset – therefore par. 13 is
5 met.
6

7 IAS 38 Paragraph 13:

8 *“An entity controls an asset if the entity has the power to obtain the future economic*
9 *benefits flowing from the underlying resource and to restrict the access of others to those*
10 *benefits. The capacity of an entity to control the future economic benefits from an*
11 *intangible asset would normally stem from legal rights that are enforceable in a court of*
12 *law. In the absence of legal rights, it is more difficult to demonstrate control. However,*
13 *legal enforceability of a right is not a necessary condition for control because an entity*
14 *may be able to control the future economic benefits in some other way.”*
15

- 16
17 3. Par. 17 is met because WHSI will have the ability to service customers and derive
18 distribution revenue, which represents an economic benefit.
19

20 IAS Paragraph 17:

21
22 *“The future economic benefits flowing from an intangible asset may include revenue from*
23 *the sale of products or services, cost savings, or other benefits resulting from the use of*
24 *the asset by the entity. For example, the use of intellectual property in a production*
25 *process may reduce future production costs rather than increase future revenues.”*
26

- 27 4. Par. 21 – both criteria are met here – (b) – because WHSI will pay for the asset based on
28 amounts specifically invoiced from HONI, thereby allowing WHSI to reliably measure
29 cost.
30

31 IAS Paragraph 21:

32 *“An intangible asset shall be recognised if, and only if:*
33 *(a) it is probable that the expected future economic benefits that are attributable to*
34 *the asset will flow to the entity; and*
35 *(b) the cost of the asset can be measured reliably.”*
36

37
38 A term of 25 years is appropriate as, theoretically, at the conclusion of the agreement, WHSI
39 would not have access to the economic benefits per par. 8 – which defines the useful life.
40

b) Please provide the specific accounting guideline that provides for the term of the Agreement to establish the amortization period of the capital contribution.

Response:

Please refer WHSI's response to question 5 a) above.

c) Assuming that the useful life of the asset is used for the amortization period of the capital contribution under MIFRS, please provide the useful life of each component of the TS.

Response:

In 2009 a joint PPE study with WHSI, London Hydro and Chatham Kent Hydro was conducted based on the LDC's assets at the time, and a Transmission Station (TS) category was not included in the results.

The Kinetrics Asset Depreciation Study for the OEB, dated July 8 2010, Table F-1 pages 39 to 40, show the following useful life ranges for components of TS/MS Assets.

| Asset Category | Component | Useful Life Years | | |
|-------------------------------|-------------------|-------------------|---------|-----|
| | | Min | Typical | Max |
| Power Transformers | Overall | 30 | 45 | 60 |
| Power Transformers | Bushing | 10 | 20 | 30 |
| Power Transformers | Tap Changer | 20 | 30 | 60 |
| Station Service Transformer | | 30 | 45 | 55 |
| Station Grounding Transformer | | 30 | 40 | 40 |
| Station DC System | Overall | 10 | 20 | 30 |
| Station DC System | Battery bank | 10 | 15 | 15 |
| Station DC System | Charger | 20 | 20 | 30 |
| Station Metal Clad Switchgear | Overall | 30 | 40 | 60 |
| Station Metal Clad Switchgear | Removable Breaker | 25 | 40 | 60 |
| Station Independent Breakers | | 35 | 45 | 65 |
| Station Switch | | 30 | 50 | 60 |
| Electromechanical Relays | | 25 | 35 | 50 |
| Solid State Relays | | 10 | 30 | 45 |
| Digital & Numeric Relays | | 15 | 20 | 20 |
| Rigid Busbars | | 30 | 55 | 60 |
| Steel Structure | | 35 | 50 | 90 |

1

2 WHSI is unable to determine a specific useful life for the components within these ranges
3 because it would have no control over the maintenance, inspection, and upkeep of an asset that it
4 does not own, nor are we experienced in the operation and maintenance of this specific type of
5 asset. The useful lives of the Commerce Way TS components would be determined by HONI
6 based on its own asset management plan and corporate policies.

7

1

2 **7. Ref: Application, Page 29, 30 & 31 of 861**

3

4 On page 29, Woodstock stated that "The reallocation of these costs to expense results in a
5 reduction of WHSI's payroll burden rate of 64.73% to 50.34% under MIFRS" and "The reallocation
6 of these costs to expense results in a reduction of WHSI's hourly truck rate from \$40 to \$32.30".

7

8 In addition, Woodstock presented the useful life of the components of the TS wholesale meter
9 costs under MIFRS on page 31.

10

11 **a) Please provide a copy of the capitalization policy that refers to the burden rates and**
12 **the useful life of the components used in the evidence.**

13

14 **Response:**

15 WHSI's Managers Summary for EB-2010-0145, Exhibit 2, Tab 3, Schedule 4, presented WHSI's
16 current capitalization policy which is reproduced below following this discussion. We are currently
17 in the process of updating our accounting policies and procedures to meet IFRS/MIFRS
18 requirements.

19 All WHSI employees complete weekly timesheets at a job-cost level so that direct labour costs
20 are allocated to capital work. This procedure will continue under MIFRS.

21 Further to the discussion in pages 29-31 of the Managers Summary EB-2011-0207, WHSI
22 currently includes the following cost to determine the labour burden rate for outside staff
23 (metering, line, engineering)

- 24
 - -payroll costs for - EI, CPP, EHT, OMERS, WSIB, Health, Dental, Life, LTD

1 • -vacation, statutory holidays, sick time, bereavement and other authorized absences for
2 outside staff

3 • -training, safety, meetings, and standby pay for outside staff

4 • -small tools & supplies, safety clothing and personal protective equipment

5 Under MIFRS, WHSI will exclude the following costs from the labour burden calculation ,which
6 results in the reduction from a burden rate of 64.73% under CGAAP, to 50.34%. These costs will
7 be expensed under MIFRS.

8 • training, safety, meetings, and standby pay for outside staff

9 • -small tools & supplies, safety clothing and personal protective equipment

10 The following vehicle costs are currently used to determine WHSI's hourly vehicle rates

11 • Fuel, depreciation direct labour, maintenance, repairs, inspection and licensing

12 Under MIFRS, WHSI will excluding the following costs from the vehicle rate calculation, and
13 recognized as expenses. This change in accounting procedure results in a reduction of the hourly
14 vehicle rate from \$40 to \$32.30.

15 • Maintenance, repairs, inspection and licensing

16
17 The classification and useful life of asset components will be updated based on the results of the
18 2009 joint PPE study.

19

20

CAPITALIZATION POLICY – EB-2010-0145

WHSI recognizes expenditures as capital or expense in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook section 3061, and with Article 410 of the OEB Accounting Procedures Handbook.

Capital Assets include property, plant, and equipment held for use in the production or supply of goods and services. Capital Assets may also include intangible costs such as goodwill and organization costs.

Recognition Criteria

To be recognized as an asset, the item or purpose of the expenditure is that it

- is used on a continuing basis
 - is not intended for sale in the ordinary course of business.
 - has a useful life of more than one year
 - meets the minimum materiality threshold defined for each asset group
- and,
- future benefits must be reasonably assured.

A Betterment may be capitalized if it also meets the above criteria

Betterment

A Betterment is a cost which enhances the service potential and extends the life of the original capital asset. Examples may include a transformer refurbishment, service upgrade, or replacement of major equipment or structures such as an HVAC system or roof replacement.

Materiality Threshold

WHSI uses a materiality threshold of \$1,000 for the total project cost related to distribution plant or intangible assets. Distribution plant refers to the following OEB asset accounts

| OEB | Description |
|------|---|
| 1805 | Land |
| 1806 | Land Rights |
| 1808 | Buildings and Fixtures |
| 1810 | Leasehold Improvements |
| 1815 | Transformer Station Equipment - Normally Primary above 50 kV |
| 1820 | Distribution Station Equipment - Normally Primary below 50 kV |
| 1825 | Storage Battery Equipment |
| 1830 | Poles, Towers and Fixtures |
| 1835 | Overhead Conductors and Devices |
| 1840 | Underground Conduit |
| 1845 | Underground Conductors and Devices |
| 1850 | Line Transformers |
| 1855 | Services |
| 1860 | Meters |
| 1865 | Other Installations on Customer's Premises |

1

2 *WHSI uses a materiality threshold of \$500 per single item for general plant, which includes the following*

3 *OEB accounts:*

| OEB | Description |
|------|--|
| 1905 | Land |
| 1906 | Land Rights |
| 1908 | Buildings and Fixtures |
| 1910 | Leasehold Improvements |
| 1915 | Office Furniture and Equipment |
| 1920 | Computer Equipment - Hardware |
| 1925 | Computer Software |
| 1930 | Transportation Equipment |
| 1935 | Stores Equipment |
| 1940 | Tools, Shop and Garage Equipment |
| 1945 | Measurement and Testing Equipment |
| 1950 | Power Operated Equipment |
| 1955 | Communication Equipment |
| 1960 | Miscellaneous Equipment |
| 1970 | Load Management Controls - Customer Premises |
| 1975 | Load Management Controls - Utility Premises |
| 1980 | System Supervisory Equipment |
| 1985 | Sentinel Lighting Rentals |
| 1990 | Other Tangible Property |
| 1995 | Contributions and Grants |
| 1996 | Hydro One TS Contribution |

4

5 **Identifiable Assets**

6 *An identifiable capital asset is one that has a sufficiently high unit costs and is easily identifiable for the*
7 *asset to be individually tracked and recorded. Transportation equipment is an example of an identifiable*
8 *asset.*

9

10

1 **Grouped Assets**

2 *Capital assets may be grouped if, by their nature it would be impractical to identify individual units. These*
3 *assets are managed as a pool for the purposes of amortization. Distribution Plant assets are considered*
4 *grouped assets.*

5 **Future Benefits**

6 *Charges for items such as preliminary engineering estimates related to a potential job are not considered*
7 *a capital unless the job materializes. If no future action is taken on a potential job, the costs to determine*
8 *the estimate is expensed.*

9 **Costs**

10 *Fully allocated costs include all expenditures necessary to put a capital asset into service, including*

- 11 *- Direct material*
- 12 *- Direct labour*
- 13 *- Indirect costs including overheads for labour, material, and vehicles*
- 14 *- Third party subcontracting costs*

15 **Construction Work in Progress (CWIP)**

16 *Capital assets under construction at year-end are referred to as construction work-in progress and*
17 *disclosed as a component of capital assets. Once the asset is put into service or construction is*
18 *substantially complete, the CWIP amounts are recognized as a capital asset and amortized.*

19

20 **Spare Transformers, Poles, and Meters**

21 *In accordance with CICA Handbook Sections 3031, Inventory and the OEB APH, all major spare parts and*
22 *equipment specifically designated as standby for field services is to be capitalized in PP&E and amortized if*
23 *the following 5 conditions are met*

- 1 - *not intended for resale*
- 2 - *cannot be classified as inventory in accordance with the CICA Handbook*
- 3 - *has a longer period of future benefit than do inventory items*
- 4 - *forms an integral part of the original distribution plant by enhancing the system reliability of the*
- 5 *original distribution plant*
- 6 - *consistency with regulatory treatment*

7 *WHSI has identified transformers, poles, and meters as “major spare parts” and are recognized as capital*
8 *assets.*

9 **Allowance for Funds Used During Construction (AFUDC)**

10 *In regard to the measurement of the carrying costs of a capital asset under construction and*
11 *the capitalization of interest costs, the CICA Handbook notes that the cost of a capital asset*
12 *that is acquired, constructed, or developed over time includes carrying costs directly attributable to the*
13 *acquisition, construction, or development activity. For a rate-regulated capital asset, the cost includes the*
14 *directly attributable allowance for funds used during construction allowed by the regulator per CICA*
15 *s.3060.26. The financing charge will be at the rate deemed by the Ontario Energy Board (“OEB”) for rate*
16 *setting purposes. WHSI does not capitalize interest costs where capital assets are financed internally from*
17 *its working capital.*

18
19 **Amortization**

20 *WHSI calculates amortization on a straight-line basis for capital assets available for use over their*
21 *estimated service lives as determine by the OEB Accounting Procedures Handbook.*

22 *Full amortization is recorded in the year of acquisition for financial statement and GAAP accounting*
23 *purposes. WHSI recognizes amortization using the ½ year rule for assets acquired during a year, for rate*
24 *setting purposes.*

25 **Asset Disposals and Write Downs**

1 *The gross costs for readily identifiable assets that are retired or disposed of and their related accumulated*
2 *amortization are removed from WHSI's records. Any differences between the proceeds, if any , and the*
3 *unamortized asset amount plus removal costs are recorded as a gain or loss in the year of disposal.*

4 *For grouped assets, the assets and accumulated amortization are removed from WHSI's records at the end*
5 *of their estimated average service life, regardless of actual service life.*

6 **Repairs**

7 *A repair is a cost incurred to maintain the service potential of an asset, and are expensed to the operating*
8 *period.*

9

10

8. Ref: Application, Page 30 of 861

On page 30 Woodstock capitalized \$95,000 of subcontract costs under CGAAP and MIFRS.

a) Please provide the nature of the subcontract costs.

