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January 6, 2012

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

Dear Ms. Walli,

Re: EB-2011-0054 - Hydro Ottawa Limited 2012 Cost of Service Rate Application

Please find enclosed two (2) copies of the Draft Rate Order for Hydro Ottawa Limited (EB-2011-0054).

Yours truly,

Original signed by J. Scott

Jane Scott
Manager, Rates and Revenue

cc EB-2011-0054 Intervenors
Violet Binette (Ontario Energy Board)
Fred Cass (Aird & Berlis)



EB-2011-0054

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 Hydro Ottawa Limited for
an order approving or fixing just and reasonable rates and other charges
for the distribution of electricity to be effective January 1, 2012.

DRAFT RATE ORDER OF HYDRO OTTAWA LIMITED

FILED JANUARY 6, 2012

INTRODUCTION

On June 17, 2011, Hydro Ottawa Limited (“Hydro Ottawa”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), under section 78 of the Ontario Energy Board Act, 1998, S/O. 1998, c.15 (Schedule B) seeking approval for changes to rates Hydro Ottawa charges for electricity distribution, to be effective January 1, 2012. The Board assigned File Number EB-2011-0054 to the Application. On September 14, 2011, Hydro Ottawa filed an updated to the Application (the “updated Application”).

On December 28, 2011 the Board issued its Decision and Order pertaining to the Application (the “Decision”). In the Decision, the Board directed Hydro Ottawa to file with the Board, and also forward to the intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board’s findings in this Decision within 7 business days of the date of issuance of the Decision. Hydro Ottawa was directed to include in the draft Rate Order, customer bill impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.

This draft Rate Order incorporates the Board’s findings as set out in the Decision, the impact of the Settlement Agreement filed on November 1, 2011 and accepted by the Board on November 4, 2011, and the Supplementary Settlement Agreement filed on November 10, 2011 (the “Settlement Agreements”) on Hydro Ottawa’s revenue requirement, the allocation of the approved revenue requirement to classes and the determination of the final rates. In



accordance with the Decision, the draft Rate Order has been prepared on the basis that Hydro Ottawa's new rates will be effective January 1, 2012, with an implementation date of February 1, 2012. Rate riders for the recovery of the revenue shortfall for January 2012 are calculated based on a February 1, 2012 implementation date.

The following Appendices accompany the draft Rate Order:

- Appendix A: Draft Tariff of Rates and Charges
- Appendix B: Hydro Ottawa Customer Bill Impacts
- Appendix C: MIFRS Revenue Requirement Work Form
- Appendix D: MIFRS PILS Spreadsheet
- Appendix E: Throughput Revenue
- Appendix F: Retail Transmission Service Rates
- Appendix G: Cost of Power Calculation

The following live Excel models also accompany the draft Rate Order:

- MIFRS Revenue Requirement Work Form
- MIFRS PILs Spreadsheet
- Retail Transmission Service Rates Spreadsheet
- Hydro Ottawa Customer Bill Impacts

SUMMARY OF CHANGES

Hydro Ottawa has updated its revenue requirement for the 2012 Test Year and has recalculated the original rates proposed in its Application in accordance with the Settlement Agreements and the Board's findings in the Decision and as described in the sections below. As a result of the Settlement Agreements and the Decision, Hydro Ottawa's 2012 Modified International Financial Reporting Standards ("MIFRS") revenue requirement has been reduced from \$159,276k as proposed in the updated Application to \$153,847k. Hydro Ottawa's Draft Tariff of Rates and Charges reflecting the Settlement Agreements and Decision accompanies this draft Rate Order as Appendix A. The comparison of customer bill impacts is attached as Appendix B. Hydro Ottawa notes that the customer bill impact analysis reflects the changes in Hydro Ottawa's



distribution rates and other charges effective January 1, 2012 but does not include the impact of the proposed rate riders related to the recovery of the revenue requirement shortfall.

