

Fort Frances Power Corporation
Financial Statements
For the year ended December 31, 2005

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Driving growth

BDO Dunwoody LLP
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Auditors' Report

To the Shareholders of Fort Frances Power Corporation

We have audited the balance sheet of the Fort Frances Power Corporation as at December 31, 2005, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

BDO Dunwoody LLP

Chartered Accountants

Fort Frances, Ontario
March 3, 2006

Fort Frances Power Corporation Balance Sheet

December 31 2005 2004

Assets

Current

Cash	\$ 1,967,287	\$ 1,369,155
Investments (Note 1)	1,243,386	1,161,350
Accounts receivable (Note 2)	361,916	464,416
Unbilled revenue	766,344	714,759
Inventory	180,609	159,957
Prepaid expense	26,983	22,610

4,546,525 3,892,247

Capital assets (Note 3) 3,368,054 3,389,922

Other assets (Note 4) 45,233 48,771

Future income tax assets (Note 7) 132,711 108,522

\$ 8,092,523 \$ 7,439,462

Liabilities

Current

Accounts payable and accrued liabilities (Note 5)	\$ 1,912,328	\$ 1,266,417
Customer deposits	95,031	78,375
Sick benefits payable	119,332	127,113
Income taxes payable	11,244	12,760

2,137,935 1,484,665

Regulatory assets and liabilities (Note 8) 221,860 241,300

2,359,795 1,725,965

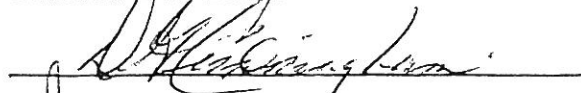
Shareholders' equity

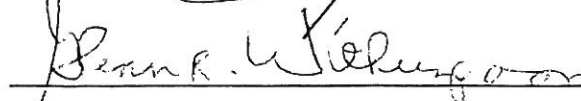
Share capital (Note 6)	5,807,391	5,807,391
Deficit	(74,663)	(93,894)

5,732,728 5,713,497

\$ 8,092,523 \$ 7,439,462

On behalf of the Board:

 Director

 Director

Fort Frances Power Corporation

Statement of Operations and Deficit

For the year ended December 31	2005	2004
Service revenue		
Residential	\$ 2,476,866	\$ 2,488,169
General	2,883,894	2,593,302
Street lighting	90,409	66,821
Reconnection charges	4,530	4,748
	<u>5,455,699</u>	<u>5,153,040</u>
Cost of power		
Power purchased	4,121,367	3,982,613
	<u>4,121,367</u>	<u>3,982,613</u>
Gross margin on service revenue	1,334,332	1,170,427
Other operating revenue (Note 9)	115,080	129,026
Provincial rebate revenue	-	50,709
	<u>1,449,412</u>	<u>1,350,162</u>
Operating and maintenance expense		
High voltage transformation distribution	280,525	255,915
Billing and collection	239,124	216,868
General and administrative expense	558,991	530,385
Amortization	359,463	317,616
Interest	2,339	4,551
Provincial rebate paid	-	50,709
	<u>1,440,442</u>	<u>1,376,044</u>
Net income (loss) before the following	8,970	(25,882)
Gain on disposal of assets	9,000	-
Income taxes		
Current expense	22,928	21,160
Future (recovery) expense	(24,189)	(17,764)
	<u>(1,261)</u>	<u>3,396</u>
Net income (loss) for the year	19,231	(29,278)
Deficit, beginning of year	(93,894)	(64,616)
Deficit, end of year	<u>\$ (74,663)</u>	<u>\$ (93,894)</u>