Response:

The subcontract costs include the following items:

- Design and install four concrete encased duct banks and install two complete circuits of 1000 MCM terminating at feeder breaker
- Install padmount IT equipment for two 27 KV circuits
- Install IESO Wholesale metering equipment
- Construct preliminary egress equipment from compound
- Miscellaneous material not purchased directly by WHSI

This contract work includes activities from the station constructor and the Meter Service Provider. Design, commissioning and partial construction are included in the contractor estimates. Costs may vary depending on final Hydro One/WHSI construction methods for exit from Commerce Way TS.

b) Please provide an explanation as to why the subcontract cost should be capitalized under MIFRS and why the capitalized balances are the same under CGAAP and MIFRS.

Response:

WHSI uses a combination of staff and subcontractors for construction projects, based on the available labour hours for capital work, and the quantity and type capital work that must be completed. Regardless of whether the capital work is completed by WHSI staff or by a subcontractor, the result is the same – an asset that meets the definition of asset under CGAAP and IFRS is constructed. As a subcontractor, pricing is submitted on a competitive basis and WHSI may require quotes from more than one contractor, however It is beyond the scope of WHSI to determine what components of the subcontractors pricing would qualify as capital or overhead, or whether they should reduce hourly labour rates due to IFRS accounting. Subcontractor pricing is determined by market forces, in accordance with their own pricing policies and WHSI's prerogative is to select the most suitable subcontractor at the most competitive rate.

WHSI is not aware of any standards under IAS that would prohibit capitalization of costs for subcontractors.

1

2 **Revenue to Cost Ratio Adjustment**

3

4 **9. Ref: 2012 IRM Revenue to Cost Ratio Adjustment Workform, Sheet 7.**

5 **Ref: EB-2010-0145, 2011 Cost Allocation Model, Sheet 01**

6

| Rate Class | Informational Filing | Percentage Split C= A / B | Allocated Revenue |
|---------------------------------------|----------------------|------------------------------|----------------------|
| | Revenue Offsets A | | Offsets E = D * C |
| Residential | 347,767 | 70.22% | 347,767 |
| General Service Less Than 50 kW | 73,931 | 14.93% | 73,931 |
| General Service 50 to 999 kW | 54,425 | 10.99% | 54,425 |
| General Service Greater Than 1,000 kW | 9,928 | 2.00% | 9,928 |
| Unmetered Scattered Load | 1,579 | 0.32% | 1,579 |
| Street Lighting | 7,649 | 1.54% | 7,649 |
| | 495,279 | 100.00% | 495,279 |
| | B | | D |

7

8 Board staff was unable to reconcile the values entered in column A with the Miscellaneous
 9 Revenue allocations established in Woodstock's 2011 cost of service application (EB-2010-0145).

10

11 **a) Please confirm that the values in column A were those established in Woodstock's**
 12 **2011 cost of service application (EB-2010-0145).**

13

14 **Response:**

15 WHSI confirms that the values entered in column A with the Miscellaneous revenue allocations
 16 established in Woodstock's 2011 cost of service application.

17 Reference: WHSI Final Rate Design Model 20110315.xls, tab "Cost Allocation" for EB 2010-
 18 0145 as shown below. The column highlighted in green shows the allocation of miscellaneous
 19 service revenues in the amount of \$495,279.

Woodstock Hydro Services Inc.
, License Number ED-2003-0011, File Number EB-2010-0145
0

Cost Allocation Based Calculations

| | | | | | | | | | | | | Board Target | Proposed change % |
|----------------------------|------------------|------------------|----------------|------------------|---------------|---------------|---------|------------------|----------------|------------------|-----|-----------------|----------------------|
| Residential | 4,947,029 | 4,861,870 | 347,767 | 5,209,637 | 105.31% | 105.31% | 105.31% | 5,209,624 | 347,767 | 4,861,856 | 85% | 115% | 0.00% |
| GS < 50 kW | 1,209,446 | 1,047,573 | 73,931 | 1,121,504 | 92.73% | 92.73% | 92.73% | 1,121,504 | 73,931 | 1,047,573 | 80% | 120% | 0.00% |
| GS 50 kW - 999 kW | 1,147,217 | 1,414,575 | 54,425 | 1,468,999 | 128.05% | 128.05% | 115.61% | 1,326,242 | 54,425 | 1,271,817 | 80% | 180% | -12.44% |
| GS>1000 kW | 484,079 | 263,760 | 9,928 | 273,688 | 56.54% | 56.54% | 68.27% | 330,475 | 9,928 | 320,547 | 80% | 180% | 11.73% |
| Large Use | 0 | 0 | 0 | 0 | | | | 0 | 0 | 0 | | | 0.00% |
| Street Lighting | 386,016 | 86,438 | 7,649 | 94,087 | 24.37% | 24.37% | 47.19% | 182,149 | 7,649 | 174,500 | 70% | 120% | 22.81% |
| microFIT Generator service | 252 | 252 | 0 | 252 | | 0.00% | 100.00% | 252 | | 252 | | | |
| USL | 24,306 | 28,599 | 1,579 | 30,178 | 124.16% | 124.16% | 115.61% | 28,099 | 1,579 | 26,521 | 80% | 120% | -8.55% |
| TOTAL | 8,198,345 | 7,703,066 | 495,279 | 8,198,345 | 100.0% | 100.0% | | 8,198,345 | 495,279 | 7,703,066 | | | |

1

2

**b) If not, please provide the Revenue Offsets by rate class underpinning the 2011 cost
of service application**

3

4

5

Response:

6

Please see WHSI's response to question 9a) above.

7

8

Account 1521 – Special Purpose Charge (SPC)

10. Ref: 2012 IRM Rate Generator v1.3, Sheet 9
Ref: Manager's Summary, p.40

a) Please confirm Woodstock's SPC assessment amount and provide a copy of the original SPC invoice.

Response:

WHSI's SPC assessment amount is \$151,689 as shown in the invoice included in Appendix A .

b) Please complete the table below related to the SPC.

Response:

| SPC Assessment (Principal balance) | Amount recovered from customers in 2010 | Carrying Charges for 2010 | December 31, 2010 Year End Principal Balance | December 31, 2010 Year End Carrying Charges Balance | Amount recovered from customers in 2011 | Carrying Charges for 2011 | Forecasted December 31, 2011 Year End Principal Balance | Forecasted December 31, 2011 Carrying Charges Balance | Total for Disposition (Principal & Interest) |
|------------------------------------|---|---------------------------|--|---|---|---------------------------|---|---|--|
| \$151,689 | \$85,124.52 | \$445.07 | \$66,564.48 | \$ 445.07 | \$62,308.56 | \$255.58 | \$4,255.92 | \$732.51 | \$4,988.43 |

1

2 **Account 1562 – Deferred Payments in Lieu (PILs)**

3

4 **11. Missing Evidence**

5 **Ref: Manager’s Summary, Appendix G**

6

7 **a) Please file the financial statements submitted with tax returns for 2001 to 2005.**

8 **Response:**

9 The financial statements for 2001 to 2005 have been submitted as

10 Appendix B – WHSI 2001 Audited Financial Statements

11 Appendix C – WHSI 2002 Audited Financial Statements

12 Appendix D – WHSI 2003 Audited Financial Statements

13 Appendix E – WHSI 2004 Audited Financial Statements

14 Appendix F – WHSI 2005 Audited Financial Statements

15

12. CDM Incremental OM&A Expenses - 2005 SIMPIL Model
Ref: Manager's Summary, Appendix G

In the 2005 SIMPIL Model TAXCALC worksheet row 44 "*CDM 2005 incremental OM&A expenses per 2005 PILs model*" does not have an actual offsetting amount in cell G44.

The Board issued a letter dated September 13, 2011 regarding 2012 EDR – Disposition of account 1562 deferred PILs that states: "In the 2005 EDR, a deduction for CDM expenses was made in the PILs proxy model. The applicant should ensure that there is a corresponding tax (accounting) amount recorded on the same row in SIMPIL to determine the appropriate true-up".

a) Please provide the dollar amount of actual expense incurred in 2005 to compare to the proxy amount so that a reasonable true-up will be calculated.

Response:

WHSI's actual CDM expense incurred in 2005 was \$31,248.04 and is based on WHSI's annual CDM report (RP2004-0203/ED 2003-0011 March 16, 2006) .

b) Can Woodstock suggest an alternative method to avoid a one-sided true-up to ratepayers?

Response:

WHSI would suggest that tracking these costs on a cumulative basis over a period of time, rather than adjusting one-sided true-ups based on annual variances could ultimately avoid or reduce a one-sided true-up.

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13. Income Tax Rates
Ref: Manager's Summary, Appendix G

Ref: EB-2008-0381 Decision and Order, pages 17-19.

The following table displays the income tax rates used in the calculation of the SIMPIL true-up variances in Woodstock's PILs 1562 evidence.

| | | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|--|--------|--------|--------|--------|--------|
| APPLICATION PILS PROXY CALCULATION | 1. SIMPIL Tab TAXCALC Cell C53 (54): Blended income tax rate | 40.62% | 38.62% | 38.62% | 38.62% | 36.12% |
| | 2. SIMPIL Tab TAXCALC Cell C88 (89): Income tax rate used for gross- up (excluding surtax) | 39.50% | 37.50% | 37.50% | 37.50% | 35.00% |
| DECISION IN COMBINED PROCEEDING | From page 17 of the Decision: Tax rate to calculate the tax impact | 40.62% | 38.62% | 36.62% | 36.12% | 36.12% |
| | Tax rate to calculate the grossed-up tax amount | 39.50% | 37.50% | 35.50% | 35.00% | 35.00% |

| | | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------|--|--------|--------|--------|--------|--------|
| SIMPL MODELS TAB TAXCALC | 3. Cell E122 (123): Calculation of true-up variance -income tax effect | 39.50% | 38.62% | 36.62% | 35.00% | 36.12% |
| | 4. Cell E130 (131): Income tax rate used for gross-up (excluding surtax) | 39.50% | 37.50% | 35.50% | 34.94% | 35.00% |
| | 5. Cell E138 (139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate | 40.62% | 38.62% | 36.62% | 36.06% | 36.12% |
| | 6. Cell E175 (176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax) | 39.50% | 37.50% | 35.50% | 34.94% | 35.00% |

1 a) In the PILs combined proceeding, the Board indicated that the income tax impact will be
2 calculated using the tax rate that includes the surtax rate expressed as 1.12%. The tax rate
3 to calculate the true-up variance should exclude the surtax rate.¹
4

5 **In the 2001 Q4 SIMPIL model, Woodstock did not use the tax rate that includes the**
6 **surtax of 1.12% in calculating the tax impact. Does Woodstock agree that the rate to**
7 **calculate the tax impact should include the surtax rate of 1.12%? If not, please**
8 **explain.**
9

10 **Response:**
11

12 The rate of 39.5% shown in cell E122 (Appendix G-2 SIMPIL Model Updated) was
13 derived from a formula that had been populated in that cell and excluded the 1.12%
14 surtax. WHSI agrees that the rate to calculate the tax impact should include the surtax rate
15 of 1.12%, as based on the Board's Decision and Order EB-2008-0381.
16
17

18 **b) Please explain how Woodstock chose the income tax rates for the 2004 SIMPIL**
19 **model true-up.**
20

21 **Response:**
22

23 The rate of 35.00% in Cell E122 in Appendix G-17 2004 SIMPIL Model Updated is incorrect
24 due to an interpretation error and based on the Boards Decision in 2008-0381 the rate should
25 be 36.12%

3636_____

¹EB-2008-0381 Decision and Order, pages 17-19.

1 The rate of 34.94% in Cell E130 in Appendix G-17 2004 SIMPIL Model Updated is incorrect
2 due to an interpretation error and based on the Boards Decision in 2008-0381 the rate should
3 be 35.00%

4 The rate of 36.06% in Cell E138 in Appendix G-17 2004 SIMPIL Model Updated is incorrect
5 due to an interpretation error and based on the Boards Decision in 2008-0381 the rate should
6 be 36.12%

7 The rate of 34.94% in Cell E175 in Appendix G-17 2004 SIMPIL Model Updated is incorrect
8 due to an interpretation error and based on the Boards Decision in 2008-0381 the rate should
9 be 35.00%

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14. Interest Expense
Ref: Manager's Summary, Appendix G

Interest portion of true-up – 2003, 2004, 2005 SIMPIL - TAXCALC: Actual interest expense, as reflected in the financial statements and tax returns, that exceeds the maximum deemed interest amount is subject to a claw-back.

