

**Enersource Hydro Mississauga Inc.
 Cost of Service Application
 EB-2012-0033**

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ONTARIO ENERGY BOARD

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IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.
1998, c.15, Sched. B, as amended;

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4

AND IN THE MATTER OF an Application by Enersource Hydro
Mississauga Inc. for an Order or Orders approving just and
reasonable rates and other service charges for the distribution of
electricity, effective January 1, 2013, and for the distribution of
electricity, effective January 1, 2014.

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APPLICATION

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The Applicant, Enersource Hydro Mississauga Inc. ("Enersource") is an Ontario
business corporation with its office located in the City of Mississauga.
Enersource carries on the business of distributing electricity within the City of
Mississauga.

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1. Enersource hereby applies to the Ontario Energy Board ("OEB" or "Board"),
pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for an order or
orders approving its proposed distribution rates and other charges, to be
implemented on January 1, 2013.

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2. Enersource also hereby applies for an order or orders approving its proposed
distribution rates and other charges to be implemented on January 1, 2014.

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3. This application (the "Application") is supported by written pre-filed evidence,
prepared in accordance with the Board's filing requirements for rates based
on a forward test year. The written evidence may be amended from time to
time prior to the Board's final decision on the Application.

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- 1 4. A summary of the application ("Manager's Summary of the Application") is
2 found at Exhibit 1 Tab 2 Schedule 1, and a summary of the orders requested
3 is found at Exhibit 1 Tab 1 Schedule 5.
- 4 5. Enersource seeks approval for, *inter alia*, the inclusion of smart meter costs
5 into ongoing operations and rate base, to dispose of the balances in smart
6 meter variance accounts, and to remove the total forecasted stranded meter
7 net book value as of December 31, 2012, from rate base. These approvals
8 are sought in accordance with the OEB G-2011-0001 Guideline Smart Meter
9 Funding and Cost Recovery – Final Disposition, dated December 15, 2011.
- 10 6. Enersource seeks approval for variance accounts related to impacts of
11 implementing modified International Financial Reporting Standards
12 ("MIFRS"), variances in pension costs, and to record the recovery and
13 refunds pertaining to the disposition of deferral and variance accounts at
14 December 31, 2011.
- 15 7. Enersource seeks approval of its Green Energy Plan filed as part of this
16 Application in accordance with the Board's Guideline G-2009-0087 Deemed
17 Conditions of Licence: Distribution System Planning, issued June 16, 2009.
- 18 8. The proposed rates and charges are just and reasonable, ensuring that
19 Enersource will recover its reasonably incurred costs to provide electricity
20 distribution services to its customers, and allowing Enersource to earn a
21 reasonable return on its invested capital.
- 22 9. The persons affected by this Application are the ratepayers of Enersource.
23 The proposed rates will result in a monthly overall bill increase in 2013 of
24 4.9% or \$5.21 per residential customer consuming 800 kWh per month. The

1 proposed rates for 2014 will result in a monthly bill increase of \$0.02 per
2 residential customer consuming 800 kWh per month.

3 10. Enersource requests that a copy of all documents filed with the Board by
4 each party to this Application be served on the Applicant and the Applicant's
5 counsel as follows:

6 **The Applicant:**

Ms. Gia M. DeJulio
Director, Regulatory Affairs
Enersource Hydro Mississauga Inc.
3240 Mavis Road
Mississauga, Ontario
L5C 3K1

Telephone: (905) 283-4098
Electronic access: regulatoryaffairs@enersource.com

7 **The Applicant's Counsel:**

Mr. George Vegh
McCarthy Tétrault LLP
Box 48, Suite 4700, TD Bank Tower
Toronto, Ontario
M5K 1E6

Telephone: (416) 601-7709
Electronic access: gvegh@mccarthy.ca

8 DATED at Mississauga, Ontario, April 27, 2012.

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Enersource Hydro Mississauga Inc.
By its counsel

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George Vegh

1 **Statement of Publication**

2 Upon receipt of the Letter of Direction from the Board, with the Notice of
3 Application and Hearing, Enersource will immediately arrange to have the Notice
4 of Application and Hearing for this proceeding published in a newspaper which
5 has the highest paid circulation in Enersource's service area, in order to reach
6 the greatest number of customers.

7 The Notice of Application and Hearing will appear in the following newspapers:

- 8 • The Toronto Star's Saturday zoned newspaper with an estimated
9 circulation of 79,266 and estimated readership of 226,363; or Thursday's
10 zoned newspaper with an estimated circulation of 63,739 and estimated
11 readership of 182,097;
- 12 • The Mississauga News with an estimated circulation of 197,200, and an
13 estimated readership of 493,000; and
- 14 • Le Métropolitain with an estimated circulation of 13,000, and estimated
15 readership of 30,000.

16 Once the Notice of Application and Hearing has been published in the above
17 listed newspapers, Enersource will file immediately an Affidavit of Publication
18 with proof, and as directed and approved by the Board.

1 **Contact Information**

2 Please direct all correspondence in this matter to:

3 **The Applicant:**

4 Gia M. DeJulio
5 Director, Regulatory Affairs
6 Enersource Hydro Mississauga Inc.
7 3240 Mavis Road
8 Mississauga, ON L5C 3K1

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17 Toronto, ON M5K 1E6

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20 Email: gvegh@mccarthy.ca

1 *List of Specific Approvals Requested*

2 Enersource requests that the Board issue the following orders:

3 • Authorizing the revenue requirements and resulting distribution rates for
4 the period January 1 to December 31, 2013 and for the period January 1
5 to December 31, 2014:

6 ○ Including the opportunity for the shareholder to earn a return of
7 9.12%¹ on its invested capital; and

8 ○ Including the recovery of the investment in smart meters and
9 related infrastructure; Enersource is seeking approval of its smart
10 meter costs, and authorization to transfer the approved amounts
11 from the smart meter deferral accounts to the appropriate fixed
12 asset, revenue, and expense accounts.