Changes arising out of the Settlement Agreements and the Decision and reflected in the proposed rates include, with limitation, the following:

- Changes in Rate Base, including changes in 2012 Test Year Capital Expenditures and the Working Capital Allowance
- Changes in Load Forecast
- Update to the Cost of Power
- Changes in Operating, Maintenance & Administration (“OM&A”) Expenses
- Updates to Cost of Capital Parameters
- Changes to Hydro Ottawa’s fixed versus variable split for General Service > 50 kW customer classes
- Updates to the Retail Transmission Service Rates
- Revisions to Rate Riders for Deferral/Variance Account Disposition to reflect collection/return over eleven months
- The incorporation of the class specific Smart Meter Disposition Riders
- The establishment of rate riders to provide for the recovery of one month of incremental revenue for January 2012.



Table 1 below summarizes the changes made to the Revenue Requirement that result from the Settlement Agreements and the Decision.

Table 1 – MIFRS Revenue Requirement Calculation

	Updated Application \$000	Adjustment \$000	As per Decision and Settlement Agreements \$000
OM&A	\$74,182	(\$2,791)	\$71,390
Amortization	\$39,405	(\$464)	\$38,942
Property Taxes	\$1,806	(\$106)	\$1,700
Interest	\$20,900	(\$1,273)	\$19,628
Return on Equity	\$25,696	(\$486)	\$25,210
Payment in Lieu of Taxes ("PILs")	\$6,312	(\$309)	\$6,003
Service Revenue Requirement	\$168,301	(\$5,429)	\$162,873
Less Revenue Offsets	(\$9,025)		(\$9,025)
Base Revenue Requirement	\$159,276	(\$5,429)	\$153,847

RATE BASE

Fixed Assets

Hydro Ottawa had forecasted a rate base of \$669,087k, based on Average Net Fixed Assets of \$563,116k and an Allowance for Working Capital of \$105,971k, based on CGAAP. As part of the Settlement Agreements, the Average Net Fixed Assets were settled as shown in Table 2 below:

Table 2 – CGAAP Average Net Fixed Assets

	Updated Application \$000	Adjustment for \$4M in capital additions \$000	Adjustment for hybrid premiums \$000	Settlement Agreements \$000
2011 Net Fixed Assets	\$547,514	\$0	(\$314)	\$547,200
2012 Net Fixed Assets	\$578,718	(\$4,000)	(\$399)	\$574,319
Average Net Fixed Assets	\$563,116	(\$2,000)	(\$357)	\$560,759



Working Capital Allowance (“WCA”)

The Board accepted Hydro Ottawa’s proposed WCA factor of 14.2% of the sum of the cost of power and controllable expenses. In the Settlement Agreements, it was agreed to update the Cost of Power with the revised load forecast as per Issue 3.2 and the updated 2012 wholesale transmission rates established by the Board. On December 20, 2011, the Board announced the uniform Ontario electricity transmission rates to be effective January 1, 2012 as shown in the Table 3 below.

Table 3 – Uniform Ontario Electricity Transmission Rates

	2011	2012
Network	\$3.22	\$3.57
Line Connection	\$0.79	\$0.80
Transformation Connection	\$1.77	\$1.86

The revised calculation of the Cost of Power is shown in Appendix G and summarized in Table 4 below. Also included is the revised OM&A as per the Decision.

Table 4 – Revised Working Capital Allowance

CGAAP	Updated Application \$000	As per Settlement Agreements and Decision
Cost of Power	\$680,576	\$685,303
OM&A	\$65,698	\$62,800
WCA	14.2%	14.2%
Working Capital Allowance	\$105,971	\$106,231
MIFRS		
Cost of Power	\$680,576	\$685,303
OM&A	\$75,986	\$73,090
WCA	14.2%	14.2%
Working Capital Allowance	\$107,432	\$107,692



The resulting rate base based on CGAAP is shown in Table 5 below.

Table 5 – CGAAP Rate Base

	Updated Application \$000	Adjustment \$000	As per Settlement Agreements and Decision \$000
Average Net Fixed Assets	\$563,116	(\$2,357)	\$560,759
Working Capital Account	\$105,971	\$260	\$106,231
Rate Base	\$669,087	(\$2,097)	\$666,990

LOAD FORECASTING AND OPERATING REVENUE

The customer/connection count for the test year, the impact of CDM on the load forecast, and demand sales were agreed to by Hydro Ottawa and the participating intervenors as part of the Settlement Agreements. The Board accepted Hydro Ottawa's billed energy forecast of 7,753 GWh (before the CDM adjustment) for the test year. The revised forecast is shown below in Table 6.