In the 2001 Q4 and 2002 SIMPIL models, the TAXCALC worksheet row 204 cell E206 “interest adjustment for tax purposes” is calculated as interest reported in the tax returns less “*total deemed interest*”. In Woodstock’s 2003, 2004 and 2005 SIMPIL models, interest reported in the tax returns is subtracted from “*actual interest paid*” to calculate the adjustment.

a) Please explain why the calculation for “interest adjustment for tax purposes” shows a deduction of total deemed interest in the 2001 Q4 and 2002 SIMPIL models, whereas in the 2003, 2004 and 2005 SIMPIL models the calculation deducts actual interest paid?

Response:

The values shown in cell E202, tab “TAXCALC” in the 2003, 2004, and 2005 SIMPL models should be the deemed interest amounts so that the actual interest deducted on MoF filings is trued up to deemed interest amounts.

b) Where is the “actual interest paid” amount derived from in these years?

Response:

| Interest Expense for | Q4 2001 | 2002 | 2003 | 2004 | 2005 | Cumulative |
|-------------------------|-----------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Long Term Debt | \$ - | \$ 225,876 | \$ 595,491 | \$ 739,230 | \$ 739,230 | \$ 2,299,827 |
| Prudential Requirements | | \$ 19,153 | \$ 19,153 | \$ 19,153 | \$ 13,746 | \$ 71,205 |
| Customer Deposits | \$ (232) | \$ 6,074 | \$ 6,896 | \$ 9,380 | \$ 16,888 | \$ 39,006 |
| Subtotal | \$ (232) | \$ 251,103 | \$ 621,540 | \$ 767,763 | \$ 769,863 | \$ 2,410,038 |
| Regulatory Assets | | \$ 1,275 | \$ 1,003 | \$ 25,108 | \$ 26,245 | \$ 53,631 |
| Total | \$ (232) | \$ 252,378 | \$ 622,543 | \$ 792,871 | \$ 796,108 | \$ 2,463,669 |

The 2001 actual interest paid showed a credit amount of \$(281.30) which WHSI presumes is an adjustment on interest expense at year end based on the financial statements. Other than the information as supplied in the 2001 tax return and audited financial statements, no further details of this adjustment are available.

WHSI's total interest expense as noted above was used in the trueup models, however, the amounts attributable to regulatory accounts were also included in “Change in regulatory asset balances amounts” on the TAXREC3 tab. The net impact is that WHSI did not receive a tax deduction for the interest expense / related to the regulatory accounts.

c) Should Woodstock be subject to the settlement of Issue 13 related to the excess interest claw-back in the combined proceeding? Please explain.

Response:

Given that EB-2008-0381 Decision and Order is the final determinant of the 1562 PILS proceeding, WHSI should be subject to the settlement of Issue 13 as stated in that Decision, however, on a cumulative basis WHSI notes that the cumulative deemed interest expense is \$109,775 lower than cumulative actual interest expense between 2001 and 2005, primarily due

to the MARR phase in of interest expense. WHSI believes that a more balanced approach would be to determine whether a clawback is required based on the cumulative differences from 2001 to 2005, rather than clawing back on select periods only. The promissory note rates are fixed and due to the payee, regardless of the MARR phase-in period.

| | Q4 2001 | 2002 | 2003 | 2004 | 2005 | Cumulative |
|---|-------------|--------------|------------|------------|------------|--------------|
| Deemed Interest Expense | \$ 95,963 | \$ 561,540 | \$ 561,540 | \$ 561,540 | \$ 739,230 | \$ 2,519,813 |
| Interest Expense Excluding Charges on Regulatory Assets | \$ (232) | \$ 251,103 | \$ 621,540 | \$ 767,763 | \$ 769,863 | \$ 2,410,038 |
| Clawback amount/(Actual amounts less than deemed expense) | \$ (96,195) | \$ (310,437) | \$ 60,000 | \$ 206,223 | \$ 30,633 | \$ (109,775) |

1) For the tax years 2001 to 2005:

a) Did Woodstock have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

Response:

The Other Interest Expense amounts as shown in WHSI's response to part b) above includes interest paid on customer deposits, bank charges LOC for prudential requirements, and carrying charges on regulatory accounts.

b) Did Woodstock net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.

1 **Response:**

2 WHSI did not net interest income against interest expense in deriving the amount it shows as
3 interest expense. A breakdown of interest income by category is shown below, followed by a
4 reconciliation of net interest income and interest expense for regulatory assets:

| Interest Revenue for | Q4 2001 | 2002 | 2003 | 2004 | 2005 | Cumulative |
|------------------------------|-------------|--------------------|---------------------|--------------------|---------------------|---------------------|
| Extraordinary event loss | | | | | \$ (66,699) | \$ (66,699) |
| Bank investments | | \$ (38,212) | \$ (69,755) | \$ (52,560) | \$ (66,835) | \$ (227,362) |
| Subtotal | \$ - | \$ (38,212) | \$ (69,755) | \$ (52,560) | \$ (133,534) | \$ (294,061) |
| Regulatory Assets | | \$ (29,003) | \$ (63,534) | \$ (34,312) | \$ (159,088) | \$ (285,937) |
| Total Interest Income | \$ - | \$ (67,215) | \$ (133,289) | \$ (86,872) | \$ (292,622) | \$ (579,998) |

| Regulatory Carrying Charges | Q4 2001 | 2002 | 2003 | 2004 | 2005 | Cumulative |
|-----------------------------|-------------|--------------------|--------------------|-------------------|---------------------|---------------------|
| Expense (from IRR 14b) | \$ - | \$ 1,275 | \$ 1,003 | \$ 25,108 | \$ 26,245 | \$ 53,631 |
| Income (per above) | \$ - | \$ (29,003) | \$ (63,534) | \$ (34,312) | \$ (159,088) | \$ (285,937) |
| Net Expense/(Income) | \$ - | \$ (27,728) | \$ (62,532) | \$ (9,203) | \$ (132,843) | \$ (232,306) |

7 **c) Did Woodstock include interest expense on customer security deposits in interest**
8 **expense?**

9

10 **Response:**

11 Yes. The amounts are provided in WHSI's answer to part b) above.

12

13 **d) Did Woodstock include interest income on customer security deposits in interest**
14 **expense?**

15

16 **Response:**

17 No.

18

1 **e) Did Woodstock include interest expense on IESO prudential's in interest expense?**

2

3 **Response:**

4 Yes. The amounts are provided in WHSI's answer to part b) above.

5

6 **f) Did Woodstock include interest carrying charges on regulatory assets or liabilities**
7 **in interest expense?**

8

9 **Response:**

10 Yes. The amounts are provided in WHSI's answer to part b) above.

11 **g) Did Woodstock include the amortization of debt issue costs, debt discounts or debt**
12 **premiums in interest expense?**

13

14 **Response:**

15 No.

16

17 **h) Did Woodstock deduct capitalized interest in deriving the interest expense**
18 **disclosed in its financial statements?**

19

20 **Response:**

21 No.

22

1 **i) Please provide Woodstock's views on which types of interest income and interest**
2 **expense should be included in the excess interest true-up calculations.**

3
4
5 **Response:**

6
7 WHSI believes that any type of interest expense that is required and incurred during the course of
8 the electricity distribution business should be included in the excess true-up calculations,
9 including such items as costs for IESO prudential's and consumer deposit interest.

10
11 WHSI also believes that any type of interest income that arises during the course of the
12 electricity distribution business should be included in the excess interest true-up calculations. For
13 example, the interest that WHSI earns from consumer deposits should be included so that the net
14 expense or revenue realized from consumer deposits, whether it is a net expense or net income
15 is captured in the true-up.

16
17 j) Please provide a table for the years 2001 to 2005 that shows all of the components of
18 Woodstock's interest expense and the amount associated with each type of interest.

19
20 **Response:**

21 Please see our response to part b) above.
22
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Lost Revenue Adjustment Mechanism (LRAM)

15. Ref: Manager's Summary, Page 53

Woodstock noted that the 2009 OPA final LRAM amount of \$106,396.64 has been used as a placeholder amount until Woodstock receives the final 2010 LRAM/SSM audited results from the OPA. Woodstock further notes that it intends to update the LRAM/SSM rate rider for 2010 activities once the final audited results are received.

a) Please provide a status update on the 2010 OPA evaluation results.

Response:

WHSI received the 2010 OPA final evaluation results on November 15th 2011. Please refer to our response to VECC IR # 12.

b) If the 2010 OPA evaluation results have been made available to Woodstock, please update the LRAM claim accordingly and make the 2010 OPA evaluation results available for review.

Response:

Please refer to WHSI's response to VECC IR# 12

1 **c) Please provide the rationale for using the 2009 OPA final LRAM amount of**
2 **\$106,396.64 as a placeholder amount until Woodstock receives the final 2010 results**
3 **from the OPA.**
4

5
6 **Response:**
7

8 WHSI used the 2009 OPA final LRAM amount as a placeholder based on the premise
9 that the most recent actual year data would be the most reasonable amount to include until
10 the 2010 actual amounts had been determined. Given that September 16 2011 was the
11 IRM3 filing deadline and the final audited results would not be available until October or
12 November, WHSI used the best information available at the time.
13

APPENDIX A

Special Purpose Charge (SPC) invoice

05681-000-03-00-04
912810

Revised Invoice
Ministry of Energy and Infrastructure
Conservation and Renewable Energy Program Costs

To: Woodstock Hydro Services Inc.
16 Graham Street, P.O. Box 1598
Woodstock, ON N4S 0A8
Attn: Ross McMillan, President & CEO

Item Description:

Assessment for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs.

Quote-part pour les coûts des programme de conservation et d'énergie renouvelable du ministère de l'Énergie et de l'Infrastructure.

| |
|--|
| Customer No./No du client 472586 |
| Customer Site No./ N° d'emplacement du client 1060834 |
| Invoice Date/Date de la facture April 16, 2010 |
| Invoice No./ N° de la facture 50079 |
| Due Date/ Date d'échéance July 30, 2010 |
| Payment Amount/ Montant remis CAD \$ 151,689 |

Questions related to the remittance should be directed to the Non-Tax Revenue Management Branch Contact Centre at 1-877-535-0554 or Fax (416) 326-5177. Les questions concernant la remise doivent être posées à l'InfoCentre de la Direction de la gestion des revenus non fiscaux au 1 877 535-0554 ou par télécopieur au 416 326-5177.

This assessment was calculated by the Ontario Energy Board, 2300 Yonge St. 27th Floor, P.O. Box 2319, Toronto, ON M4P 1E4. Questions related to the invoice should be directed to the Market Operations Hotline 416-440-7604. La présente quote-part a été fixée par la Commission de l'énergie de l'Ontario, 2300, rue Yonge, 27^e étage, case postale 2319, Toronto (Ontario) M4P 1E4. Les questions relatives à la facture doivent être posées au service de téléassistance du service Activités du marché : 416 440-7604.

Payments are to be made to the Minister of Finance not the Ontario Energy Board.
Les paiements doivent être faits au ministre des Finances et non à la Commission de l'énergie de l'Ontario.

Detach here/ Détacher ici



Ministry of Finance/Ministère des Finances
Payment Processing Centre/Centre de traitement des paiements
33 King St. West/33 rue King Ouest
PO Box 647/CP 647
Oshawa, ON L1H 8X3

Please detach and return this portion with your payment in the enclosed envelope. Make your cheque or money order payable to the **Minister of Finance**. Veuillez détacher et retourner cette partie avec votre remise dans l'enveloppe ci-jointe. Libellez votre chèque ou votre mandat à l'ordre du **ministre des Finances**.

Woodstock Hydro Services Inc.
16 Graham Street, P.O. Box 1598
Woodstock, ON N4S 0A8
Attn: Ross McMillan, President & CEO

| |
|---|
| Customer No. / N° du client 472586 |
| Customer Site No./ N° d'emplacement du client 1060834 |
| Invoice No./ N° de la facture 50079 |
| Payment Amount / Montant remis CAD \$. |

APPENDIX B

WHSI 2001 Audited Financial Statements



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2001



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.