13 • Authorizing revised rate riders to be effective for a period of one year from
14 January 1 to December 31, 2013:

15 ○ That dispose of the balances recorded in several variance and
16 deferral accounts;

17 ○ That dispose of the net balance of the revenues recovered through
18 the Smart Meter Funding Adder and the revenue requirement
19 associated with Enersource's Smart Metering Integration Plan,
20 including carrying costs, as of December 31, 2012 ("Smart Meter
21 Disposition Rider"); and

¹ To be updated upon the Board's release of the Cost of Capital parameters to be in effect for rates starting January 1, 2013. Enersource proposes to maintain the same rate of return for 2014.

- 1 ○ Enersource requests to remove the total forecasted stranded meter
2 net book value as of December 31, 2012, from rate base and to
3 recover this amount through separate rate riders for the applicable
4 customer classes.

5 The proposed rate riders consist of:

- 6 ○ Rate Rider # 1 – includes disposition of Groups 1 and 2 deferral
7 and variance accounts, refund of MIFRS deferred adjustment, and
8 recovery of Other Comprehensive Income (“OCI”) MIFRS post-
9 employment adjustment which are applicable to all customers;
- 10 ○ Rate Rider # 2 – Disposition of Global Adjustment Sub-Account
11 applicable to non-regulated price plan customers;
- 12 ○ Rate Rider # 3 – Disposition of stranded meter balance; and
- 13 ○ Rate Rider # 4 – Smart Meter Disposition Rate Rider.

14 Enersource is also requesting OEB approval for the following:

- 15 • Deferral and variance accounts:
- 16 ○ to record the re-measurements recognized in OCI; Enersource will
17 request to clear the cumulative balance each time it submits a new
18 cost of service rate application; this is a new account pursuant to
19 the Uniform System of Accounts;
- 20 ○ to track variances between the amount approved to be refunded to
21 customers for the impact of MIFRS on fixed assets and the amount
22 billed; and

- 1 ○ create two new sub-accounts to Account 1595 to record the
2 recovery and refunds pertaining to the disposition of the deferral
3 and variance accounts at December 31, 2011; the first sub-account
4 would be for the recovery of the Global Adjustment sub-account
5 and the second for the refund of all of the other deferral and
6 variance accounts;
- 7 • Continuing currently authorized rate riders:
- 8 ○ The rate riders pertaining to disposition of Account 1595 (2010),
9 effective until January 31, 2014;
- 10 • Continuing current distribution loss factors and current service charges;
11 and
- 12 • Approval of new Low Voltage rates.

1 **Proposed Issues List**

2 The list of approvals requested in [Exhibit 1 Tab 1 Schedule 5](#) summarizes
3 specific matters to be addressed in this Application. However, the following
4 proposed list provides a general list of the issues that Enersource anticipates will
5 be considered in its Application, with references to the relevant exhibit.

6 **1. Rate Base (Exhibit 2)**

7 1.1. Is the proposed methodology for establishing the Rate Base for the
8 2013 Test Year appropriate? ([Exhibit 2 Tab 1 Schedule 1](#))

9 1.2. Is the proposed Working Capital Allowance for the 2013 Test Year
10 appropriate? ([Exhibit 2 Tab 1 Schedule 4](#))

11 1.3. Is the proposed methodology for establishing the Rate Base for the
12 2014 ICR Year appropriate? ([Exhibit 2 Tab 1 Schedule 1](#))

13 1.4. Is the proposed Green Energy Act Basic Plan appropriate? ([Exhibit 2](#)
14 [Tab 2 Schedule 3](#))

15 **2. Operating Revenue (Exhibit 3)**

16 2.1. Is the proposed load forecast methodology appropriate? ([Exhibit 3](#)
17 [Tab 1 Schedule 1](#))

18 2.2. Is the proposed forecast of the 2013 Test Year revenues from other
19 regulated rates and charges appropriate? ([Exhibit 3 Tab 3 Sched 1](#))

1 **3. Operating Costs (Exhibit 4)**

2 **3.1.** Is the overall 2013 Test Year OM&A forecast appropriate? ([Exhibit 4](#)
3 [Tabs 1– 10](#), and [Exhibit 4 Tab 2 Schedule 1](#))

4 **3.2.** Is the proposed level of the depreciation expense for the 2013 Test
5 Year appropriate? ([Exhibit 4 Tab 6 Schedule 1](#))

6 **3.3.** Is the proposed level of the depreciation expense for the 2014 ICR
7 Year appropriate? ([Exhibit 4 Tab 6 Schedule 1](#))

8 **3.4.** Is the 2013 Test Year forecast of PILs appropriate? ([Exhibit 4 Tab 7](#)
9 [Schedule 1](#))

10 **3.5.** Is the 2014 ICR Year forecast of PILs appropriate? ([Exhibit 4 Tab 7](#)
11 [Schedule 1](#))

12 **4. Revenue Deficiency/Sufficiency (Exhibit 6)**

13 **4.1.** Is the amount of the proposed 2013 Test Year revenue requirement
14 appropriate? ([Exhibit 6 Tab 1 Schedule 1](#))

15 **4.2.** Is the amount of the proposed 2014 ICR Year revenue requirement
16 appropriate? ([Exhibit 6 Tab 1 Schedule 1](#))

17 **5. Cost Allocation (Exhibit 7)**

18 **5.1.** Is the cost allocation methodology for the 2013 Test Year appropriate?
19 ([Exhibit 7 Tab 1 Schedule 1](#))

20 **5.2.** Are the revenue-to-cost ratios in the cost allocation for the 2013 Test
21 Year appropriate? ([Exhibit 7 Tab 1 Schedule 1](#))

1 **6. Rate Design (Exhibit 8)**

2 **6.1.** Is the schedule of rates as proposed for the 2013 Test Year
3 appropriate? ([Exhibit 8 Tab 8 Schedule 1](#))

4 **6.2.** Is the schedule of rates as proposed for the 2014 ICR Year
5 appropriate? ([Exhibit 8 Tab 8 Schedule 1](#))

6 **6.3.** Is the proposed implementation of a Low Voltage Service Rate
7 appropriate? ([Exhibit 8 Tab 6 Schedule 1](#))

8 **6.4.** Are the proposed Distribution System Loss Adjustment Factors
9 appropriate? ([Exhibit 8 Tab 7 Schedule 1](#))