Table 6 – Revised 2012 Load Forecast By Class

Class (Average Customers)	Updated Application	Adjustments	As per Settlement Agreements and Decision
Residential Customers MWh	280,901 2,254,962	0 27,573	280,901 2,282,535
General Service < 50 kW Customers MWh	23,636 760,702	0 9,324	23,636 770,026
General Service > 50 < 1,499 kW Customers MW	3,313 7,404	27 0	3,340 7,404
General Service > 1,500 < 4,999 kW Customers MW	67 1,720	4 0	71 1,720
Large Use Customers MW	12 1,188	(1) 0	11 1,188
Street lighting Connections MW	55,546 122	0 0	55,546 122
UMSL Connections MWh	3,093 17,184	0 211	3,093 17,395



Table 6 continued– Revised 2012 Load Forecast Summary

	Updated Application	Adjustments	As per Settlement Agreements and Decision
Total Sales			
MWh	7,587,280	86,878	7,673,958
MW	10,433	0	10,433
Purchases			
MWh	7,865,229	90,000	7,955,229
MW	14,515	0	14,515

OPERATING COSTS

Total Operating, Maintenance and Administration (“OM&A”)

The Board determined that Hydro Ottawa’s forecasted OM&A envelope will be \$61.1M (without property taxes; which were settled at \$1.7M) for a total OM&A of \$62.8M under CGAAP. This represents a reduction in OM&A expenses of \$2.9M.

For MIFRS, the OM&A expenses in the updated Application were \$76M (including property taxes). As a result of the Board’s Decision, MIFRS OM&A expenses are \$73.1M (including property taxes which were settled at \$1.7M).

CAPITAL STRUCTURE AND COST OF CAPITAL

In the Settlement Agreements the parties agreed that the Hydro Ottawa proposed capital structure of 56% long term debt, 4% short term debt and 40% equity is appropriate. As agreed in the Settlement Agreements, Hydro Ottawa has updated the Return on Equity (“ROE”) to 9.42% and the Short Term Rate (“STD”) to 2.08% as per the Board’s letter of November 10, 2011. For Long Term Debt (“LTD”) the Board determined that the debt rates proposed by Hydro Ottawa should be adjusted. In addition, the Board determined that it is not reasonable to add either the insurance costs of the administration costs to the bare LTD rate. Therefore, Hydro Ottawa’s LTD rate is calculated as shown in Table 7 below:



Table 7 – Long Term Debt Calculation

Date of Issuance	Principal Amount (\$000)	Actual or Deemed	Hydro Ottawa Proposed Rates	EB-2011-0054 Approved Rates
July 1, 2005	200,000	Actual	5.14	5.01
July 1, 2005	32,185	Deemed	5.9	5.01
December 20, 2006	50,000	Actual	5.318	5.01
December 21, 2009	15,000	Deemed	5.85	5.75
April 30, 2010	15,000	Deemed	5.97	5.87
July 5, 2011	15,000	Deemed	5.65	5.32
September 1, 2011	15,000	Deemed	5.75	5.01
December 1, 2011	15,000	Deemed	5.75	5.01
July 1, 2012	15,000	Deemed	5.75	5.01
	372,185			
		Weighted Average	5.39%	5.09%

SMART METERS (“SM”)

The Board has approved the Settlement Agreements and hence has approved the recovery of \$1,512k in net deferred revenue requirement for the Smart Meter program. This amount was based on the cessation of the 2011 Smart Meter Funding Adder of \$1.42 per month as per December 31, 2011, however as the 2012 rates will not be implemented until February 1, 2012, the amount to be collected will be reduced by the amount collected in January from the \$1.42 per 305,768 metered customers or \$434k. Therefore, the amount to be collected/returned for SMs for the period February 1, 2012 – December 31, 2012 is \$1,078k. As directed by the Board, the recovery will be based on class specific riders, as shown in Table 8 below.