Financial Statements

For the year ended December 31, 2001

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Auditors' Report

**To the Shareholder of
WOODSTOCK HYDRO SERVICES INC.**

We have audited the balance sheet of WOODSTOCK HYDRO SERVICES INC. as at December 31, 2001 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, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Woodstock, Ontario
March 28, 2002

WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31 2001 2000

Assets

Current

| | | |
|-----------------------------------|--------------|--------------|
| Cash and bank | \$ 2,364,109 | \$ 2,268,896 |
| Short-term investments | 50,000 | 1,050,000 |
| Accounts receivable | 2,894,842 | 2,590,726 |
| Unbilled revenue | 1,829,622 | 1,708,357 |
| Due from related parties (Note 2) | 2,717 | 8,051 |
| Inventories | 1,231,568 | 1,294,837 |
| Prepaid expenses | 67,113 | 42,898 |
| | 8,439,971 | 8,963,765 |

| | | |
|---------------------------|------------|------------|
| Capital assets (Note 3) | 17,366,704 | 17,057,772 |
| Deferred charges (Note 4) | 469,977 | - |
| Future income tax asset | 19,543 | - |

\$ 26,296,195 \$ 26,021,537

Liabilities and Shareholder's Equity

Current

| | | |
|--|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 3,505,683 | \$ 3,565,054 |
| Income taxes payable | 99,842 | - |
| Due to related parties (Note 2) | 13,398 | 21,784 |
| Deposit on performance of contract | 219,318 | 163,899 |
| Accrued payroll and vacation pay | 97,038 | 97,750 |
| Current portion of customer deposits | 97,000 | 95,000 |
| | 4,032,279 | 3,943,487 |

| | | |
|-----------------------------|------------|------------|
| Sick leave liability | 214,615 | 236,327 |
| Long-term customer deposits | 487,609 | 459,136 |
| Long-term debt (Note 6) | 10,941,862 | 10,941,862 |
| | 15,676,365 | 15,580,812 |

Shareholder's equity

| | | |
|------------------------|------------|------------|
| Share capital (Note 7) | 10,941,862 | 10,941,862 |
| Deficit | (322,032) | (501,137) |
| | 10,619,830 | 10,440,725 |

\$ 26,296,195 \$ 26,021,537

WOODSTOCK HYDRO SERVICES INC.

Statement of Operations and Deficit

| For the year ended December 31 | 2001 | 2000 |
|---|---------------------|---------------------|
| (with comparative amounts for the two month period ended December 31, 2000) | | |
| Sale of energy | | |
| Residential | \$ 9,172,412 | \$ 1,366,188 |
| Commercial | 20,652,856 | 3,245,334 |
| Street/Sentinel lighting | 189,699 | 29,710 |
| | <u>30,014,967</u> | <u>4,641,232</u> |
| Service revenue adjustment | 232,473 | 171,960 |
| | <u>30,247,440</u> | <u>4,813,192</u> |
| Cost of power purchased | <u>26,904,444</u> | <u>4,848,941</u> |
| Gross margin on service revenue | 3,342,996 | (35,749) |
| Other operating revenue | 709,547 | 118,645 |
| | <u>4,052,543</u> | <u>82,896</u> |
| Expenses | | |
| Operating and maintenance | 1,008,371 | 124,211 |
| Administration and general | 1,500,869 | 256,279 |
| Financial expense | 2,799 | (192) |
| Amortization | 1,281,100 | 203,735 |
| | <u>3,793,139</u> | <u>584,033</u> |
| Income (loss) before income taxes | <u>259,404</u> | <u>(501,137)</u> |
| Income taxes (Note 5) | | |
| Current | 99,842 | - |
| Future (recovery) | (19,543) | - |
| | <u>80,299</u> | <u>-</u> |
| Net income (loss) for the year | 179,105 | (501,137) |
| (Deficit) retained earnings, beginning of year | <u>(501,137)</u> | <u>-</u> |
| Deficit, end of year | <u>\$ (322,032)</u> | <u>\$ (501,137)</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

For the year ended December 31 **2001** **2000**
 (with comparative amounts for the two month period ended December 31, 2000)

Cash provided by (used in)

Operating activities

| | | |
|--|------------------|------------------|
| Net income (loss) for the year | \$ 179,105 | \$ (501,137) |
| Items not involving cash: | | |
| Amortization of capital assets | 1,392,020 | 221,350 |
| Future income taxes (recovery) | (19,543) | - |
| Gain on disposal of capital assets | (9,686) | - |
| Decrease in sick leave liability | (21,712) | (1,824) |
| | <u>1,520,184</u> | <u>(281,611)</u> |
| Net change in non-cash working capital balances (Note 8) | <u>(294,201)</u> | <u>493,555</u> |
| | <u>1,225,983</u> | <u>211,944</u> |

Investing activities

| | | |
|------------------------------------|--------------------|------------------|
| Purchase of capital assets | (1,760,253) | (427,772) |
| Proceeds on sale of capital assets | 68,987 | - |
| Increase in deferred charges | (469,977) | - |
| | <u>(2,161,243)</u> | <u>(427,772)</u> |

Financing activities

| | | |
|---|---------------|------------------|
| Increase in customer deposits | 30,473 | 26,382 |
| Proceeds from issuance of capital stock | - | 3,508,342 |
| | <u>30,473</u> | <u>3,534,724</u> |

**(Decrease) increase in cash and cash equivalents
during the year**

(904,787) 3,318,896

Cash and cash equivalents, beginning of year

3,318,896 -

Cash and cash equivalents, end of year

\$ 2,414,109 \$ 3,318,896

Represented by

| | | |
|------------------------|---------------------|---------------------|
| Cash and bank | \$ 2,364,109 | \$ 2,268,896 |
| Short-term investments | 50,000 | 1,050,000 |
| | <u>\$ 2,414,109</u> | <u>\$ 3,318,896</u> |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2001

| | | | | | | | |
|-----------------------------------|--|-----------------------------------|----------|-------------------------|------------|----------------------|------|
| Nature of Business | <p>The company is incorporated under the laws of Ontario and is engaged in the operation of distribution of electricity.</p> <p>The accounting policies of the company are in accordance with Canadian generally accepted accounting principles as prescribed by the Ontario Energy Board.</p> | | | | | | |
| Financial Instruments | <p>The company's financial instruments consist of cash and bank, accounts receivable, short-term investments, accounts payable and accrued liabilities, amounts due to (from) related parties, and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.</p> | | | | | | |
| Temporary Investments | <p>Temporary investments are stated at the lower of cost and market value.</p> | | | | | | |
| Inventories | <p>Inventories are valued at average cost.</p> | | | | | | |
| Capital Assets | <p>Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful life of the individual assets at the following annual rates:</p> <table><tr><td>Buildings and distribution system</td><td>3% to 7%</td></tr><tr><td>Machinery and equipment</td><td>10% to 20%</td></tr><tr><td>Organization expense</td><td>2.5%</td></tr></table> | Buildings and distribution system | 3% to 7% | Machinery and equipment | 10% to 20% | Organization expense | 2.5% |
| Buildings and distribution system | 3% to 7% | | | | | | |
| Machinery and equipment | 10% to 20% | | | | | | |
| Organization expense | 2.5% | | | | | | |
| Service Revenue | <p>Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.</p> | | | | | | |
| Future Income Taxes | <p>The company follows the asset liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.</p> <p>Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.</p> | | | | | | |
| Power purchases | <p>The adjusting power bill received from the Ontario Power Generation is recorded in the period to which it refers and not in the period in which it is received.</p> | | | | | | |

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

1. Industry Restructuring

The Ontario Government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of the legislation, the Ontario Energy Board (the "OEB") now regulate industry participants by issuing licenses for the right to generate, transmit, distribute or retail electricity. These licenses require compliance with established market rules and codes.

Pursuant to this legislation, the City of Woodstock, as owners of the former Woodstock Public Utility Commission, were required to enact a By-Law by November 7, 2000 to authorize the incorporation of one or more companies created for the purpose of continuing the current distributing and retailing activities of the Commission.

On July 17, 2000 three companies were incorporated to carry on the activities of the Commission:

- Woodstock Hydro Services Inc.
- Woodstock Hydro Holdings Inc.
- Woodstock Info Energy Inc.

The City of Woodstock enacted a transfer by-law to transfer the assets, liabilities and equity of the Commission effective November 2, 2000. These assets were transferred in accordance with the By-Law at fair market value as determined by the Treasurer of the City of Woodstock.

A court order was made May 31, 2001, allowing a settlement between Ontario Hydro (now Ontario Power Generation Inc.) and Ontario MEU's (municipal electrical utilities). The order provided for, among other things, the distribution of \$29 million to the MEU's. The original claim was that the MEU's were overcharged for the cost of power purchased from Ontario Hydro. The City of Woodstock promissory note stipulated that any proceeds from this lawsuit were to be treated as part of the consideration for the transfer effective November 2, 2000. Accordingly, the company remitted the approximately \$121,000 in proceeds received to the City of Woodstock and has not recognized these monies as income in their financial statements.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

2. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- Woodstock Info Energy Inc. - controlled by the same parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

| | Woodstock Hydro Holdings Inc. | Woodstock Info Energy Inc. | City of Woodstock | Total |
|---|-------------------------------------|----------------------------------|----------------------|------------|
| Balance Sheet | | | | |
| Accounts receivable | \$ - | \$ - | \$ 9,137 | \$ 9,137 |
| Due from related parties | \$ 250 | \$ 2,467 | \$ - | \$ 2,717 |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 377,469 | \$ 377,469 |
| Due to related parties | \$ - | \$ 13,398 | \$ - | \$ 13,398 |

These balances are interest-free, payable on demand and have arisen from the sales of product and provision of services referred to below.

Statement of Operations

| | | | | |
|----------------------------|------------|-------------|------------|------------|
| Other operating revenue | \$ - | \$ 30,747 | \$ 150,000 | \$ 180,747 |
| Operating and maintenance | \$ - | \$ (12,831) | \$ 28,944 | \$ 16,113 |
| Administration and general | \$ (3,304) | \$ 61,900 | \$ 104,433 | \$ 163,029 |

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

3. Capital Assets

| | 2001 | | 2000 | |
|--------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 39,365 | \$ - | \$ 39,365 | \$ - |
| Buildings and distribution system | 17,166,280 | 1,241,597 | 16,056,842 | 171,722 |
| Machinery and equipment | 1,756,099 | 369,330 | 1,166,550 | 49,566 |
| Organization expense | 16,365 | 478 | 16,365 | 62 |
| | <u>\$ 18,978,109</u> | <u>\$ 1,611,405</u> | <u>\$ 17,279,122</u> | <u>\$ 221,350</u> |
| Net book value | | <u>\$ 17,366,704</u> | | <u>\$ 17,057,772</u> |

4. Deferred Charges

| | 2001 | 2000 |
|-------------------------------------|-------------------|-------------|
| Qualifying transition costs | \$ 60,795 | \$ - |
| Extraordinary event losses | 229,995 | - |
| Construction WIP Electric | 95,341 | - |
| Pre-market opening energy variances | 83,846 | - |
| | <u>\$ 469,977</u> | <u>\$ -</u> |

These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval by the OEB.

5. Income Taxes

The company was incorporated on July 17, 2000 and commenced active operations on November 1, 2000. Up until September 30, 2001 it was not subject to taxes on income. The company became liable for payments in lieu of taxes commencing October 1, 2001.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

6. Long-term Debt

| | 2001 | 2000 |
|--|----------------------|----------------------|
| Promissory note payable to the City of Woodstock - 2.252%, interest only payable monthly starting January 1, 2002. | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

For 2003 the rate will be 4.504%. After December 31, 2003 the rate will be 6.756%.

7. Share Capital

The authorized class "A" special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

| | 2001 | 2000 |
|-------------------|----------------------|----------------------|
| 360 Common shares | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

8. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

| | 2001 | 2000 |
|--|---------------------|-------------------|
| Accounts receivable | \$ (304,116) | \$ (56,728) |
| Unbilled revenue | (121,265) | (171,960) |
| Due from related parties | 5,334 | (8,050) |
| Inventories | 63,269 | 27,033 |
| Prepaid expenses | (24,215) | (29,633) |
| Accounts payable and accrued liabilities | (59,371) | 676,040 |
| Income taxes payable | 99,842 | - |
| Due to related parties | (8,386) | 21,784 |
| Deposit on performance of contract | 55,419 | 49,577 |
| Accrued payroll and vacation pay | (712) | (14,508) |
| | <u>\$ (294,201)</u> | <u>\$ 493,555</u> |

9. Pension

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

The amount contributed to OMERS for 2001 was \$ nil (2000 - \$ nil) for current service. The company and its employees are currently on a contribution holiday.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2001

10. Contingency

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

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

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

APPENDIX C

WHSI 2002 Audited Financial Statements



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2002



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.
Financial Statements
For the year ended December 31, 2002

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BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

Auditors' Report

**To the Shareholder of
WOODSTOCK HYDRO SERVICES INC.**

We have audited the balance sheet of WOODSTOCK HYDRO SERVICES INC. as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants

Woodstock, Ontario
March 28, 2003

WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31 2002 2001

Assets

Current

| | | |
|-----------------------------------|------------|--------------|
| Cash and bank | \$ 515,760 | \$ 2,364,109 |
| Short-term investments | 50,000 | 50,000 |
| Accounts receivable | 1,413,354 | 2,894,842 |
| Unbilled revenue | 4,640,925 | 1,829,622 |
| Due from related parties (Note 5) | 38,940 | 2,717 |
| Inventories | 1,447,364 | 1,231,568 |
| Prepaid expenses | 83,036 | 67,113 |
| | 8,189,379 | 8,439,971 |

| | | |
|---------------------------|------------|------------|
| Capital assets (Note 1) | 17,250,639 | 17,366,704 |
| Deferred charges (Note 2) | 1,288,366 | 469,977 |
| Future income tax asset | 45,740 | 19,543 |