10 **7. Deferral and Variance Accounts (Exhibit 9)**

11 **7.1.** Is the proposed disposition of the balances of deferral and variance
12 accounts appropriate? ([Exhibit 9 Tab 1 Schedule 1](#))

13 **7.2.** Are the proposed new deferral and variance accounts appropriate?
14 ([Exhibit 9 Tab 1 Schedule 1](#))

15 **7.3.** Is the derivation of the proposed rate riders appropriate? ([Exhibit 9](#)
16 [Tab 1 Schedule 1](#))

17 **7.4.** Is the proposed elimination of the Smart Meter Rate Adder and the
18 inclusion of the smart meter capital in the 2013 Test Year rate base
19 appropriate? ([Exhibit 9 Tab 2 Schedule 1](#))

20 **7.5.** Is the methodology for the treatment of stranded meter costs
21 appropriate? ([Exhibit 9 Tab 2 Schedule 2](#))

1 ***Accounting Orders and List of Departures from the Uniform***
2 ***System of Accounts***

3 Refer to [Exhibit 1 Tab 1 Schedule 5](#).

1 ***Description of Operating Environment***

2 Enersource's service territory covers 287 square kilometers and includes 1,807
3 km of overhead lines, 3,360 km of underground lines and approximately 20,000
4 distribution transformers. A map of Enersource's service territory is shown at
5 Exhibit 1 Tab 1 Schedule 8 Appendix 1.

6 Electrical power in the City of Mississauga ("City") originates from ten Hydro One
7 Networks Inc. ("Hydro One") transformer stations ("TS" singular or "TSs" plural).
8 The power is transformed at these transformer stations from 230 kV down to
9 Enersource subtransmission voltages of 44 kV and 27.6 kV, or to Enersource's
10 primary distribution voltages of 16.0/27.6 kV. The subtransmission voltages of
11 44 kV and 27.6 kV are further transformed at Enersource Municipal Substations
12 ("MS" singular or "MSs" plural) to primary distribution voltages of 8.0/13.8 kV and
13 2.4/4.16 kV.

14 Enersource's system can be divided into two main categories: subtransmission
15 and distribution.

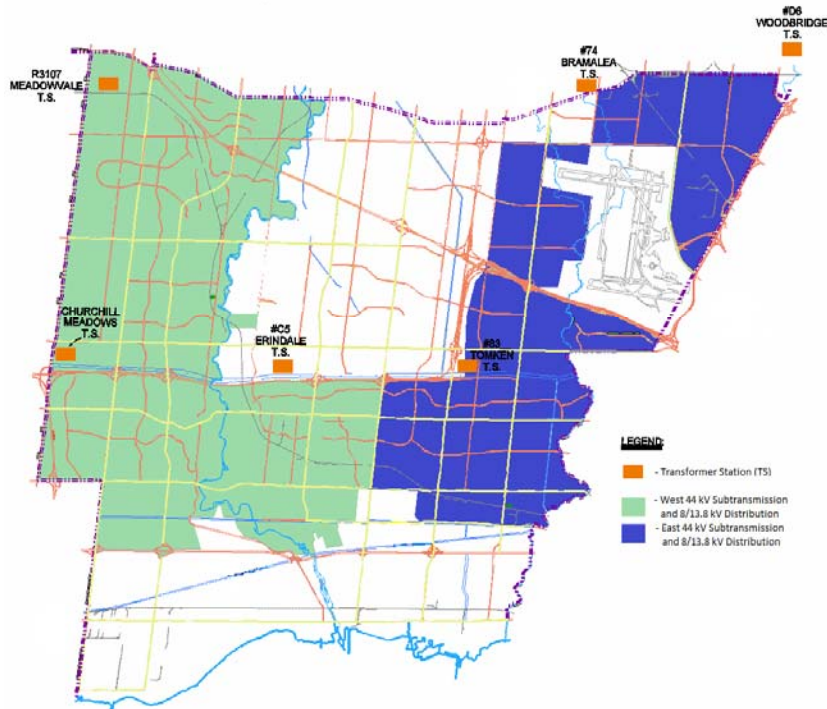
16 **Subtransmission System**

17 Enersource's subtransmission system operates at a voltage of 44 kV. The
18 system receives electricity from Hydro One TSs where voltage is transformed
19 from 230 kV to 44 kV.

20 The Hydro One TSs feeding the subtransmission system are Meadowvale,
21 Churchill Meadows, Erindale, Tomken, Bramalea, and Woodbridge.

22 Enersource's subtransmission system is comprised of two areas: West 44 kV
23 and East 44 kV, as illustrated in Figure 1 below.