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

Fort Frances Power Corporation Statement of Cash Flows

For the year ended December 31	2005	2004
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	\$ 19,231	\$ (29,278)
Items not involving cash		
Amortization	359,463	317,616
Future income taxes (recovery)	(24,189)	(17,764)
	354,505	270,574
Changes in non-cash working capital balances		
Accounts receivable	102,500	(19,583)
Unbilled revenue	(51,585)	(137,895)
Inventory	(20,652)	7,709
Prepaid	(4,373)	3,813
Accounts payable	645,912	25,891
Sick benefits	(7,781)	2,555
Current income taxes	(1,516)	3,164
Regulatory liabilities	(19,440)	241,300
	997,570	397,528
Investing activities		
Net increase in capital assets	(337,596)	(139,766)
Increase in investments	(82,036)	(37,540)
Recovery of other assets	3,538	-
	(416,094)	(177,306)
Financing activities		
Increase in customer deposits held	16,656	7,453
Increase in cash during the year	598,132	227,675
Cash, beginning of year	1,369,155	1,141,480
Cash, end of year	\$ 1,967,287	\$ 1,369,155

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

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

Nature of Business	<p>On June 19, 2000, Fort Frances Power Corporation was incorporated under the Business Corporation Act (Ontario), under the laws of Ontario, created for the purpose of continuing electricity distribution activities. The incorporation was required in accordance with the <i>Energy Competition Act, 1998</i>, in the Province of Ontario.</p> <p>Pursuant to this legislation, under the terms of By-law No. 55/00 of the Town of Fort Frances ("Transfer By-law"), enacted on November 6, 2000, the Town of Fort Frances transferred all employees, assets, liabilities, rights and obligations of the former Fort Frances Public Utilities Commission, in consideration for the issuance of equity securities of the Fort Frances Power Corporation.</p> <p>The Corporation is engaged in the distribution of retail electricity to customers located in the Town of Fort Frances.</p>
Regulation	<p>The <i>Energy Competition Act, 1998</i>, was given Royal Assent on October 30, 1998, which provided for a competitive market in the generation and sale of electricity and the regulation of the monopoly electricity delivery system in the Province of Ontario (the "Province").</p> <p>On May 1, 2002, the government of Ontario opened Ontario's wholesale and retail markets to competition by providing generators, retailers and consumers with open access to Ontario's transmission and distribution network ("Open Access").</p> <p>Since the commencement of Open Access, electricity distributors have been purchasing their electricity requirements from the wholesale market administered by the Independent Electricity System Operator (the "IESO") and recovering the cost of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the "OEB").</p> <p>The OEB has regulatory oversight of electricity matters in the Province. The <i>Ontario Energy Board Act, 1998</i>, sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing/process requirements for rate-setting purposes.</p> <p>The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that electricity distribution companies (the "LDC") fulfill obligations to connect and service customers.</p>

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

The LDC is required to charge its customers for the following amounts (all of which, other than the distribution rate, represent "a pass through" of amounts payable to third parties):

- (a) *Electricity Price.* The electricity price represents of the commodity cost of electricity.
- (b) *Distribution Rate.* The distribution rate is designed to recover the costs incurred by the LDC in delivering electricity to customers. Distribution rates are regulated by the OEB.
- (c) *Retail Transmission Rate.* The retail transmission rate represents the wholesale costs incurred in the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.
- (d) *Wholesale Market Service Charge.* The wholesale market service charge of various wholesale market support costs. Wholesale market service charges are regulated by the OEB.

Market participants (including distributors and retailers) are required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations.

Price Protection and Rate Caps

In December 2002, the Province passed Bill 210 which, among other things:

- (a) fixed the price of electricity payable by consumers of electricity who annually utilize less than 250,000 kWh ("Low Volume Consumers") and consumers comprised principally of municipalities, universities, schools and hospitals, consumers with a demand of 50 kW or less and multi-unit residential buildings ("Designated Consumers") retroactive to May 1, 2002;
- (b) capped the LDC distribution rates at current levels and deferred rate increases and certain cost recoveries by electricity distributors; and
- (c) deemed certain costs and variance account balances of distributors to be "regulatory assets" which are required to be reflected in a distributor's balance sheet until the manner and timing of disposition was determined by the OEB.