\$ 26,774,124 \$ 26,296,195

Liabilities and Shareholder's Equity

Current

| | | |
|--|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 2,828,617 | \$ 3,505,683 |
| Income taxes payable | 261,105 | 99,842 |
| Due to related parties (Note 5) | 13,630 | 13,398 |
| Deposit on performance of contract | 230,400 | 219,318 |
| Accrued payroll and vacation pay | 89,812 | 97,038 |
| Current portion of customer deposits | 129,000 | 97,000 |
| | 3,552,564 | 4,032,279 |

| | | |
|-----------------------------|------------|------------|
| Sick leave liability | 201,168 | 214,615 |
| Long-term customer deposits | 610,652 | 487,609 |
| Long-term debt (Note 3) | 10,941,862 | 10,941,862 |
| | 15,306,246 | 15,676,365 |

Shareholder's equity

| | | |
|-----------------------------|------------|------------|
| Share capital (Note 4) | 10,941,862 | 10,941,862 |
| Retained earnings (deficit) | 526,016 | (322,032) |
| | 11,467,878 | 10,619,830 |

\$ 26,774,124 \$ 26,296,195

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Operations and Retained Earnings

| For the year ended December 31 | 2002 | 2001 |
|---|-------------------|---------------------|
| Sale of energy | | |
| Residential | \$ 6,735,001 | \$ 9,172,412 |
| General service | 18,303,483 | 20,652,856 |
| Street/Sentinel lighting | 130,989 | 189,699 |
| Retail energy sales | 2,142,309 | - |
| Distribution | 4,966,540 | - |
| Non-competitive charges | 4,321,323 | - |
| | <u>36,599,645</u> | <u>30,014,967</u> |
| Service revenue adjustment | (2,170,486) | 232,473 |
| | <u>34,429,159</u> | <u>30,247,440</u> |
| Cost of power purchased | <u>29,289,928</u> | <u>26,904,444</u> |
| Gross margin on service revenue | <u>5,139,231</u> | <u>3,342,996</u> |
| Other operating revenue | <u>678,529</u> | <u>709,547</u> |
| | <u>5,817,760</u> | <u>4,052,543</u> |
| Expenses | | |
| Operating and maintenance | 1,046,052 | 1,008,371 |
| Administration and general | 1,660,344 | 1,500,869 |
| Financial expense | 252,378 | 2,799 |
| Amortization | 1,379,910 | 1,281,100 |
| | <u>4,338,684</u> | <u>3,793,139</u> |
| Income before income taxes | <u>1,479,076</u> | <u>259,404</u> |
| Income taxes | | |
| Current | 657,225 | 99,842 |
| Future (recovery) | (26,197) | (19,543) |
| | <u>631,028</u> | <u>80,299</u> |
| Net income for the year | <u>848,048</u> | <u>179,105</u> |
| Deficit, beginning of year | <u>(322,032)</u> | <u>(501,137)</u> |
| Retained earnings (deficit), end of year | <u>\$ 526,016</u> | <u>\$ (322,032)</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

| | | |
|---------------------------------------|-------------|-------------|
| For the year ended December 31 | 2002 | 2001 |
|---------------------------------------|-------------|-------------|

Cash provided by (used in)

Operating activities

| | | |
|------------------------------------|------------|------------|
| Net income for the year | \$ 848,048 | \$ 179,105 |
| Items not involving cash: | | |
| Amortization of capital assets | 1,512,585 | 1,392,020 |
| Future income taxes (recovery) | (26,197) | (19,543) |
| Gain on disposal of capital assets | - | (9,686) |
| Decrease in sick leave liability | (13,447) | (21,712) |
| | 2,320,989 | 1,520,184 |

| | | |
|--|-------------|-----------|
| Net change in non-cash working capital balances (Note 6) | (2,109,472) | (294,201) |
| | 211,517 | 1,225,983 |

Investing activities

| | | |
|------------------------------------|-------------|-------------|
| Purchase of capital assets | (1,396,520) | (1,760,253) |
| Proceeds on sale of capital assets | - | 68,987 |
| Increase in deferred charges | (818,389) | (469,977) |
| | (2,214,909) | (2,161,243) |

Financing activities

| | | |
|-------------------------------|---------|--------|
| Increase in customer deposits | 155,043 | 30,473 |
|-------------------------------|---------|--------|

Decrease in cash and cash equivalents during the year

| | | |
|--|-------------|-----------|
| | (1,848,349) | (904,787) |
|--|-------------|-----------|

Cash and cash equivalents, beginning of year

| | | |
|--|-----------|-----------|
| | 2,414,109 | 3,318,896 |
|--|-----------|-----------|

Cash and cash equivalents, end of year

| | | |
|--|------------|--------------|
| | \$ 565,760 | \$ 2,414,109 |
|--|------------|--------------|

Represented by

| | | |
|------------------------|------------|--------------|
| Cash and bank | \$ 515,760 | \$ 2,364,109 |
| Short-term investments | 50,000 | 50,000 |
| | \$ 565,760 | \$ 2,414,109 |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2002

Nature of Business

The company is incorporated under the laws of Ontario and is engaged in the operation of distribution of electricity.

The accounting policies of the company are in accordance with Canadian generally accepted accounting principles as prescribed by the Ontario Energy Board (OEB).

On November 25, 2002, Bill 210 was enacted. One of the provisions of this Bill is the capping of rates until at least April 30, 2006. This rate cap limits the opportunity for the company to recover deferred costs through rate increases during the rate cap period. Bill 210 provides for the continuation of deferral accounts for these regulatory assets. The Minister of Energy has indicated, in a January 23, 2003 letter to distributors, that he will ask the OEB to complete, no later than December 31, 2003, a review of applications by distributors for recovery of the amounts Bill 210 deems to be regulatory assets.

Financial Instruments

The company's financial instruments consist of cash and bank, accounts receivable, short-term investments, accounts payable and accrued liabilities, amounts due to (from) related parties, customer deposits and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Temporary Investments

Short-term investments are stated at the lower of cost and market value.

Inventories

Inventories are valued at average cost.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful life of the individual assets at the following annual rates:

| | |
|-----------------------------------|------------|
| Buildings and distribution system | 3% to 7% |
| Machinery and equipment | 10% to 20% |
| Organization expense | 2.5% |

Service Revenue

Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2002

Future Income Taxes

The company follows the asset liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Power purchases

The power bill received from the Independent Market Operator is recorded in the period to which it refers and not in the period in which it is received.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2002

1. Capital Assets

| | 2002 | | 2001 | |
|--------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 39,365 | \$ - | \$ 39,365 | \$ - |
| Buildings and distribution system | 18,394,069 | 2,375,016 | 17,166,280 | 1,241,597 |
| Machinery and equipment | 1,925,210 | 748,460 | 1,756,099 | 369,330 |
| Organization expense | 16,365 | 894 | 16,365 | 478 |
| | \$ 20,375,009 | \$ 3,124,370 | \$ 18,978,109 | \$ 1,611,405 |
| Net book value | | \$ 17,250,639 | | \$ 17,366,704 |

2. Deferred Charges

| | 2002 | 2001 |
|-------------------------------------|---------------------|-------------------|
| Qualifying transition costs | \$ 326,526 | \$ 60,795 |
| Extraordinary event losses | 229,995 | 229,995 |
| Construction WIP electric | - | 95,341 |
| Pre-market opening energy variances | 488,537 | 83,846 |
| Settlement sales variance | 243,308 | - |
| | \$ 1,288,366 | \$ 469,977 |

These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval by the OEB.

The company continually assesses the likelihood of recovery of these deferred regulatory assets. If recovery through future rates was no longer considered probable, the amounts would be charged to the results of operations in the period the assessment was made.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2002

3. Long-term Debt

| | 2002 | 2001 |
|---|----------------------|----------------------|
| Promissory note payable to the City of Woodstock - 2.252%, interest only payable monthly. | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

For 2003 the rate will be 4.504%. After December 31, 2003 the rate will be 6.756%.

4. Share Capital

The authorized class "A" special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

| | 2002 | 2001 |
|-------------------|----------------------|----------------------|
| 360 Common shares | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

WOODSTOCK HYDRO SERVICES INC. Notes to Financial Statements

December 31, 2002

5. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- Woodstock Info Energy Inc. - controlled by the same parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

| | Woodstock Hydro Holdings Inc. | Woodstock Info Energy Inc. | City of Woodstock | Total |
|--------------------------|-------------------------------------|----------------------------------|----------------------|------------|
| Balance Sheet | | | | |
| Accounts receivable | \$ - | \$ - | \$ 16,181 | \$ 16,181 |
| Due from related parties | \$ 36,825 | \$ 2,115 | \$ - | \$ 38,940 |
| Inventories | \$ - | \$ 187,500 | \$ - | \$ 187,500 |
| Capital assets | \$ - | \$ 187,500 | \$ - | \$ 187,500 |
| Due to related parties | \$ - | \$ 13,630 | \$ - | \$ 13,630 |

7.25% interest is payable quarterly on the \$36,000 note receivable due from the Woodstock Hydro Holdings Inc. company. All other balances are interest-free, payable on demand and have arisen from the sales of product and provision of services referred to below.

Statement of Operations

| | | | | |
|----------------------------|------------|-------------|------------|------------|
| Other operating revenue | \$ 1,523 | \$ - | \$ - | \$ 1,523 |
| Operating and maintenance | \$ - | \$ (11,928) | \$ 42,602 | \$ 30,674 |
| Administration and general | \$ (4,692) | \$ 23,176 | \$ 100,910 | \$ 119,394 |
| Financial expense | \$ - | \$ - | \$ 225,876 | \$ 225,876 |

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2002

6. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

| | 2002 | 2001 |
|--|-----------------------|---------------------|
| Accounts receivable | \$ 1,481,488 | \$ (304,116) |
| Unbilled revenue | (2,811,303) | (121,265) |
| Due from related parties | (36,223) | 5,334 |
| Inventories | (215,796) | 63,269 |
| Prepaid expenses | (15,923) | (24,215) |
| Accounts payable and accrued liabilities | (677,066) | (59,371) |
| Income taxes payable | 161,263 | 99,842 |
| Due to related parties | 232 | (8,386) |
| Deposit on performance of contract | 11,082 | 55,419 |
| Accrued payroll and vacation pay | (7,226) | (712) |
| | <u>\$ (2,109,472)</u> | <u>\$ (294,201)</u> |

| | 2002 | 2001 |
|-------------------|-------------------|-----------------|
| Interest paid | \$ 252,378 | \$ 2,799 |
| Income taxes paid | 495,962 | - |
| | <u>\$ 748,340</u> | <u>\$ 2,799</u> |

7. Pension

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

The amount contributed to OMERS for 2002 was \$ nil (2001 - \$ nil) for current service. The company and its employees were on a contribution holiday in 2002 and 2001.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2002

8. Contingency

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

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

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

9. Bank Operating Facility

The utility has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at prime rate. In addition, the utility has provided the Independent Market Operator with a \$3,830,610 letter of credit. These credit facilities are secured by a general security agreement covering all personal property owned by the utility.

APPENDIX D

WHSI 2003 Audited Financial Statements



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
94 Graham Street
Woodstock Ontario Canada N4S 8A2
Telephone: (519) 539-2081
Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2003



BDO Dunwoody LLP
Chartered Accountants
and Consultants

P O Box 757
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Woodstock Ontario Canada N4S 8A2
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Telefax: (519) 539-2571

WOODSTOCK HYDRO SERVICES INC.