1 **Figure 1: Map of Enersource 44kV Subtransmission System**



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3 **Distribution System**

4 Enersource's distribution system operates at voltages of 16/27.6 kV, 8/13.8 kV,
5 and 2.4/4.16 kV.

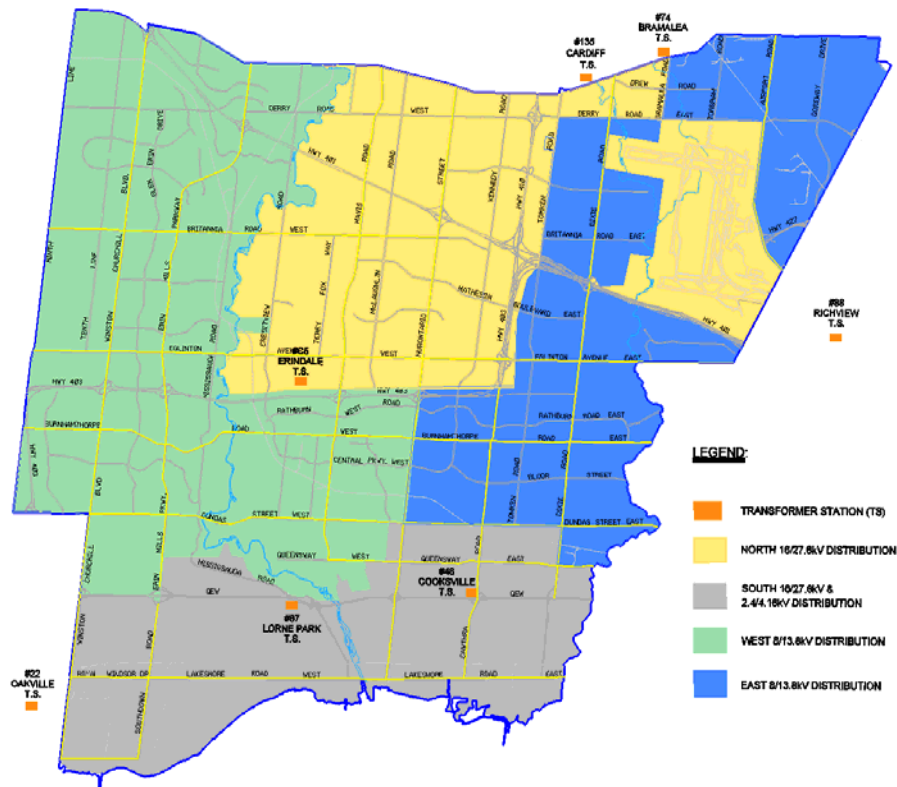
6 The distribution system receives electricity from two sources: Hydro One's TSs
7 where voltage is transformed from 230kV to 16/27.6kV, or Enersource's MSs
8 where the voltage is transformed from 44 kV to 8/13.8 kV, or from 16/27.6 kV to
9 2.4/4.16 kV

10 The Hydro One TS sites feeding the distribution system are Oakville, Lorne Park,
11 Cooksville, Richview, Erindale, Cardiff, and Bramalea.

1 Supply points to the distribution system consist of 65 MS locations utilizing 103
2 power transformers that vary in capacity from 3 MVA to 20 MVA. The distribution
3 system utilizes 58 distribution feeders.

4 Enersource has divided its distribution system into four areas: North 16/27.6 kV,
5 South 16/27.6 kV and 2.4/4.16 kV, West 8/13.8 kV, and East 8/13.8 kV, as
6 illustrated in Figure 2 below.

7 **Figure 2: Map of Enersource Distribution System**



8 **North 16/27.6 kV Distribution System**

9 The North 16/27.6 kV Distribution System consists mainly of distribution
10 equipment which is connected directly to Hydro One TS feeders.

1 Hydro One TSs feeding this distribution system are Erindale, Bramalea, Cardiff,
2 and Richview.

3 This area contains one MS site comprised of two step-down transformers rated
4 44/27.6 kV. The overall North 16/27.6 kV distribution system utilizes 32
5 distribution feeders, four of which are supplied by the MS and 28 are supplied by
6 Hydro One TS sites.

7 **South 16/27.6 kV and 2.4/4.16 kV Distribution System**

8 The South 16/27.6 kV Distribution System is composed of several large and
9 small customers connected directly to Hydro One TS supply. Enersource MSs
10 further reduce the voltage to the 2.4/4.16 kV distribution system.

11 Hydro One TSs feeding this distribution system are Oakville, Lorne Park, and
12 Cooksville.

13 This area contains 25 MS sites comprised of 38 step-down transformers rated
14 27.6/4.16 kV. This distribution system utilizes 96 distribution feeders.

15 **West 8/13.8kV Distribution System**

16 The West 8/13.8 kV Distribution System covers the same geographical area as
17 the 44kV subtransmission system, as shown in Figure 1. However, due to the
18 large area and number of customers, the 8/13.8 kV distribution system has been
19 divided into west and east distribution systems, which is consistent with the
20 division between the west and east 44 kV subtransmission system. All
21 customers on this West 8/13.8 kV system are connected directly to the
22 distribution feeders supplied by Enersource MSs.

23 This area contains 22 MS sites comprised of 36 step-down transformers rated
24 44/13.8 kV. This distribution system utilizes 129 distribution feeders.

1 **East 8/13.8kV Distribution System**

2 All customers on the East 8/13.8kV Distribution System are connected directly to
3 the distribution feeders supplied by Enersource MSs.

4 This area contains 17 MS sites comprised of 27 step-down transformers rated
5 44/13.8 kV. This distribution system utilizes 86 distribution feeders.

6 **Major Drivers for Facilities Requirement**

7 The major drivers contributing to the need for new or upgraded facilities include
8 safety, reliability improvement, load growth, and new customers.

9 Additions and enhancements to the Enersource system are normally required
10 because of an expected violation of Enersource's performance criteria or
11 because of aging infrastructure. One of the most important performance criteria
12 is to avoid loading an individual feeder with more than 600 amps because it
13 would exceed the equipment rating, or the amount of amps that a switch or cable
14 can carry. From a system performance perspective, Enersource prefers not to
15 load individual feeders beyond 300 amps. This means that, if under emergency
16 conditions or if a feeder fails, the entire load can be supplied by an adjacent
17 feeder.

18 Enersource analyzes voltage performance criteria violations (in particular the
19 ability to maintain satisfactory power capacity and voltage levels) to assess the
20 requirement for new or upgraded facilities. Enersource checks for violations of
21 its performance criteria using load flow models. For example, ideally, voltage to
22 a customer is not to fluctuate by more than plus or minus 5% to meet Canadian
23 Standards Association ("CSA") specifications. Most electrical equipment will
24 operate properly within this 10% voltage tolerance. As customers acquire new
25 equipment that is more sensitive to voltage fluctuations, monitoring and

1 maintaining this voltage tolerance becomes increasingly important to manage.
2 For example, on long feeders, system changes are made to compensate for
3 voltage fluctuations.

4 The reliability of the Enersource system remains at a high standard. However,
5 Enersource's system is experiencing a rising number of interruptions and,
6 therefore, an erosion of its reliability statistics, specifically in 2011. Enersource
7 customers experienced an average of 53 minutes of power interruption in 2011,
8 which is an increase of 18 minutes, or 51%, from 2010. These statistics are
9 discussed in detail at Exhibit 2 Tab 3 Schedule 1, and within the Asset
10 Management Plan ("AMP") found at Exhibit 2 Tab 2 Schedule 2 Appendix 1.