Table 8 – Calculation of Smart Meter Disposition Rider starting February 1, 2012

Customer Class	Revenue Collected to January 31, 2012 plus interest \$	Total Revenue Requirement plus interest \$	Over/Under collection \$	Feb – Dec 2012 average customers	To clear balance after Jan 2012 \$
Residential	(25,728,474)	23,461,366	(2,267,108)	280,901	(0.67)
General Service <50KW	(2,369,382)	4,239,731	1,870,349	23,636	6.59
General Service 50-1500KW	(332,571)	1,765,400	1,432,829	3,340	35.75
General Service 1500-5000 KW	(7,390)	42,012	34,622	71	40.64
Large Users	(1,145)	7,850	6,705	11	50.80
Total	(28,438,962)	29,516,358	1,077,397	307,959	

RETAIL TRANSMISSION SERVICE RATES

In the Settlement Agreements, Hydro Ottawa agreed that the Retail Transmission rates would be updated based on the updated 2012 wholesale transmission rates established by the Board. On December 20, 2011, the Board announced the uniform Ontario electricity transmission rates to be effective January 1, 2012 as shown in Table 3 above.

Hydro Ottawa has updated the Retail Transmission Service Rates model with the updated wholesale rates (included as Appendix F) and as a result the revised rates are shown in Table 9 below.



Table 9 – Retail Transmission Service Rates

Class	Current Network Service Rate	Current Connection Service Rate	Proposed Network Service Rate	Proposed Connection Service Rate
Residential	\$0.0066	\$0.0042	\$0.0074	\$0.0044
GS < 50 kW	\$0.0060	\$0.0039	\$0.0067	\$0.0041
GS > 50 < 1,499 kW	\$2.4768	\$1.5797	\$2.7852	\$1.6536
GS > 1,500 < 4,499 kW	\$2.5718	\$1.6881	\$2.8920	\$1.7671
Large Use	\$2.8509	\$1.9011	\$3.2058	\$1.9900
UMSL	\$0.0060	\$0.0039	\$0.0067	\$0.0041
Sentinel	\$1.8377	\$1.8377	\$2.0560	\$1.2284
Streetlight	\$1.8284	\$1.1735	\$2.0665	\$1.2540

DEFERRAL AND VARIANCE ACCOUNTS

In the Settlement Agreements, the parties agreed that the account balances, cost allocation methodology and disposition period for the deferral and variance accounts, adjusted for the disposal of the Smart Meters was appropriate. Hydro Ottawa has adjusted the riders to collect the settled amounts over the eleven month period starting February 1, 2012 as shown in Table 10 below.

Table 10 – Rate Riders for Deferral and Variance Accounts starting February 1, 2012

Class	Rate Rider with Smart Meter Variance Accounts Removed as per Settlement Agreements	Global Adjustment Rate Rider as per Settlement Agreements	Revised Rate Riders Feb to Dec 2012	Revised Global Adjustment Rate Rider Feb to Dec 2012
Residential	-\$0.0026	\$0.0024	-\$0.0028	\$0.0026
GS < 50 kW	-\$0.0027	\$0.0024	-\$0.0030	\$0.0026
GS > 50 < 1,499 kW	-\$1.1516	\$0.0024	-\$1.2575	\$0.0026
GS > 1,500 < 4,499 kW	-\$1.3606	\$0.0024	-\$1.4910	\$0.0026
Large Use	-\$1.5859	\$0.0024	-\$1.7416	\$0.0026
UMSL	-\$0.0028	N/A	-\$0.0030	N/A
Sentinel	-\$0.9828	N/A	-\$1.0640	N/A
Streetlight	-\$0.9426	\$0.0024	-\$1.0094	\$0.0026



LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”)

The Board approved Hydro Ottawa’s total LRAM of \$859k and as a result the following rate riders, adjusted for the eleven month recovery period, have been included on the draft Rate Order provided in Appendix A and are shown on Table 11 below.