Financial Statements

For the year ended December 31, 2003

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BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Telefax: (519) 539-2571

Auditors' Report

**To the Shareholder of
WOODSTOCK HYDRO SERVICES INC.**

We have audited the balance sheet of WOODSTOCK HYDRO SERVICES INC. as at December 31, 2003 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants

Woodstock, Ontario
April 6, 2004

WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31 2003 2002

Assets

Current

| | | |
|-----------------------------------|--------------|------------|
| Cash and bank | \$ 2,466,025 | \$ 515,760 |
| Short-term investments | 50,000 | 50,000 |
| Accounts receivable | 2,658,854 | 1,413,354 |
| Unbilled revenue | 2,503,410 | 4,640,925 |
| Income taxes receivable | 75,843 | - |
| Due from related parties (Note 5) | 11,428 | 38,940 |
| Inventories | 1,220,674 | 1,447,364 |
| Prepaid expenses | 84,013 | 83,036 |
| | 9,070,247 | 8,189,379 |

| | | |
|---------------------------|------------|------------|
| Capital assets (Note 1) | 17,210,347 | 17,250,639 |
| Deferred charges (Note 2) | 1,245,855 | 1,288,366 |
| Future income tax asset | 227,634 | 45,740 |

\$ 27,754,083 \$ 26,774,124

Liabilities and Shareholder's Equity

Current

| | | |
|--|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 3,576,643 | \$ 2,828,617 |
| Income taxes payable | - | 261,105 |
| Due to related parties (Note 5) | 13,241 | 13,630 |
| Deposit on performance of contract | 244,352 | 230,400 |
| Accrued payroll and vacation pay | 91,168 | 89,812 |
| Current portion of customer deposits | 139,000 | 129,000 |
| | 4,064,404 | 3,552,564 |

| | | |
|-----------------------------|------------|------------|
| Sick leave liability | 156,389 | 201,168 |
| Long-term customer deposits | 663,023 | 610,652 |
| Long-term debt (Note 3) | 10,941,862 | 10,941,862 |
| | 15,825,678 | 15,306,246 |

Shareholder's equity

| | | |
|------------------------|------------|------------|
| Share capital (Note 4) | 10,941,862 | 10,941,862 |
| Retained earnings | 986,543 | 526,016 |
| | 11,928,405 | 11,467,878 |

\$ 27,754,083 \$ 26,774,124

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Operations and Retained Earnings

| For the year ended December 31 | 2003 | 2002 |
|---|-------------------|-------------------|
| Sale of energy | | |
| Residential | \$ 3,641,760 | \$ 6,735,001 |
| General service | 13,682,599 | 18,303,483 |
| Street/Sentinel lighting | 118,792 | 130,989 |
| Retail energy sales | 3,365,537 | 2,142,309 |
| Distribution | 5,066,104 | 4,966,540 |
| Non-competitive charges | 6,439,304 | 4,321,323 |
| | <u>32,314,096</u> | <u>36,599,645</u> |
| Service revenue adjustment | (193,419) | (2,170,486) |
| | <u>32,120,677</u> | <u>34,429,159</u> |
| Cost of power purchased | <u>26,953,041</u> | <u>29,289,928</u> |
| Gross margin on service revenue | 5,167,636 | 5,139,231 |
| Other operating revenue | <u>746,984</u> | <u>678,529</u> |
| | <u>5,914,620</u> | <u>5,817,760</u> |
| Expenses | | |
| Operating and maintenance | 1,059,243 | 1,046,052 |
| Administration and general | 1,875,278 | 1,660,344 |
| Financial expense | 622,543 | 252,378 |
| Amortization | 1,397,538 | 1,379,910 |
| | <u>4,954,602</u> | <u>4,338,684</u> |
| Income before income taxes | <u>960,018</u> | <u>1,479,076</u> |
| Income taxes | | |
| Current | 581,385 | 657,225 |
| Future (recovery) | (181,894) | (26,197) |
| | <u>399,491</u> | <u>631,028</u> |
| Net income for the year | 560,527 | 848,048 |
| Retained earnings (deficit), beginning of year | 526,016 | (322,032) |
| Dividends | <u>(100,000)</u> | <u>-</u> |
| Retained earnings, end of year | <u>\$ 986,543</u> | <u>\$ 526,016</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

| For the year ended December 31 | 2003 | 2002 |
|---|---------------------|--------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income for the year | \$ 560,527 | \$ 848,048 |
| Items not involving cash: | | |
| Amortization of capital assets | 1,547,658 | 1,512,585 |
| Future income taxes (recovery) | (181,894) | (26,197) |
| Gain on disposal of capital assets | (732) | - |
| Decrease in sick leave liability | (44,779) | (13,447) |
| | <u>1,880,780</u> | <u>2,320,989</u> |
| Net change in non-cash working capital balances (Note 6) | <u>1,571,237</u> | <u>(2,109,472)</u> |
| | <u>3,452,017</u> | <u>211,517</u> |
| Investing activities | | |
| Purchase of capital assets | (1,518,802) | (1,396,520) |
| Proceeds on sale of capital assets | 12,168 | - |
| Decrease (increase) in deferred charges | 42,511 | (818,389) |
| | <u>(1,464,123)</u> | <u>(2,214,909)</u> |
| Financing activities | | |
| Dividends | (100,000) | - |
| Increase in customer deposits | 62,371 | 155,043 |
| | <u>(37,629)</u> | <u>155,043</u> |
| Increase (decrease) in cash and cash equivalents during the year | <u>1,950,265</u> | <u>(1,848,349)</u> |
| Cash and cash equivalents, beginning of year | <u>565,760</u> | <u>2,414,109</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,516,025</u> | <u>\$ 565,760</u> |
| Represented by | | |
| Cash and bank | \$ 2,466,025 | \$ 515,760 |
| Short-term investments | 50,000 | 50,000 |
| | <u>\$ 2,516,025</u> | <u>\$ 565,760</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2003

| | | | | | | | |
|-----------------------------------|---|-----------------------------------|----------|-------------------------|------------|----------------------|------|
| Nature of Business | <p>The company is incorporated under the laws of Ontario and is engaged in the operation of distribution of electricity.</p> <p>The accounting policies of the company are in accordance with Canadian generally accepted accounting principles as prescribed by the Ontario Energy Board (OEB).</p> | | | | | | |
| Financial Instruments | <p>The company's financial instruments consist of cash and bank, accounts receivable, short-term investments, accounts payable and accrued liabilities, amounts due to (from) related parties, customer deposits and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.</p> | | | | | | |
| Temporary Investments | <p>Short-term investments are stated at the lower of cost and market value.</p> | | | | | | |
| Inventories | <p>Inventories are valued at average cost.</p> | | | | | | |
| Capital Assets | <p>Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful life of the individual assets at the following annual rates:</p> <table><tr><td>Buildings and distribution system</td><td>3% to 7%</td></tr><tr><td>Machinery and equipment</td><td>10% to 20%</td></tr><tr><td>Organization expense</td><td>2.5%</td></tr></table> | Buildings and distribution system | 3% to 7% | Machinery and equipment | 10% to 20% | Organization expense | 2.5% |
| Buildings and distribution system | 3% to 7% | | | | | | |
| Machinery and equipment | 10% to 20% | | | | | | |
| Organization expense | 2.5% | | | | | | |
| Service Revenue | <p>Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.</p> | | | | | | |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2003

Payments In Lieu of Corporate Taxes

Under the Electricity Act, 1998, the company is responsible for making payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), and are modified by regulations made under the Electricity Act, 1998.

The company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Power purchases

The power bill received from the Independent Market Operator is recorded in the period to which it refers and not in the period in which it is received.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2003

1. Capital Assets

| | 2003 | | 2002 | |
|--------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 39,365 | \$ - | \$ 39,365 | \$ - |
| Buildings and distribution system | 19,656,612 | 3,558,453 | 18,384,957 | 2,375,016 |
| Machinery and equipment | 2,165,838 | 1,108,070 | 1,934,322 | 748,460 |
| Organization expense | 16,365 | 1,310 | 16,365 | 894 |
| | <u>\$ 21,878,180</u> | <u>\$ 4,667,833</u> | <u>\$ 20,375,009</u> | <u>\$ 3,124,370</u> |
| Net book value | | <u>\$ 17,210,347</u> | | <u>\$ 17,250,639</u> |

2. Deferred Charges

| | 2003 | 2002 |
|-------------------------------------|---------------------|---------------------|
| Deferred payments in lieu of taxes | \$ 22,566 | \$ - |
| Extraordinary event losses | 229,995 | 229,995 |
| Miscellaneous deferred asset | 36,494 | - |
| Pre-market opening energy variances | 488,537 | 488,537 |
| Qualifying transition costs | 363,172 | 326,526 |
| Settlement sales variance | 105,091 | 243,308 |
| | <u>\$ 1,245,855</u> | <u>\$ 1,288,366</u> |

These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval by the OEB.

The company continually assesses the likelihood of recovery of these deferred regulatory assets. If recovery through future rates was no longer considered probable, the amounts would be charged to the results of operations in the period the assessment was made.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2003

3. Long-term Debt

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| Promissory note payable to the City of Woodstock - 6.756%, interest only payable monthly. | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

The note is payable on the giving of written demand, provided that such demand may not be made prior to January 1, 2006 and the stipulated date for payment must be at least twelve months after the date of giving such written demand for payment.

4. Share Capital

The authorized class "A" special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

| | <u>2003</u> | <u>2002</u> |
|-------------------|----------------------|----------------------|
| 360 Common shares | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

WOODSTOCK HYDRO SERVICES INC. Notes to Financial Statements

December 31, 2003

5. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- Woodstock Info Energy Inc. - controlled by the same parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

| | Woodstock Hydro Holdings Inc. | Woodstock Info Energy Inc. | City of Woodstock | Total |
|---|-------------------------------------|----------------------------------|----------------------|---------------|
| Balance Sheet | | | | |
| Accounts receivable | \$ - | \$ - | \$ 1,492 | \$ 1,492 |
| Due from related parties | \$ 752 | \$ 10,686 | \$ - | \$ 11,438 |
| Capital assets | \$ - | \$ - | \$ 24,103 | \$ 24,103 |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 7,301 | \$ 7,301 |
| Due to related parties | \$ - | \$ 13,241 | \$ - | \$ 13,241 |
| Long-term debt | \$ - | \$ - | \$ 10,941,862 | \$ 10,941,862 |
| Dividends | \$ 100,000 | \$ - | \$ - | \$ 100,000 |
| Statement of Operations | | | | |
| Other operating revenue | \$ 1,390 | \$ - | \$ - | \$ 1,390 |
| Operating and maintenance | \$ - | \$ (94,462) | \$ 53,311 | \$ (41,151) |
| Administration and general | \$ (6,647) | \$ (37,380) | \$ 107,837 | \$ 63,810 |
| Financial expense | \$ - | \$ - | \$ 595,491 | \$ 595,491 |

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2003

6. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

| | 2003 | 2002 |
|--|---------------------|-----------------------|
| Accounts receivable | \$ (1,245,500) | \$ 1,481,488 |
| Unbilled revenue | 2,137,515 | (2,811,303) |
| Due from related parties | 27,512 | (36,223) |
| Inventories | 226,690 | (215,796) |
| Prepaid expenses | (977) | (15,923) |
| Income taxes receivable | (75,843) | - |
| Accounts payable and accrued liabilities | 748,026 | (677,066) |
| Income taxes payable | (261,105) | 161,263 |
| Due to related parties | (389) | 232 |
| Deposit on performance of contract | 13,952 | 11,082 |
| Accrued payroll and vacation pay | 1,356 | (7,226) |
| | <u>\$ 1,571,237</u> | <u>\$ (2,109,472)</u> |

| | 2003 | 2002 |
|-------------------|---------------------|-------------------|
| Interest paid | \$ 622,543 | \$ 252,378 |
| Income taxes paid | 918,333 | 495,962 |
| | <u>\$ 1,540,876</u> | <u>\$ 748,340</u> |

7. Pension

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

The amount contributed to OMERS for 2003 was \$ 37,801 (2002 - \$ nil) for current service. The company and its employees were on a contribution holiday in 2002.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2003

8. Contingency

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

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

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

9. Bank Operating Facility

The utility has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at prime rate. In addition, the utility has provided the Independent Market Operator with a \$3,830,610 letter of credit. These credit facilities are secured by a general security agreement covering all personal property owned by the utility.

10. Subsequent Event

On November 25, 2002, Bill 210 was enacted. One of the provisions of that Bill was the capping of rates until at least April 30, 2006. The rate cap limited the opportunity for the company to recover deferred costs through rate increases during the rate cap period.

On December 19, 2003 the Minister of Energy advised the utilities they could apply to the Ontario Energy Board (OEB) for the recovery in rates up to 25% of their total regulatory assets beginning April 1, 2004. On March 15, 2004 the OEB approved the company's rate application on an interim basis.

The OEB plans to review the deferred assets set up by the utility companies by the end of 2004. Costs which the OEB finds to be prudently incurred will be recovered in distribution rates over three years, beginning March 1, 2005.

WOODSTOCK HYDRO SERVICES INC.
Notes to Financial Statements

December 31, 2003

11. Comparative Financial Statements

The comparative financial statements have been restated to conform with the current year's presentation.

APPENDIX E

WHSI 2004 Audited Financial Statements



Driving growth

BDO Dunwoody LLP
Chartered Accountants
and Advisors

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WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2004



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WOODSTOCK HYDRO SERVICES INC.

Financial Statements

For the year ended December 31, 2004

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Auditors' Report

To the Shareholder of
WOODSTOCK HYDRO SERVICES INC.