11 The City went through a very aggressive expansion period spanning the 1970's,
12 1980's, and the 1990's. Currently Enersource's expansion has slowed relative to
13 the past peak periods, and available greenfield space for further development
14 has been significantly reduced.

15 Significant growth in residential condominiums has occurred over the last four
16 years in the City. Extensive industrial development is continuing to occur within
17 the North 27.6 kV system. The 44 kV system continues to serve predominantly
18 residential and commercial loads and will be further stressed by residential loads
19 that are either planned or under construction in the western and central portion of
20 the City.

21 Sections of Enersource's distribution system must be replaced in the short and
22 medium term for Enersource to serve its customers effectively and reliably. As
23 introduced above, Enersource has prepared an AMP. The AMP provides
24 Enersource's anticipated capital developments for the years 2012 to 2016. The
25 projects that are recommended in the AMP relate to the reinforcement and
26 replacement of distribution equipment in a number of areas throughout the City.

1 **Long Term Demand Forecast**

2 Enersource's peak demand has grown approximately 100 MW, or 6%, from 2008
3 to 2011, as the City slowly recovered from a sluggish economy during that period.
4 In 2011, Enersource reached a peak demand of 1609 MW, just below its all-time
5 peak of 1610 MW reached in 2006. Demand growth is a function of weather,
6 economic activity, the rate of population growth and the increase in the number of
7 customers.

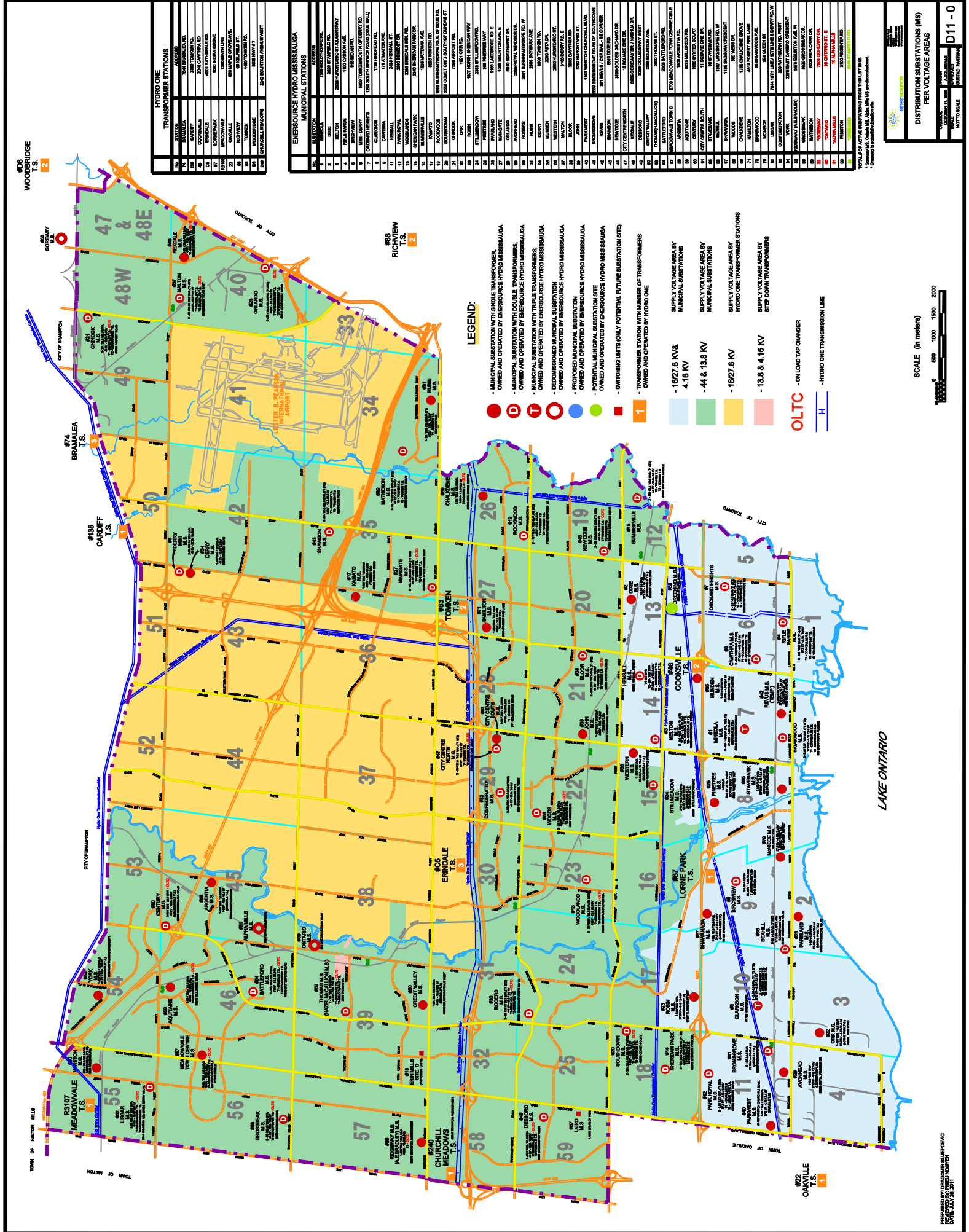
8 In the next five to ten years the City will be fully developed. Modest growth is
9 expected as this re-development occurs. Specifically, high density housing such
10 as condominium and apartment complexes will be constructed in place of the
11 existing housing stock. Therefore, modest growth in peak demand is expected to
12 continue.

13 **Description of Host/Embedded Utilities**

14 Enersource is connected to the provincial transmission grid and takes delivery of
15 power and energy from Hydro One's system. Enersource is not served by a host
16 distributor. Enersource does not deliver power and energy to an embedded rate-
17 regulated distributor.