In November 2003, the Province:

- (a) announced its intention to increase the price of electricity payable by Low Volume Consumers and Designated Consumers effective April 1, 2004;

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

- (b) directed the OEB to develop new pricing mechanisms for setting the price of electricity payable by Low Volume Consumers and Designated Consumers (to take effect no later than May 1, 2005); and
- (c) announced initiatives with respect to the recovery of regulatory assets and the third distribution rate adjustment to achieve a market-based rate of return.

During the period that the price protection is in effect, it is expected that electricity distributors will be compensated by the Ontario Electricity Financial Corporation for amounts by which the purchase price of the electricity purchased by them in the IESO-administered wholesale market on behalf of Low Volume Consumers and Designated Consumers is greater than the fixed price per kWh charged to customers.

Market-based Rate of Return

Before the introduction of rate caps in December 2002, the OEB had authorized electricity distributors to adjust their distribution rates to incorporate a market-based rate of return.

Since the introduction of market based rate of return for Ontario distribution companies, the Fort Frances Power Corporation has elected to take a 0.0% rate of return on common equity for the Corporation and has operated under the rate minimization model. This is mainly due to the historical agreement with the local paper mill, which has always been a defining characteristic of the utility. As such, the Fort Frances Power Corporation has not applied for any distribution rate increases required to fund a financial rate of return.

Regulatory Assets

Under Bill 210, electricity distributors are required to reflect certain prescribed costs on their balance sheets, until the manner and timing of disposition is determined by the OEB. These costs include:

- (a) transition costs resulting from the ramp-up to Open Access;
- (b) variances between amounts charged to the LDC customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by it in the wholesale market administered by the IESO.

In November 2003, the OEB announced its intention to permit electricity distributors to make rate applications to the OEB with respect to the recovery of regulatory assets. The recoveries are being phased in over a three-year period which commenced in March 2004.

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

Electricity Sector Reorganization

In December 2004, the Province initiated a further restructuring of Ontario's electricity industry with the passage of the *Electricity Restructuring Act, 2004*. The restructuring was intended, among other things, to ensure efficient and effective management of electricity, promote the expansion of new electricity supply and capacity, encourage electricity conservation and renewable energy and regulate prices in parts of the electricity sector.

Under the *Electricity Restructuring Act, 2004*, the commodity cost of electricity for certain customer classes will be reviewed by the OEB on a semi-annual basis based on a combination of regulated, contract and competitive market prices for electricity. Customers that do not wish to or are not eligible to participate in the regulated plan may purchase electricity in the competitive market or through licensed retailers.

Effective January 1, 2005, pursuant to Bill 100, the IESO implemented the Global Adjustment, a new price adjustment applicable to customers not subject to price protection and rate caps. The variable rate adjustment can result in positive or negative customer bill adjustments dependent on current electricity market conditions. The difference between the amount credited to customers and the amount received from the IESO by LDC's, is tracked to a variance account for disposition in accordance with OEB Guidelines.

On February 23, 2005, the Minister of Energy announced a new fixed pricing structure for electricity supplied by Ontario Power Generation, based on a blended price for electricity supplied by regulated and unregulated assets. The new pricing structure had an immediate impact on large general service customers who use more than 250,000 kWh per year. Residential, small business and other consumers were not immediately affected by the new pricing structure, as the OEB blended the various prices paid to generators into the new fixed electricity price under the Regulated Price Plan, which took effect on April 1, 2005.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates, that LDC may recover, including the balance of its regulatory assets.

Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and customer deposits. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.														
Capital Assets	Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is as follows: <table><tr><td>Buildings</td><td>- 3% straight line basis</td></tr><tr><td>Transmission and distribution equipment</td><td>- various straight line basis</td></tr><tr><td>Other equipment</td><td>- 10% straight line basis</td></tr><tr><td>Computer equipment and software</td><td>- 20 & 100% straight line basis</td></tr><tr><td>Automotive equipment</td><td>- various straight line basis</td></tr><tr><td>Office equipment</td><td>- 10% straight line basis</td></tr><tr><td>Leasehold improvements</td><td>- 20% straight line basis</td></tr></table>	Buildings	- 3% straight line basis	Transmission and distribution equipment	- various straight line basis	Other equipment	- 10% straight line basis	Computer equipment and software	- 20 & 100% straight line basis	Automotive equipment	- various straight line basis	Office equipment	- 10% straight line basis	Leasehold improvements	- 20% straight line basis
Buildings	- 3% straight line basis														
Transmission and distribution equipment	- various straight line basis														
Other equipment	- 10% straight line basis														
Computer equipment and software	- 20 & 100% straight line basis														
Automotive equipment	- various straight line basis														
Office equipment	- 10% straight line basis														
Leasehold improvements	- 20% straight line basis														
Other Assets	Other assets are recorded at cost. Other assets are to be recovered through future rate charges and therefore amortization of these assets ceased when the recoveries were approved by the OEB.														
Cash and Cash Equivalents	Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments and bond funds with maturities of three months or less.														
Revenue Recognition	Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.														
Customer Deposits	Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded within the next fiscal year are classified as a current liability.														
Use of Estimates	The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenue and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.														

Fort Frances Power Corporation Summary of Significant Accounting Policies

December 31, 2005

Future Income Taxes Commencing January 1, 2003, the Corporation adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

**Payments in Lieu
of Taxes**

The Corporation is currently exempt from taxes under the Income Tax Act and the Ontario Corporations Tax Act.

The Corporation is required to compute taxes under the Income Tax Act and Ontario Corporations Tax Act and remit such amounts thereunder to the Ontario Electricity Financial Corporation. These amounts referred to as Payments in Lieu of Taxes under the Energy Competition Act, are applied to reduce certain debt obligations of the former Ontario Hydro.

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2005

1. Investments

Investments are recorded at the lower of cost or market value and are made up as follows:

	2005	2004
Money market and bond mutual funds	<u>\$ 1,243,386</u>	<u>\$ 1,161,350</u>

Fair market value at December 31, 2005, is \$1,243,386 (2004 - \$1,166,691).

2. Accounts Receivable

	2005	2004
Electrical energy	\$ 289,158	\$ 348,339
Own municipality	(1,248)	443
Sundry	74,006	115,634
	<u>\$ 361,916</u>	<u>\$ 464,416</u>

3. Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
Buildings	1,068,548	908,368	160,180	169,466
Transmission and distribution equipment	7,190,094	4,379,826	2,810,268	3,005,949
Other equipment	105,108	90,195	14,913	14,126
Automotive equipment	643,038	397,318	245,720	74,103
Computer equipment and software	29,612	14,630	14,982	9,453
Office equipment	91,245	76,416	14,829	11,848
Leasehold improvements	10,507	3,345	7,162	4,977
	\$ 9,238,152	\$ 5,870,098	\$ 3,368,054	\$ 3,389,922

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2005

4. Other Assets

	2005	2004
Opening transition costs	\$ 48,771	\$ 48,771
Current year recoveries	(3,538)	-
Closing transition costs	\$ 45,233	\$ 48,771

The transition costs are defined as follows:

Transition costs:

The OEB has allowed the Corporation to defer the cost incurred to align systems and practices and the requirements of the competitive electricity market in Ontario in accordance with the Ontario Energy Board Act, 1998. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the OEB's Electricity Distribution Rate Handbook and the AP Handbook.

Under such regulation, expenditures were allowed to be deferred during the period January 1, 2000, to December 31, 2002, which would be capitalized or expensed under Canadian GAAP for unregulated businesses.

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes an accrual in the amount of \$758,495 - 2005 (\$556,733 - 2004). This represents the identified surplus for the year ending December 31, 2005, as a result of the power agreement. This surplus is to be dispensed to the ratepayers in the form of a credit rebate subsequent to year end.