We have audited the balance sheet of WOODSTOCK HYDRO SERVICES INC. as at December 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants

Woodstock, Ontario
April 6, 2005

WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

| December 31 | 2004 | 2003 |
|--------------------|-------------|-------------|
|--------------------|-------------|-------------|

Assets

Current

| | | |
|-----------------------------------|--------------|--------------|
| Cash and bank | \$ 1,967,080 | \$ 2,466,025 |
| Short-term investments | 50,000 | 50,000 |
| Accounts receivable | 3,273,906 | 2,658,854 |
| Unbilled revenue | 2,783,620 | 2,503,410 |
| Income taxes receivable | 337,190 | 75,843 |
| Due from related parties (Note 5) | 15,070 | 11,428 |
| Inventories | 1,107,617 | 1,220,674 |
| Prepaid expenses | 90,731 | 84,013 |
| | 9,625,214 | 9,070,247 |

| | | |
|---------------------------|------------|------------|
| Capital assets (Note 1) | 17,392,399 | 17,210,348 |
| Deferred charges (Note 2) | 1,051,088 | 1,245,855 |
| Future income tax asset | 277,436 | 227,634 |

| | | |
|--|---------------|---------------|
| | \$ 28,346,137 | \$ 27,754,084 |
|--|---------------|---------------|

Liabilities and Shareholder's Equity

Current

| | | |
|--|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 3,950,768 | \$ 3,576,643 |
| Due to related parties (Note 5) | 23,345 | 13,241 |
| Deposit on performance of contract | 254,402 | 244,352 |
| Accrued payroll and vacation pay | 93,409 | 91,168 |
| Current portion of customer deposits | 282,000 | 139,000 |
| | 4,603,924 | 4,064,404 |

| | | |
|-----------------------------|------------|------------|
| Sick leave liability | 161,562 | 156,389 |
| Long-term customer deposits | 531,645 | 663,023 |
| Long-term debt (Note 3) | 10,941,862 | 10,941,862 |
| | 16,238,993 | 15,825,678 |

Shareholder's equity

| | | |
|------------------------|------------|------------|
| Share capital (Note 4) | 10,941,862 | 10,941,862 |
| Retained earnings | 1,165,282 | 986,544 |
| | 12,107,144 | 11,928,406 |

| | | |
|--|---------------|---------------|
| | \$ 28,346,137 | \$ 27,754,084 |
|--|---------------|---------------|

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Operations and Retained Earnings

| For the year ended December 31 | 2004 | 2003 |
|---|---------------------|-------------------|
| Sale of energy | | |
| Residential | \$ 4,045,530 | \$ 3,641,760 |
| General service | 12,035,731 | 13,682,599 |
| Street/Sentinel lighting | 131,318 | 118,792 |
| Retail energy sales | 4,761,417 | 3,365,537 |
| Distribution | 4,859,832 | 5,066,104 |
| Non-competitive charges | 6,322,394 | 6,439,304 |
| | <u>32,156,222</u> | <u>32,314,096</u> |
| Service revenue adjustment | (5,692) | (193,419) |
| | <u>32,150,530</u> | <u>32,120,677</u> |
| Cost of power purchased | <u>27,315,865</u> | <u>26,953,041</u> |
| Gross margin on service revenue | 4,834,665 | 5,167,636 |
| Other operating revenue | <u>711,924</u> | <u>746,984</u> |
| | <u>5,546,589</u> | <u>5,914,620</u> |
| Expenses | | |
| Operating and maintenance | 1,110,340 | 1,059,242 |
| Administration and general | 1,874,061 | 1,875,278 |
| Financial expense | 792,871 | 622,543 |
| Amortization | 1,478,984 | 1,397,538 |
| | <u>5,256,256</u> | <u>4,954,601</u> |
| Income before income taxes | <u>290,333</u> | <u>960,019</u> |
| Income taxes | | |
| Current | 131,397 | 581,385 |
| Future (recovery) | (49,802) | (181,894) |
| | <u>81,595</u> | <u>399,491</u> |
| Net income for the year | 208,738 | 560,528 |
| Retained earnings, beginning of year | 986,544 | 526,016 |
| Dividends paid | <u>(30,000)</u> | <u>(100,000)</u> |
| Retained earnings, end of year | <u>\$ 1,165,282</u> | <u>\$ 986,544</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

For the year ended December 31 **2004** **2003**

Cash provided by (used in)

Operating activities

| | | |
|--|------------------|------------------|
| Net income for the year | \$ 208,738 | \$ 560,528 |
| Items not involving cash: | | |
| Amortization of capital assets | 1,651,563 | 1,547,658 |
| Future income taxes (recovery) | (49,802) | (181,894) |
| Gain on disposal of capital assets | (12,068) | (732) |
| Increase (decrease) in sick leave liability | 5,173 | (44,779) |
| | <u>1,803,604</u> | <u>1,880,781</u> |
| Net change in non-cash working capital balances (Note 6) | <u>(657,392)</u> | <u>1,571,236</u> |
| | <u>1,146,212</u> | <u>3,452,017</u> |

Investing activities

| | | |
|------------------------------------|--------------------|--------------------|
| Purchase of capital assets | (1,797,262) | (1,518,802) |
| Proceeds on sale of capital assets | 12,068 | 12,168 |
| Decrease in deferred charges | 158,415 | 42,511 |
| | <u>(1,626,779)</u> | <u>(1,464,123)</u> |

Financing activities

| | | |
|-------------------------------|-----------------|-----------------|
| Dividends paid | (30,000) | (100,000) |
| Increase in customer deposits | 11,622 | 62,371 |
| | <u>(18,378)</u> | <u>(37,629)</u> |

(Decrease) increase in cash and cash equivalents during the year

(498,945) 1,950,265

Cash and cash equivalents, beginning of year

2,516,025 565,760

Cash and cash equivalents, end of year

\$ 2,017,080 \$ 2,516,025

Represented by

| | | |
|------------------------|---------------------|---------------------|
| Cash and bank | \$ 1,967,080 | \$ 2,466,025 |
| Short-term investments | 50,000 | 50,000 |
| | <u>\$ 2,017,080</u> | <u>\$ 2,516,025</u> |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2004

| | | | | | | | |
|-----------------------------------|---|-----------------------------------|----------|-------------------------|------------|----------------------|------|
| Nature of Business | <p>The company is incorporated under the laws of Ontario and is engaged in the operation of distribution of electricity.</p> <p>The accounting policies of the company are in accordance with Canadian generally accepted accounting principles as prescribed by the Ontario Energy Board (OEB).</p> | | | | | | |
| Financial Instruments | <p>The company's financial instruments consist of cash and bank, accounts receivable, short-term investments, accounts payable and accrued liabilities, amounts due to (from) related parties, customer deposits and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.</p> | | | | | | |
| Temporary Investments | <p>Short-term investments are stated at the lower of cost and market value.</p> | | | | | | |
| Inventories | <p>Inventories are valued at average cost.</p> | | | | | | |
| Capital Assets | <p>Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful life of the individual assets at the following annual rates:</p> <table><tr><td>Buildings and distribution system</td><td>3% to 7%</td></tr><tr><td>Machinery and equipment</td><td>10% to 20%</td></tr><tr><td>Organization expense</td><td>2.5%</td></tr></table> | Buildings and distribution system | 3% to 7% | Machinery and equipment | 10% to 20% | Organization expense | 2.5% |
| Buildings and distribution system | 3% to 7% | | | | | | |
| Machinery and equipment | 10% to 20% | | | | | | |
| Organization expense | 2.5% | | | | | | |
| Service Revenue | <p>Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.</p> | | | | | | |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2004

Payments In Lieu of Corporate Taxes

Under the Electricity Act, 1998, the company is responsible for making payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), and are modified by regulations made under the Electricity Act, 1998.

The company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Power purchases

The power bill received from the Independent Electricity System Operator is recorded in the period to which it refers and not in the period in which it is received.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2004

1. Capital Assets

| | 2004 | | 2003 | |
|--------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 39,365 | \$ - | \$ 39,365 | \$ - |
| Buildings and distribution system | 21,019,040 | 4,855,388 | 19,656,613 | 3,558,453 |
| Machinery and equipment | 2,623,820 | 1,449,077 | 2,165,838 | 1,108,070 |
| Organization expense | 16,365 | 1,726 | 16,365 | 1,310 |
| | <u>\$ 23,698,590</u> | <u>\$ 6,306,191</u> | <u>\$ 21,878,181</u> | <u>\$ 4,667,833</u> |
| Net book value | | <u>\$ 17,392,399</u> | | <u>\$ 17,210,348</u> |

2. Deferred Charges

| | 2004 | 2003 |
|-------------------------------------|---------------------|---------------------|
| Deferred payments in lieu of taxes | \$ 7,481 | \$ 22,566 |
| Extraordinary event losses | 229,995 | 229,995 |
| Miscellaneous deferred asset | 36,494 | 36,494 |
| Pre-market opening energy variances | 488,537 | 488,537 |
| Qualifying transition costs | 346,634 | 363,172 |
| Settlement sales variance | 133,117 | 105,091 |
| Conservation and demand management | 556 | - |
| Other regulatory asset | 17,857 | - |
| Less assets recovered through rates | <u>(209,583)</u> | <u>-</u> |
| | <u>\$ 1,051,088</u> | <u>\$ 1,245,855</u> |

These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval by the OEB.

The company continually assesses the likelihood of recovery of these deferred regulatory assets. If recovery through future rates was no longer considered probable, the amounts would be charged to the results of operations in the period the assessment was made.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2004

3. Long-term Debt

| | <u>2004</u> | <u>2003</u> |
|---|----------------------|----------------------|
| Promissory note payable to the City of Woodstock - 6.756%, interest only payable monthly. | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

The note is payable on the giving of written demand, provided that such demand may not be made prior to January 1, 2006 and the stipulated date for payment must be at least twelve months after the date of giving such written demand for payment.

4. Share Capital

The authorized class "A" special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

| | <u>2004</u> | <u>2003</u> |
|-------------------|----------------------|----------------------|
| 360 Common shares | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

WOODSTOCK HYDRO SERVICES INC. Notes to Financial Statements

December 31, 2004

5. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- Woodstock Info Energy Inc. - controlled by the same parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

| | Woodstock Hydro Holdings Inc. | Woodstock Info Energy Inc. | City of Woodstock | Total |
|--------------------------------|-------------------------------------|----------------------------------|----------------------|---------------|
| Balance Sheet | | | | |
| Due from related parties | \$ 361 | \$ 14,709 | \$ - | \$ 15,070 |
| Inventory | \$ - | \$ 1,080 | \$ - | \$ - |
| Capital assets | \$ - | \$ 285,898 | \$ - | \$ - |
| Due to related parties | \$ - | \$ 23,345 | \$ - | \$ 23,345 |
| Long-term debt | \$ - | \$ - | \$ 10,941,862 | \$ 10,941,862 |
| Dividends paid | \$ 30,000 | \$ - | \$ - | \$ 30,000 |
| Statement of Operations | | | | |
| Other operating revenue | \$ - | \$ 12,798 | \$ - | \$ 12,798 |
| Operating and maintenance | \$ - | \$ - | \$ 39,540 | \$ 39,540 |
| Administration and general | \$ - | \$ - | \$ 109,899 | \$ 109,899 |
| Financial expense | \$ - | \$ - | \$ 739,230 | \$ 739,230 |

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2004

6. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| Accounts receivable | \$ (615,052) | \$ (1,245,500) |
| Unbilled revenue | (280,210) | 2,137,515 |
| Income taxes receivable | (261,347) | (75,843) |
| Due from related parties | (3,642) | 27,512 |
| Inventories | 113,057 | 226,690 |
| Prepaid expenses | (6,718) | (977) |
| Accounts payable and accrued liabilities | 374,125 | 748,025 |
| Income taxes payable | - | (261,105) |
| Due to related parties | 10,104 | (389) |
| Deposit on performance of contract | 10,050 | 13,952 |
| Accrued payroll and vacation pay | 2,241 | 1,356 |
| | <u>\$ (657,392)</u> | <u>\$ 1,571,236</u> |
| | | |
| Interest paid | <u>\$ 792,871</u> | <u>\$ 622,543</u> |
| | | |
| Income taxes paid | <u>\$ 473,748</u> | <u>\$ 918,333</u> |

7. Pension

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

The amount contributed to OMERS for 2004 was \$125,782 (2003 - \$37,801) for current service.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2004

8. Contingency

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

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

Recently there was a ruling in a similar case, Gordan Garland versus Enbridge Gas Distribution Inc., where the utility was found in violation of the Criminal Code and was ordered to repay consumers for interest charged on accounts, in excess of 60% per year, subsequent to the date of commencement of the lawsuit.

The Electricity Distributors Association is undertaking the defence of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the company. As part of our unbundling rate application to the Ontario Energy Board, Woodstock Hydro has changed its late payment from 5% to 1.5% effective January 1, 2002.

9. Bank Operating Facility

The utility has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at prime rate. In addition, the utility has provided the Independent Electricity System Operator with a \$3,830,610 letter of credit. These credit facilities are secured by a general security agreement covering all personal property owned by the utility.

APPENDIX F

WHSI 2005 Audited Financial Statements



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WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2005



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Driving growth

WOODSTOCK HYDRO SERVICES INC.
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Driving growth

Auditors' Report

**To the Shareholder of
WOODSTOCK HYDRO SERVICES INC.**

We have audited the balance sheet of WOODSTOCK HYDRO SERVICES INC. as at December 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants

Woodstock, Ontario
March 27, 2006

WOODSTOCK HYDRO SERVICES INC.