18 **Neighbouring Utilities**

19 A list of neighbouring utilities is provided at [Exhibit 1 Tab 1 Schedule 8 Appendix](#)
20 [2.](#)

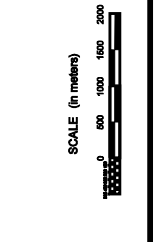


HYDRO ONE TRANSFORMER STATIONS	
NO.	ADDRESS
1	1000 SHEPPARD AVE. E.
2	1000 SHEPPARD AVE. E.
3	1000 SHEPPARD AVE. E.
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ENERSOURCE HYDRO MISSISSAUGA MUNICIPAL STATIONS	
NO.	ADDRESS
1	1000 SHEPPARD AVE. E.
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6	1000 SHEPPARD AVE. E.
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- LEGEND:**
- MUNICIPAL SUBSTATION WITH SINGLE TRANSFORMER, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - MUNICIPAL SUBSTATION WITH DOUBLE TRANSFORMERS, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - MUNICIPAL SUBSTATION WITH TRIPLE TRANSFORMERS, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - DECOMMISSIONED MUNICIPAL SUBSTATION, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - PROPOSED MUNICIPAL SUBSTATION, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - POTENTIAL MUNICIPAL SUBSTATION SITE, OWNED AND OPERATED BY ENERSOURCE HYDRO MISSISSAUGA
 - SWITCHING UNITS (ONLY POTENTIAL FUTURE SUBSTATION SITES)
 - TRANSFORMER STATION WITH NUMBER OF TRANSFORMERS OWNED AND OPERATED BY HYDRO ONE
 - 1927.6 KV& 4.16 KV MUNICIPAL SUBSTATIONS
 - 44 & 13.8 KV MUNICIPAL SUBSTATIONS
 - 1927.6 KV HYDRO ONE TRANSFORMER STATIONS
 - 13.8 & 4.16 KV STEP-DOWN TRANSFORMERS
 - OLTC - ON LOAD TAP-CHANGER
 - H — HYDRO ONE TRANSMISSION LINE

DISTRIBUTION SUBSTATIONS (MS) PER VOLTAGE AREAS	
VOLTAGE AREAS	NO. OF SUBSTATIONS
1927.6 KV& 4.16 KV	1
44 & 13.8 KV	1
1927.6 KV	1
13.8 & 4.16 KV	1



1 ***List of Neighbouring Utilities***

2 Enersource's service area borders on the boundary of five other distributors'
3 services areas. They are:

- 4 • Halton Hills Hydro Inc.;
- 5 • Hydro One Brampton Networks Inc.;
- 6 • Milton Hydro Distribution Inc.;
- 7 • Oakville Hydro Electric Distribution Inc.; and
- 8 • Toronto Hydro-Electric System Limited.

1 ***Load Transfers***

2 Enersource delivers electricity to customers located outside of its licensed
3 service area under long-standing load transfer agreements. Similarly, a few
4 homes and other facilities in Enersource's service area are provided delivery
5 service by neighbouring distributors, also under long-standing load transfer
6 agreements. On June 10, 2009 the Board issued amendments to sections 6.5.3
7 and 6.5.4 of the Distribution System Code ("DSC") to change the date by which a
8 distributor is required to eliminate load transfer arrangements with neighbouring
9 distributors. These agreements must be eliminated by June 30, 2014.

10 Enersource's existing load transfer arrangements with neighbouring distributors
11 are summarized in Table 1 below

12 **Table 1: Existing Load Transfer Arrangements between Enersource and**
13 **Other Neighbouring Distributors**

Neighbouring Distributor	# non-Enersource customers served by Enersource	# Enersource customers served by other LDC
Oakville Hydro Electric Distribution Inc.	0	8
Milton Hydro Distribution Inc.	41	0

14 Oakville Hydro currently services eight customers of Enersource. A joint
15 application to eliminate the current load transfer arrangement is expected to be
16 filed in time for the elimination of the arrangement by June 30, 2014.

17 With respect to Milton Hydro, Enersource currently services 41 customers
18 located in Milton. Enersource anticipates that Milton Hydro will be serving these
19 customers by June 30, 2014.

1 ***Corporate and Utility Organizational Structure Overview***

2 Enersource Corporation is incorporated pursuant to the Ontario business
3 Corporations Act. Ninety percent of Enersource Corporation (“EC”) is owned by
4 the City of Mississauga, and ten percent is owned by BPC Energy Corporation
5 (“Borealis”), which is part of the Ontario Municipal Employees Retirement System
6 (“OMERS”).

7 Appendix 1 to this exhibit is an organizational chart which shows the corporate
8 structure of EC and its affiliates, including Enersource Hydro Mississauga Inc. It
9 identifies the main units, executives, and senior management positions within the
10 organization.

11 The Board of Directors (“BoD”) has ultimate accountability for the overall
12 direction and results of the EC family of companies (“the Corporation”). The
13 principal role of the BoD is the stewardship of the Corporation on behalf of the
14 shareholders. The BoD oversees the conduct of the business and the
15 performance of the Corporation’s management (“Management”) who are
16 responsible for the day-to-day operation of the business.

17 Any responsibility not delegated to a committee of the BoD or to Management
18 remains with the BoD.

19 The BoD has ten Directors. Eight Directors, including the Mayor, are appointed
20 by the City of Mississauga, and two Directors are appointed by Borealis. All
21 Directors are independent, as defined within the securities regulation.

22 The Chair of the BoD is elected by the BoD from among the citizen Directors
23 appointed by the City of Mississauga, and is a separate role from the President
24 and Chief Executive Officer.

1 Four BoD committees report to the BoD. They are:

- 2 • Audit Committee;
- 3 • Human Resources and Corporate Governance Committee;
- 4 • Development Committee; and
- 5 • Health, Safety, Security, and Environment Committee.

6 **Operating Units of Enersource Corporation**

7 EC serves customers through two operations: Enersource Hydro Mississauga
8 Inc. (“Enersource”) and Enersource Hydro Mississauga Services Inc.
9 (“Enersource Services”).

10 Enersource is a wholly-owned subsidiary of EC. Enersource’s BoD is separate
11 and distinct from EC’s BoD. Enersource’s BoD is one-third independent from
12 any affiliate. Other members of Enersource’s BoD are the Executive Vice
13 President & Chief Operating Officer, and the Vice President, Engineering &
14 Operations.

15 Enersource is a regulated utility which distributes electricity and promotes energy
16 conservation throughout the City of Mississauga (“City” or “Mississauga”).
17 Enersource does not own any non-utility businesses such as generation.