6. Share Capital

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

Issued share capital is as follows:

	2005	2004
5,807,391 Common shares	\$ 5,807,391	\$ 5,807,391

7. Future Income Tax Assets

The components of the future income tax assets at December 31 are as follows:

	2005	2004
Capital assets	\$ 132,711	\$ 108,522

Fort Frances Power Corporation

Notes to Financial Statements

December 31, 2005

8. Regulatory Assets and Liabilities

Regulatory assets and liabilities consist of the following:

	2005	2004
Settlement variances	\$ (225,716)	\$ (241,300)
Deferral account for OEB annual cost assessment	3,856	-
Net regulatory liability	<u>\$ (221,860)</u>	<u>\$ (241,300)</u>

For the year ended December 31, 2005, the Corporation recovered approved regulatory assets amounts of \$7,948 through permitted distribution rate adjustments. These recovery amounts are for the recovery of approved regulatory assets recorded in reporting periods prior to January 1, 2004. The regulatory assets and liabilities balances of the Corporation are defined as follows:

(a) Settlement variances:

The OEB has allowed the Corporation to defer settlement variances from May 1, 2002, to December 31, 2005. This balance represents the variances between amounts charged by the Corporation to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by it in the wholesale market administered by the IESO after May 1, 2002. The settlement variances related primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Corporation has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

The settlement variances net of recoveries arising after May 1, 2002 is deferred in a regulatory liability account.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue when incurred under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues in 2005 would have been \$15,584 lower. The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the variance has not been determined by the OEB.

(b) Deferral account for OEB annual cost assessments:

The OEB has allowed the Corporation to defer the OEB annual cost assessments for the fiscal years starting after January 1, 2004. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

Under such regulation, expenditures are allowed to be deferred which would be expenses under Canadian GAAP for unregulated businesses. The deferred balance continues to be calculated and attract carrying charges in accordance with the OEB's direction. In the absence of rate regulation, operating expenses in 2005 would have been \$3,856 higher (2004 - \$NIL). The OEB has allowed the Corporation to apply for the recovery of the deferred amounts beginning in 2006 and the Corporation has included such balance in its 2006 Rate Application.

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2005

9. Other Operating Revenue

	2005	2004
Interest earned	\$ 55,666	\$ 59,229
Late payment charges	15,543	15,162
Pole rentals	35,522	35,688
Miscellaneous revenue	8,349	18,947
	<u>\$ 115,080</u>	<u>\$ 129,026</u>

10. Contingency

A class action has been brought under the *Class Proceedings Act, 1992*, seeking \$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*. This action is at a preliminary stage and pleadings have closed. 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 class action proceeding 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 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 Consumer Gas.

Fort Frances Power Corporation assumed all of the liabilities of the former utility on transfer of electrical distribution assets referred to in the significant accounting policy in the Nature of Business. Given the preliminary status of these actions, it is not possible to quantify the effect, if any, on the financial statements of the Corporation.

Fort Frances Power Corporation Notes to Financial Statements

December 31, 2005

11. Credit Facilities

Fort Frances Power Corporation is party to a short-term credit facility with a Canadian chartered bank pursuant to which the Corporation could borrow up to \$370,000 in the form of an operating loan. The amount drawn under the credit facility as at December 31, 2005, was \$NIL.

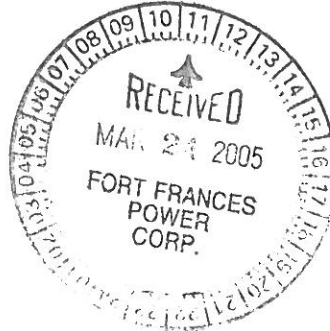
12. Financial Guarantees

Participants in the wholesale market for electricity that is administered by the Independent Electricity Market Operator are required to satisfy prescribed prudential requirements.

During the year, the Corporation became party to an irrevocable standby letter of credit with a Canadian chartered bank. The credit amounts to \$628,544 - 2005 (\$628,544 - 2004) and expires on October 28, 2006. This letter of credit is secured by a general security agreement.

Ontario Energy
Board
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Commission de l'Énergie
de l'Ontario
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Toronto ON M4P 1E4
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Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY PRIORITY POST

March 22, 2005

Jim Kibiuk
President & CEO
Fort Frances Power Corporation
320 Portage Avenue
Fort Frances ON
P9A 3P9

Dear Mr. Kibiuk:

**Re: 2005 Electricity Distribution Rates
Board Decision and Order
Board File No. RP-2005-0013\EB-2005-0028**

The Board has now issued its Decision and Order for the above referenced proceeding and a copy is enclosed

Yours truly,

A handwritten signature in black ink, appearing to read "P. O'Dell".