Table 11 – Rate Riders for LRAM starting February 1, 2012

Class	LRAM	Forecasted 2012 Billing Determinants kWh/kW	Rate Rider per kWh/kW	Updated February to December 2012 Billing Determinants kWh/kW	Rate Rider per kWh/kW
Residential per kWh	\$657,440	2,254,961,609	\$0.0003	2,050,676,019	\$0.00032
Commercial per kW	\$201,498	10,311,578	\$0.0195	9,456,464	\$0.0213
Total	\$858,938				

MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“MIFRS”)

Useful lives for Transformers

The Board found that, with the exception of the transformer assets, Hydro Ottawa had adequately supported its proposed componentization and depreciation under MIFRS. The Board determined that Hydro Ottawa should use a useful life of 35 years (instead of 30 years) for transformer assets. Hydro Ottawa has recalculated the 2011 and 2012 Net Fixed Assets with the adjusted life for transformers and in addition made the changes as required to incorporate the Settlement Agreements, i.e. remove \$4M from 2012 capital expenditures and the hybrid premiums. The resulting Net Fixed Assets under MIFRS are shown in Table 12 below.



Table 12 – MIFRS Average Net Fixed Assets

	Updated Application \$000	Adjustments as per Settlement Agreements \$000	Adjustments as per Decision \$000	Decision \$000
2011 Gross Assets	\$587,041	(\$396)		\$586,645
2011 Accumulated Amortization	(\$39,650)	\$82	\$390	(\$39,178)
2011 Net Fixed Assets	\$547,391	(\$314)		\$547,467
2011 Gross Assets	\$658,172	(\$4,481)		\$653,691
2012 Accumulated Amortization	(\$79,299)	\$82	\$801	(\$78,417)
2012 Gross Assets	\$578,873	(\$4,399)		\$575,275
Average Net Fixed Assets	\$563,132	(\$2,357)	\$596	\$561,371

MIFRS RATE BASE

As a result of the revised Net Fixed Assets shown above and the revised Working Capital Allowance shown in Table 4, the approved MIFRS rate base is shown below in Table 13.

Table 13 – MIFRS Rate Base

	Updated Application \$000	Adjustment \$000	As per Settlement Agreements and Decision \$000
Average Net Fixed Assets	\$563,132	(\$2,357)	\$561,371
Working Capital Account	\$107,432	\$260	\$107,692
Rate Base	\$670,564	(\$2,097)	\$669,063

As shown in Table 1 above the MIFRS revenue requirement is \$153,847k. Appendix C provides the updated MIFRS Revenue Requirement Work Form. For rate making purposes, the Transformer Ownership Credit of \$1,161k is added to the revenue requirement for a total revenue of \$155,047k. Appendix D provides the updated MIFRS PILs calculation.



RATE DESIGN

As shown in Appendix E, the 2012 rates are calculated by increasing the 2011 distribution rates by 9.1%, with the exception noted below. As part of the Settlement Agreements, Hydro Ottawa agreed that the fixed monthly service charges for the GS > 50 kW < 1,499 kW, GS > 1,500 kW < 4,999 kW and Large Use classes would be held constant at the 2011 levels. Hydro Ottawa's revised calculated distribution rates (before cost allocation) are shown in Table 14 below.

Table 14 – Calculated Distribution Rates

Class	2011 Service Charge	2011 Volumetric Rate	Calculated 2012 Service Charge	Calculated 2012 Volumetric Rate
Residential	\$8.54	\$0.0207	\$9.32	\$0.0226
GS < 50 kW	\$14.76	\$0.0185	\$16.11	\$0.0202
GS > 50 < 1,499 kW	\$251.21	\$3.0380	\$251.21	\$3.4376
GS > 1,500 < 4,499 kW	\$4,039.33	\$2.9014	\$4,039.33	\$3.3601
Large Use	\$14,669.82	\$2.7775	\$14,669.82	\$3.1907
UMSL	\$4.04	\$0.0200	\$4.41	\$0.0218
Sentinel	\$1.89	\$7.2434	\$2.06	\$7.9057
Streetlight	\$0.49	\$3.4563	\$0.53	\$3.7723

COST ALLOCATION

For the purposes of settlement, the parties accepted the Hydro Ottawa cost allocation methodology as appropriate. Therefore, adjustments have been made to the Sentinel lights, Street lights and Unmetered Scattered Load Classes to ensure that they retain the Revenue to Cost Ratios proposed in the updated Application as shown in Table 15 below.