18 Enersource serves approximately 195,000 residential and commercial customers
19 across Mississauga, offering programs for conservation like peaksaver[®] and
20 provides smart metering to help control customers’ energy use.

21 Enersource Services is an affiliate of EC. It designs, constructs, supports, and
22 maintains electrical systems for various customers.

23 Enersource Services offers the following types of services:

- 1 • Engineering consulting and planning;
- 2 • Construction and maintenance;
- 3 • System operation and management;
- 4 • Street Lighting Services
 - 5 ○ Design, management, and operation of street lighting systems;
 - 6 ○ Maintenance - spot calls, group re-lamping, performance
 - 7 measurement;
 - 8 ○ Long-term capital planning - rebuilds, condition surveys;
 - 9 ○ Reporting and analysis used for capital planning and performance
 - 10 management;
 - 11 ○ Record drawings to enable energy calculations and help field staff
 - 12 with maintenance;
 - 13 ○ Street lighting design - relocations for driveways and road-
 - 14 widening;
 - 15 ○ 24-hour call centre;
 - 16 ○ Peer design review and installation inspection;
 - 17 ○ Standards, specifications, design guides and Electrical Safety
 - 18 Authority compliance;
 - 19 ○ Records and energy reconciliation; and
 - 20 ○ Asset management and acquisition.

21 There are no planned changes to this corporate or operational structure.

22 **Services Provided to or by Affiliates**

23 Services between affiliated companies are provided pursuant to Service
24 Agreements; these are attached at Exhibit 4 Tab 4 Schedules 1 to 6.

1 Enersource provides various services to its affiliates, including office and
2 warehouse space at the 3240 Mavis Road facility. In this regard, the unregulated
3 affiliate does not have preferential access to any assets or services. Enersource
4 makes its trucks and other vehicles available for use by its affiliate, as needed
5 and when available. The affiliate is charged a cost-based rate for the use of
6 these assets.

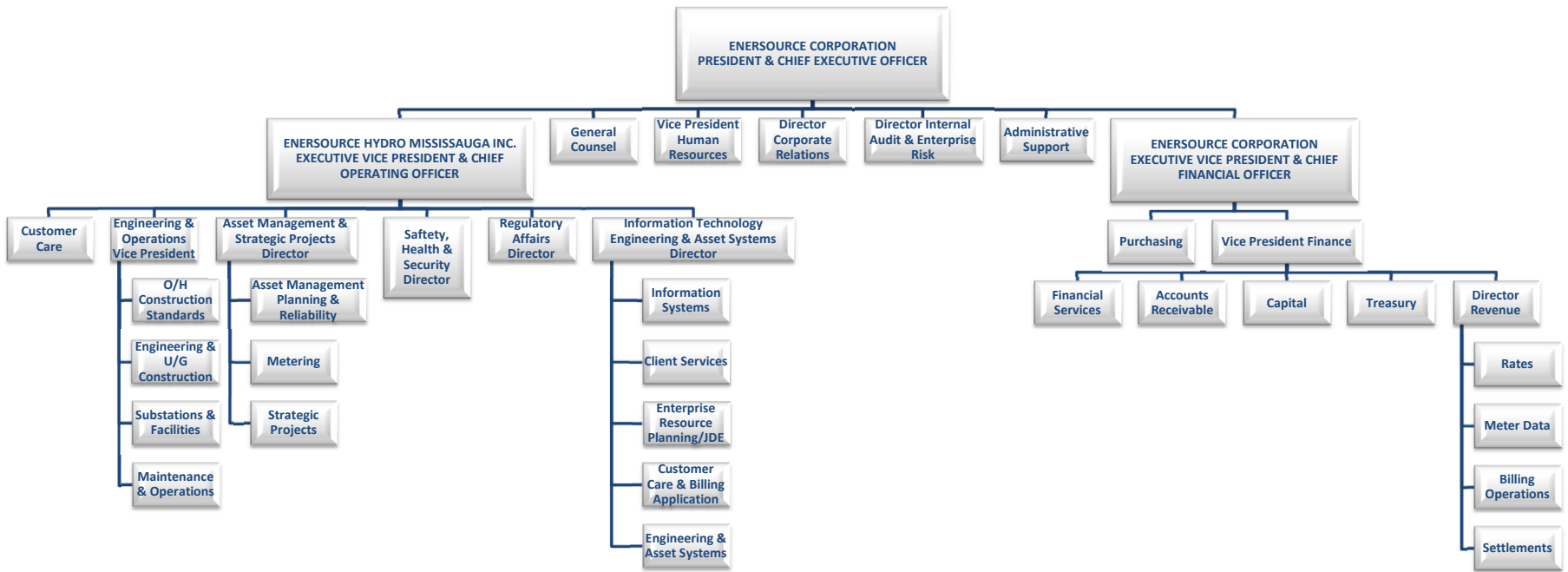
7 Enersource provides general Information Technology services to its affiliate (e.g.,
8 use of computers, access to mainframe time, telecommunications, and software)
9 except for the Customer Information System ("CIS"). The CIS is used exclusively
10 by Enersource.

11 EC provides administrative and operational services to Enersource through the
12 following departments: Finance, Human Resources, Corporate Relations,
13 Internal Audit and Enterprise Risk, Purchasing, and Legal.