Peter H. O'Dell
Assistant Board Secretary



RP-2005-0013
EB-2005-0028

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by **Fort
Frances Power Corporation** for an order or orders
approving or fixing just and reasonable rates.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Paul Vlahos
Member

Pamela Nowina
Member

DECISION AND ORDER

Background and Application

In November 2003 the Ontario government announced that it would permit local distribution companies to apply to the Board for the next installment of their allowable return on equity beginning March 1, 2005. The Government also indicated that the Board's approval would be conditional on a financial commitment to reinvest in conservation and demand management initiatives, an amount equal to one year's incremental returns.

Also in November 2003, the Government announced, in conjunction with the introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing)*, 2003, that electricity distributors could start recovering Regulatory Assets in their rates, beginning March 1, 2004, over a four year period.

In February and March, 2004, the Board approved the applications of distributors to recover 25% of their December 31, 2002 Regulatory Asset balances (or additional amounts for rate stability) in their distribution rates on an interim basis effective March 1, 2004 and implemented on April 1, 2004.

On December 20, 2004 the Board issued filing guidelines to all electricity distribution utilities for the April 1, 2005 distribution rate adjustments. The guidelines allowed the applicants to recover three types of costs. These costs concern (i) the rate recovery of the third tranche of the allowable return on equity (Market Adjusted Revenue Requirement or "MARR"), (ii) the 2005 proxy allowance for payments in lieu of taxes ("PILs") and (iii) a second installment of the recovery of Regulatory Assets.

A generic Notice of the proceeding was published on January 25, 2005 in major newspapers in the province, which provided a 14 day period for submissions from interested parties. On February 4, 2005, the Board issued Procedural Order No. 1, providing for an extension for submissions until February 16, 2005 and also providing for reply submissions from applicants and other parties.

The Applicant filed an application for adjustments to their rates for the following amounts:

MARR: \$ 128,216

2005 PILs Proxy: \$ 28,574

Regulatory Assets Second Tranche: \$ 15,475

Submissions

The Board received one submission which addressed the 2005 rate setting process in general. This submission was made by School Energy Coalition (SEC). SEC objected to the guideline which caused the recovery of the 2005 PILs proxy to be reflected only on the variable charge. SEC was also concerned that monthly service charges and overall distribution charges varied significantly between utilities across the province. SEC also raised concerns regarding the consistency of, and access to, information on the applications as filed by the utilities.

Reply submissions to SEC's general submissions were received from the Coalition of Large Distributors, the Electricity Distributors Association, Hydro One Networks, and the LDC Coalition (a group of 7 distributors). These parties generally argued against the recommendations put forward by SEC, by and large indicating that the Board's existing processes for 2006 and 2007 have been planned to address these issues going forward and that these issues should not be added to the 2005 rates adjustment process.

The Applicant was not specifically named in any of these submissions.

The full record of the proceeding is available for review at the Board's offices.

Board Findings

The Board first addresses the general submission of SEC. While SEC raises important issues regarding electricity distribution rates, the Board has put in place a process which will address most of the issues raised by SEC on a comprehensive basis with coordinated cost of service, cost allocation and cost of

capital studies for all distributors in 2006, 2007 and 2008. The Board does agree that unless there are compelling reasons to diverge from the Board's original filing guidelines for the 2005 distribution rate adjustment process, distributors should follow the guidelines in their applications.

The Board has corrected a small error in the Regulatory Asset recovery amount, resulting in the following approved amounts:

MARR: \$ 128,216

2005 PILs Proxy: \$ 28,574

Regulatory Assets Second Tranche: \$ 16,233

Subject to these adjustments, the Board finds that the application conforms with earlier decisions of the Board (including approval for the Applicant's Conservation and Demand Management plan), directives and guidelines.