Table 15 – Cost Allocation Adjustments

Class	Service Charge as calculated	Volumetric Rate as calculated	Service Charge Revised	Volumetric Rate Revised
Sentinel Lights	\$2.06	\$7.9057	\$2.52	\$9.6661
Street Lights	\$0.53	\$3.7723	\$0.54	\$3.8523
UMSL	\$4.41	\$0.0218	\$4.26	\$0.0211



IMPLEMENTATION

On page 31 of the Decision, the Board stated that “Hydro Ottawa’s new rates will be effective January 1, 2012. The Board orders that the current rates are declared interim as of January 1, 2012 and that a rate rider be established to recover foregone revenue.”

Hydro Ottawa has calculated rate riders to recover the foregone revenue by comparing the calculated revenue for January using current rates and the adjusted load forecast to the calculated revenue for January using proposed rates and the adjusted load forecast. The detailed calculations of the throughput revenues are shown in Appendix E and summarized in Table 16 below.

Table 16 – Foregone Revenue Rate Riders

Class	2011 Rates and January 2012 Load \$	2012 Rates and January 2012 Load \$	Foregone Revenue \$	Feb-Dec 2012 Billing Determinates	Rider \$/kWh or kW
Residential	7,180,143	7,836,612	656,470	2,050,676,019	0.0003
GS <50 kW	1,753,566	1,913,891	160,326	694,063,499	0.0002
GS > 50 < 1,499 kW	2,740,193	2,990,725	250,532	6,777,354	0.0370
GS > 1500 < 4,999 kW	680,007	742,179	62,172	1,584,152	0.0392
Large User	418,743	457,029	38,285	1,094,959	0.0350
Unmetered Scattered Load	42,268	44,586	2,318	17,184,348	0.0001
Sentinel Lights	271	362	91	206	0.4400
Street lighting	61,580	68,297	6,717	111,498	0.0602
GS > 1500 < 4,999 kW Standby	9,737	10,628	890	79,200	0.0112
Total	12,886,508	14,064,309	1,177,801		

BILL IMPACTS

For a typical Residential customer using 800 kWh/month, the total bill impact will be a decrease of \$0.98 or 0.94% per month. For a typical General Service < 50 kW customer using 2,000 kWh/month, the total bill impact will be an increase of \$5.82 or 2.36% per month. Full bill impacts can be found in Appendix B.



ACCOUNTING ORDERS REQUESTED

In Hydro Ottawa's Application, Accounting Orders were requested for five deferral and variance accounts (Reference Exhibit A1-5-1). As part of the Settlement Agreements, the parties have agreed to Hydro Ottawa's proposal to establish two new sub-accounts to Account 1595 to record the disposition and recoveries of the deferral and variance accounts. In addition, the parties agreed with Hydro Ottawa's proposal to establish a deferral account to capture the opening balance sheet adjustment required for Pensions and Other Post Employment Benefits ("P&OPEB") and agreed to the deferral account to capture the difference in the closing Net Book Value of the Property, Plant and Equipment ("PP&E") between CGAAP and IFRS as calculated in Exhibit J4-1-1 (Updated) Attachment AZ.

In the Board's Decision, Hydro Ottawa's request for a deferral account to capture gains or losses on disposal of pooled assets was denied.

Therefore, Hydro Ottawa is requesting an Accounting Order for the following:

- Two new sub-accounts to Account 1595
- Deferral account for P&OPEB
- Deferral account for PP&E
- Confirmation of Hydro Ottawa's > 50 kV Transformer Stations as listed in Table 1 of Exhibit A1-5-1 as distribution assets.

CONCLUSION

Hydro Ottawa has fully complied with the Decision and has implemented all of the changes directed by the Board in the Decision.

Hydro Ottawa respectfully submits its draft Tariff of Rates and Charges, to be effective January 1, 2012 with an implementation date of February 1, 2012, for the Board's approval.

DATED THIS 6TH DAY OF JANUARY, 2012

Jane Scott

Manager, Rates and Revenue

Hydro Ottawa Limited