Balance Sheet

December 31 **2005** 2004

Assets

Current

| | | |
|-----------------------------------|--------------|--------------|
| Cash and bank | \$ 3,659,048 | \$ 1,967,080 |
| Short-term investments | 50,374 | 50,000 |
| Accounts receivable | 2,127,569 | 3,273,906 |
| Unbilled revenue | 3,748,928 | 2,783,620 |
| Income taxes receivable | - | 337,190 |
| Due from related parties (Note 5) | 13,735 | 15,070 |
| Inventories | 1,332,775 | 1,107,617 |
| Prepaid expenses | 100,429 | 90,731 |
| | 11,032,858 | 9,625,214 |

| | | |
|-----------------------------------|------------|------------|
| Capital assets (Note 1) | 17,014,136 | 17,392,399 |
| Regulatory assets (Note 2) | 845,110 | 1,051,088 |
| Future income tax asset | 751,470 | 277,436 |

\$ 29,643,574 **\$ 28,346,137**

Liabilities and Shareholder's Equity

Current

| | | |
|--|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 4,573,044 | \$ 3,950,768 |
| Income taxes payable | 352,000 | - |
| Due to related parties (Note 5) | 12,462 | 23,345 |
| Deferred revenue | 309,735 | 254,402 |
| Accrued payroll and vacation pay | 95,955 | 93,409 |
| Current portion of customer deposits | 114,000 | 282,000 |
| | 5,457,196 | 4,603,924 |

| | | |
|------------------------------------|------------|------------|
| Sick leave liability | 170,703 | 161,562 |
| Long-term customer deposits | 555,909 | 531,645 |
| Long-term debt (Note 3) | 10,941,862 | 10,941,862 |
| | 17,125,670 | 16,238,993 |

Shareholder's equity

| | | |
|------------------------|------------|------------|
| Share capital (Note 4) | 10,941,862 | 10,941,862 |
| Retained earnings | 1,576,042 | 1,165,282 |
| | 12,517,904 | 12,107,144 |

\$ 29,643,574 **\$ 28,346,137**

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Operations and Retained Earnings

| For the year ended December 31 | 2005 | 2004 |
|---|---------------------|---------------------|
| Sale of energy | | |
| Residential | \$ 4,791,728 | \$ 4,045,530 |
| General service | 15,638,496 | 12,035,731 |
| Street/Sentinel lighting | 144,222 | 131,318 |
| Retail energy sales | 5,817,877 | 4,761,417 |
| Distribution | 5,401,489 | 4,859,832 |
| Non-competitive charges | 6,833,115 | 6,322,394 |
| | <u>38,626,927</u> | <u>32,156,222</u> |
| Service revenue adjustment | (723,434) | (5,692) |
| | <u>37,903,493</u> | <u>32,150,530</u> |
| Cost of power purchased | <u>32,617,914</u> | <u>27,315,865</u> |
| Gross margin on service revenue | 5,285,579 | 4,834,665 |
| Other operating revenue | 895,185 | 711,924 |
| | <u>6,180,764</u> | <u>5,546,589</u> |
| Expenses | | |
| Operating and maintenance | 1,112,207 | 1,110,340 |
| Administration and general | 2,032,920 | 1,874,061 |
| Financial expense | 796,108 | 792,871 |
| Amortization | 1,513,230 | 1,478,984 |
| | <u>5,454,465</u> | <u>5,256,256</u> |
| Income before income taxes | <u>726,299</u> | <u>290,333</u> |
| Income taxes | | |
| Current | 749,573 | 131,397 |
| Future (recovery) | (474,034) | (49,802) |
| | <u>275,539</u> | <u>81,595</u> |
| Net income for the year | 450,760 | 208,738 |
| Retained earnings, beginning of year | 1,165,282 | 986,544 |
| Dividends paid | (40,000) | (30,000) |
| Retained earnings, end of year | <u>\$ 1,576,042</u> | <u>\$ 1,165,282</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

WOODSTOCK HYDRO SERVICES INC.

Statement of Cash Flows

For the year ended December 31 2005 2004

Cash provided by (used in)

Operating activities

| | | |
|------------------------------------|------------------|------------------|
| Net income for the year | \$ 450,760 | \$ 208,738 |
| Items not involving cash: | | |
| Amortization of capital assets | 1,685,597 | 1,651,563 |
| Future income taxes (recovery) | (474,034) | (49,802) |
| Gain on disposal of capital assets | - | (12,068) |
| Increase in sick leave liability | 9,141 | 5,173 |
| | <u>1,671,464</u> | <u>1,803,604</u> |

Net change in non-cash working capital balances (Note 6) 1,305,970 (657,392)

2,977,434 1,146,212

Investing activities

| | | |
|------------------------------------|--------------------|--------------------|
| Purchase of capital assets | (1,307,334) | (1,797,262) |
| Proceeds on sale of capital assets | - | 12,068 |
| Decrease in regulatory assets | 205,978 | 158,415 |
| | <u>(1,101,356)</u> | <u>(1,626,779)</u> |

Financing activities

| | | |
|---|------------------|-----------------|
| Dividends paid | (40,000) | (30,000) |
| (Decrease) increase in deferred revenue | (143,736) | 11,622 |
| | <u>(183,736)</u> | <u>(18,378)</u> |

Increase (decrease) in cash and cash equivalents during the year

1,692,342 (498,945)

Cash and cash equivalents, beginning of year

2,017,080 2,516,025

Cash and cash equivalents, end of year

\$ 3,709,422 \$ 2,017,080

Represented by

| | | |
|------------------------|---------------------|---------------------|
| Cash and bank | \$ 3,659,048 | \$ 1,967,080 |
| Short-term investments | 50,374 | 50,000 |
| | <u>\$ 3,709,422</u> | <u>\$ 2,017,080</u> |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2005

| | | | | | | | |
|-----------------------------------|---|-----------------------------------|----------|-------------------------|------------|----------------------|------|
| Nature of Business | <p>The company is incorporated under the laws of Ontario and is engaged in the operation of distribution of electricity.</p> <p>The accounting policies of the company are in accordance with Canadian generally accepted accounting principles as prescribed by the Ontario Energy Board (OEB).</p> | | | | | | |
| Financial Instruments | <p>The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.</p> | | | | | | |
| Short-Term Investments | <p>Short-term investments are stated at the lower of cost and market value.</p> | | | | | | |
| Inventories | <p>Inventories are valued at average cost.</p> | | | | | | |
| Capital Assets | <p>Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful life of the individual assets at the following annual rates:</p> <table><tr><td>Buildings and distribution system</td><td>3% to 7%</td></tr><tr><td>Machinery and equipment</td><td>10% to 20%</td></tr><tr><td>Organization expense</td><td>2.5%</td></tr></table> | Buildings and distribution system | 3% to 7% | Machinery and equipment | 10% to 20% | Organization expense | 2.5% |
| Buildings and distribution system | 3% to 7% | | | | | | |
| Machinery and equipment | 10% to 20% | | | | | | |
| Organization expense | 2.5% | | | | | | |
| Revenue Recognition | <p>Service revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.</p> <p>Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers.</p> | | | | | | |

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2005

Rate Regulating

The rates of the company's electricity business are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case had the company been unregulated. Specific regulatory assets and liabilities are disclosed in Note 2.

The company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Power Purchases

The power bill received from the Independent Electricity System Operator is recorded in the period to which it refers and not in the period in which it is received.

WOODSTOCK HYDRO SERVICES INC.

Summary of Significant Accounting Policies

December 31, 2005

Payments In Lieu of Corporate Taxes

Under the Electricity Act, 1998, the company is responsible for making payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), and are modified by regulations made under the Electricity Act, 1998.

The company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. As well, future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2005

1. Capital Assets

| | 2005 | | 2004 | |
|--------------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 39,365 | \$ - | \$ 39,365 | \$ - |
| Buildings and distribution system | 22,136,244 | 6,180,666 | 21,019,040 | 4,855,388 |
| Machinery and equipment | 2,813,951 | 1,808,981 | 2,623,820 | 1,449,077 |
| Organization expense | 16,365 | 2,142 | 16,365 | 1,726 |
| | \$ 25,005,925 | \$ 7,991,789 | \$ 23,698,590 | \$ 6,306,191 |
| Net book value | | \$ 17,014,136 | | \$ 17,392,399 |

2. Regulatory Assets

| | 2005 | 2004 |
|-------------------------------------|-------------------|---------------------|
| Deferred payments in lieu of taxes | \$ 272,049 | \$ 7,481 |
| Extraordinary event losses | 296,694 | 229,995 |
| Miscellaneous deferred asset | 44,400 | 36,494 |
| Pre-market opening energy variances | 470,724 | 488,537 |
| Qualifying transition costs | 330,747 | 346,634 |
| Settlement sales variance | (233,327) | 133,117 |
| Conservation and demand management | - | 556 |
| Other regulatory asset | 191,260 | 17,857 |
| Less assets recovered through rates | (527,437) | (209,583) |
| | \$ 845,110 | \$ 1,051,088 |

These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval by the OEB.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2005

3. Long-term Debt

| | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|
| Promissory note payable to the City of Woodstock - 6.756%, interest only payable monthly. | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

The note is payable on the giving of written demand, provided that such demand may not be made prior to January 1, 2006 and the stipulated date for payment must be at least twelve months after the date of giving such written demand for payment.

4. Share Capital

The authorized class "A" Special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" Special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

| | <u>2005</u> | <u>2004</u> |
|-------------------|----------------------|----------------------|
| 360 Common shares | <u>\$ 10,941,862</u> | <u>\$ 10,941,862</u> |

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2005

5. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- Woodstock Info Energy Inc. - controlled by the same parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

| | Woodstock Hydro Holdings Inc. | Woodstock Info Energy Inc. | City of Woodstock | Total |
|--------------------------------|-------------------------------------|----------------------------------|----------------------|---------------|
| Balance Sheet | | | | |
| Due from related parties | \$ 545 | \$ 13,190 | \$ - | \$ 13,735 |
| Capital assets | \$ - | \$ 255,969 | \$ - | \$ 255,969 |
| Due to related parties | \$ - | \$ 12,462 | \$ - | \$ 12,462 |
| Long-term debt | \$ - | \$ - | \$ 10,941,862 | \$ 10,941,862 |
| Dividends paid | \$ 40,000 | \$ - | \$ - | \$ 40,000 |
| Statement of Operations | | | | |
| Other operating revenue | \$ - | \$ 11,624 | \$ - | \$ 11,624 |
| Operating and maintenance | \$ - | \$ - | \$ 51,560 | \$ 51,560 |
| Administration and general | \$ - | \$ - | \$ 111,894 | \$ 111,894 |
| Financial expense | \$ - | \$ - | \$ 739,230 | \$ 739,230 |

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2005

6. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

| | 2005 | 2004 |
|--|-----------------------|-----------------------|
| Accounts receivable | \$ 1,146,337 | \$ (615,052) |
| Unbilled revenue | (965,308) | (280,210) |
| Income taxes receivable | 337,190 | (261,347) |
| Due from related parties | 1,335 | (3,642) |
| Inventories | (225,158) | 113,057 |
| Prepaid expenses | (9,698) | (6,718) |
| Accounts payable and accrued liabilities | 622,276 | 374,125 |
| Income taxes payable | 352,000 | - |
| Due to related parties | (10,883) | 10,104 |
| Deferred revenue | 55,333 | 10,050 |
| Accrued payroll and vacation pay | 2,546 | 2,241 |
| | <u>\$ 1,305,970</u> | <u>\$ (657,392)</u> |
| Interest paid | <u>\$ 796,108</u> | <u>\$ 792,871</u> |
| Income taxes paid | <u>\$ 60,383</u> | <u>\$ 473,748</u> |

7. Pension

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

The amount contributed to OMERS for 2005 was \$137,532 (2004 - \$125,782) for current service.

WOODSTOCK HYDRO SERVICES INC.

Notes to Financial Statements

December 31, 2005

8. Contingency

An action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Consumers Gas.

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Consumers Gas, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. Presently, a mediation process is underway to attempt to resolve the issue of the damages payable by Consumers Gas.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs' situation may be distinguishable from that of Consumers Gas.

The Electricity Distributors Association is undertaking the defence of this class action.

Woodstock Hydro Services Inc. collected total late penalties of \$827,148 from and after 1994 until January 1, 2002. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made. Woodstock Hydro changed its late payment from 5% to 1.5% effective January 1, 2002.

9. Bank Operating Facility

The utility has available an operating credit facility of up to \$3,000,000 from the Canadian Imperial Bank of Commerce at prime rate. In addition, the utility has provided the Independent Electricity System Operator with a \$2,706,004 letter of credit. These credit facilities are secured by a general security agreement covering all personal property owned by the utility.