The Board will issue a separate decision on cost awards.

THE BOARD ORDERS THAT:

- 1) The rate schedule attached as Appendix "A" is approved effective March 1, 2005, to be implemented on April 1, 2005. All other rates currently in effect that are not shown on the attached schedule remain in force. If the Applicant's billing system is not capable of prorating to accommodate the April 1, 2005 implementation date, the new rates shall be implemented with the first billing cycle for electricity consumed or estimated to have been consumed after April 1, 2005.

- 2) The Applicant shall notify its customers of the rate changes, no later than with the first bill reflecting the new rates and include the brochure provided by the Board.

DATED at Toronto, March 22, 2005

ONTARIO ENERGY BOARD



Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

RP-2005-0013
EB-2005-0028

March 22, 2005

ONTARIO ENERGY BOARD

Fort Frances Power Corporation
Schedule of Changed Distribution Rates and Charges

Effective Date: March 1, 2005
Implementation Date: April 1, 2005

RP-2005-0013

EB-2005-0028

RESIDENTIAL

Monthly Service Charge	(per month)	\$10.82
Distribution Volumetric Rate	(per kWh)	\$0.0079

GENERAL SERVICE < 50 KW

Monthly Service Charge	(per month)	\$25.72
Distribution Volumetric Rate	(per kWh)	\$0.0058

GENERAL SERVICE > 50 KW

Monthly Service Charge	(per month)	\$210.02
Distribution Volumetric Rate	(per kW)	\$3.1215

STREET LIGHTING

Monthly Service Charge	(per connection)	\$1.05
Distribution Volumetric Rate	(per kW)	\$2.7550

The rates on this schedule include an interim recovery of Regulatory Assets.



Ministry of Finance
Corporations Tax Branch - Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Electricity Act, 1998
Corporations Tax Act, R.S.O. 1990

Account No
1800090

35 A
PX5000

FORT FRANCES POWER CORPORATION
MARK MCCAIG, PRES & CEO
320 PORTAGE AVE

FORT FRANCES
P9A 3P9

ON

Taxation Year End: (YYYYMMDD)

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Payment Amount: \$

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Taxation Year End: (YYYYMMDD)

2	0	0	5	1	2	3	1												
---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--

Payment Amount: \$

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Total Payment
Enclosed: \$

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--



Ministry of Finance
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PO Box 620
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Keep this portion for your records.

Statement of Account

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
for transactions up to and including **2005/01/07**

FORT FRANCES POWER CORPORATION

Account No.

1800090

Statement Date
(year, month, day)

2005/01/07

Page

1 of 1

TRANSACTIONS BY ASSESSED TAXATION YEAR

TRANSACTIONS BY UNASSESSED TAXATION YEAR

EFFECTIVE DATE	ID NUMBER	DESCRIPTION	AMOUNT	BALANCE
2004/11/06		OPENING BALANCE FOR: 2004/12/31	<u>8,400.00CR</u>	
		BALANCE	8,400.00CR	
		OPENING BALANCE FOR: 2005/12/31	<u>0.00</u>	
		BALANCE	0.00	

A balance of tax payment is required 2 or 3 months after the taxation period end. The return is due 6 months after the taxation period.

The 2001 Ontario Budget simplified instalment requirements for corporations with total tax payable in the current or preceding year of \$2,000 or more and less than \$10,000. For tax years commencing after 2001, these corporations may now pay quarterly instalments.

Tax (Re)Assessment Enquiries:

- Toronto (416) 730-5585
- FAX (416) 730-5593

Account Billing Enquiries & Change of Address Information:

- Oshawa and Local (905) 433-6708
- Toronto (416) 920-9048 ext. 3036
- Toll-Free 1-800-262-0784 ext. 3036
- FAX (905) 433-5197



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1800090

35 A
PX5000

FORT FRANCES POWER CORPORATION
C/O MARK MCCAIG
320 PORTAGE AVE

FORT FRANCES ON
P9A 3P9

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Taxation Year End: (YYYYMMDD) **2 0 0 5 1 2 3 1**

Payment Amount: \$

Total Payment Enclosed: \$



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Statement of Account

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
for transactions up to and including **2005/09/02**

FORT FRANCES POWER CORPORATION

Account No.

1800090

Statement Date
(year, month, day)

2005/09/02

Page

1 of 1

TRANSACTIONS BY ASSESSED TAXATION YEAR

EFFECTIVE DATE	ID NUMBER	DESCRIPTION	AMOUNT	BALANCE
2005/07/05		OPENING BALANCE FOR: 2004/12/31	23,449.00CR	
2005/08/29	25	return assessment	20,518.00	
2005/08/29	26	interest - assessment *	326.73	
2005/09/02	28	interest *	0.57CR	<u>2,604.84CR</u>
		CREDIT BALANCE AVAILABLE		<u>2,604.84CR</u>

TRANSACTIONS BY UNASSESSED TAXATION YEAR

2005/07/05		OPENING BALANCE FOR: 2005/12/31	0.00
2005/08/23	24	PIL payment	<u>12,000.00CR</u>
		BALANCE	<u>12,000.00CR</u>

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FORT FRANCES POWER CORPORATION
C/O MARK MCCAIG
320 PORTAGE AVE

FORT FRANCES ON
P9A 3P9

Remittance Advice - Payment in Lieu (PIL)
Electricity Act, 1998
Corporations Tax Act, R.S.O. 1990

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Total Payment
Enclosed: \$



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Statement of Account

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
for transactions up to and including 2005/10/03

	Account No.	Statement Date (year, month, day)	Page
FORT FRANCES POWER CORPORATION	1800090	2005/10/03	1 of 1

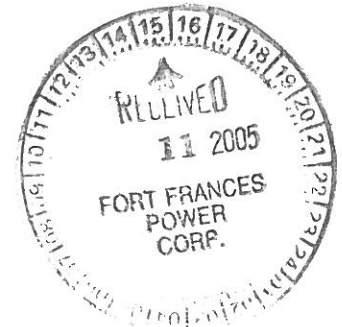
TRANSACTIONS BY ASSESSED TAXATION YEAR

EFFECTIVE DATE	ID NUMBER	DESCRIPTION	AMOUNT	BALANCE
2005/09/03		OPENING BALANCE FOR: 2004/12/31	2,604.84CR	
2005/09/12	27	PIL refund	2,606.27	
2005/10/03	29	interest *	1.43CR	<u>0.00</u>
		BALANCE		<u>0.00</u>

TRANSACTIONS BY UNASSESSED TAXATION YEAR

2005/09/03	OPENING BALANCE FOR: 2005/12/31	<u>12,000.00CR</u>
	BALANCE	12,000.00CR

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Account No
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35 A
PX5000

FORT FRANCES POWER CORPORATION
C/O MARK MCCAIG
320 PORTAGE AVE

FORT FRANCES
P9A 3P9

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Taxation Year End: (YYYYMMDD)

Payment Amount: \$

Total Payment
Enclosed: \$



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Oshawa ON L1H 8E9

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Statement of Account

Electricity Act, 1998 • Corporations Tax Act, R.S.O. 1990
for transactions up to and including 2006/01/03

FORT FRANCES POWER CORPORATION

Account No.

1800090

Statement Date
(year, month, day)

2006/01/03

Page

1 of 1

TRANSACTIONS BY ASSESSED TAXATION YEAR

TRANSACTIONS BY UNASSESSED TAXATION YEAR

EFFECTIVE DATE	ID NUMBER	DESCRIPTION	AMOUNT	BALANCE
2005/10/04		OPENING BALANCE FOR: 2005/12/31	<u>12,000.00CR</u>	
		BALANCE	12,000.00CR - 2005	
		OPENING BALANCE FOR: 2006/12/31	<u>0.00</u>	
		BALANCE	0.00	

A balance of tax payment is required 2 or 3 months after the taxation period end. The return is due 6 months after the taxation period.

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L17-2294

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