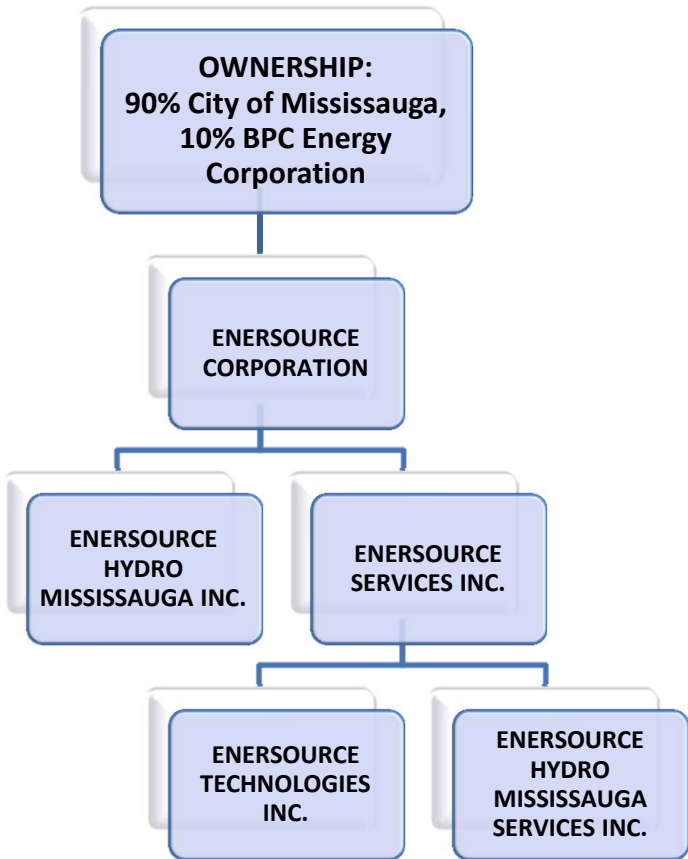
14 These services are provided at cost.

15 Enersource Services provides labour and equipment services to Enersource
16 when required, to help with cable pulling or line work, for example. Enersource is
17 charged a cost-based rate for these services as prescribed in the Service
18 Agreement.

CORPORATE UTILITY ORGANIZATIONAL STRUCTURE



CORPORATE ENTITIES RELATIONSHIP CHART



1 ***Identification of Board Directives from any previous Board***
2 ***Decisions and/or Orders***

- 3 There are no outstanding directives arising from orders issued previously by the
4 Ontario Energy Board to Enersource.

1 **Conditions of Service**

2 Enersource's most recent Conditions of Service, dated December 9, 2011, were
3 provided to Board on March 22, 2012.

4 The most recent revisions to the Conditions of Service incorporate Code
5 amendments issued by the Board on July 2, 2010 and March 30, 2011. More
6 specifically, these Code amendments included many new customer service
7 provisions for low income consumers.

8 Additional changes to the Conditions of Service included, among other things, a
9 declaration form for the Ontario Clean Energy Benefit, a new Privacy of
10 Information section, a new Accessibility section to reflect policies related to the
11 *Accessibility for Ontarians with Disabilities Act (AODA)*, incorporating the new
12 Enersource corporate branding and logo, and other housekeeping items.

13 The Conditions of Service under which Enersource is currently operating can be
14 found on the corporate website at:

15 <http://www.enersource.com/my-business/Documents/ConditionsofService.pdf>

16 A summary of the changes made in the most recent update to the Conditions of
17 Service is provided at Exhibit 1 Tab 1 Schedule 11 Appendix 1. This summary
18 was submitted to the Board to itemize all of the changes in the version submitted
19 to the Board on March 22, 2012.

20 A schedule of rates is included in the Conditions of Service at Appendix J.
21 Specific service charges are provided at Appendix K.

Summary of Changes to the Enersource Conditions of Service
 December 2011

Prior Version: April 6, 2010
 New Version: December 9, 2011

Page	Section	Changes
1	Title page	New Logo and colour scheme throughout document
6	1.1	Minor style changes
	Throughout	Revised “Standard Service Supply” to “Standard Supply Service” throughout the document
	Throughout	Abbreviated “Enersource Hydro Mississauga” to “Enersource” in most situations throughout the document
	Throughout	Revised “EHM” to “Enersource” throughout (excl. Appendices)
6	1.2	Corrected name of SSSC
8	1.5	Contact information updated
9	1.6	Non-discriminatory access is not permitted where trespassing conflicts occur
9	1.6.1	Privacy of Information section added
10	1.6.2	Accessibility section added to reflect policies related to the <i>Accessibility for Ontarians with Disabilities Act (AODA)</i>
10	1.6.3	Ontario Clean Energy Benefit section added (plus Appendix Q)
10-11	1.7.2/1.7.5/3.4	Trespassing conflicts addressed. New paragraph added to 1.7.5
11	1.7.4	Typo in title corrected
12	1.8.1	Updated staff title in 4 th bullet
12	1.8.2	External Dispute Resolution Process has been updated to reflect OEB e-Service portal
13	2.1	Connections – updated to align with S.7 of DSC (the SQRs), which states in S.7.2 that new connections timelines are 5 or 10 days, from completion of all conditions. Also, S.7.8.1 says LDC must respond within 10 days to enquiries.
25	2.2.1.1	Revised the cut-off date timing, and two staff titles. Also added a new Sect. 8 to reflect adherence to new customer service provisions for eligible low-income customers.
25-26	2.2.1.2	Updated timing for which Late Payment Charges apply from 4 to 6 days for residential customers. Also updated two staff titles.
29+	2.2.12	(Metric) Distance measurements corrected (to metres) in this section, (and throughout these Conditions)
38	2.3.7.7(2)	Clarified meter cabinet specifications
40	2.3.7.12	Revised wording re: MIST meters; and new deposit requirements
43	2.4.3.1	Slight wording revision to note that the deposit Conditions align with the most recent versions of the RSC and DSC
44-45	2.4.3.1	New definitions added: Eligible Low-Income Customer (ELIC), Emergency Financial Assistance, and Social Service Agency or Government Agency
45-46	2.4.3.2.1	Updated security deposit section for ELIC customers (e and f added)
46	2.4.3.2.2(c)	Security deposit may be waived if on pre-authorized payment plan
46	2.4.3.2.3(a)	Review of Security Deposit updated for change in 2.4.3.2.1
54	2.4.3.7.6	Collection Procedures – sentence added to acknowledge ELIC customers have unique collection provisions as directed by the OEB.

55	2.4.4.4	Updated “Billing Errors” section and added new clause for under-billed ELIC customers (2.4.4.4e) per changes to the RSC.
58	3.1.1.1	Residential customer early consultation requirements altered slightly: customer to provide site plan, floor plan and elevation drawing (removed survey).
58-61	3.1.1.2 to 3.1.2.3	Distance measurements corrected (to metres) in these sections (and elsewhere in the Conditions); section titles modified
58-59	3.1.1.3	Changes to clarify where customer and Enersource install, own and maintain overhead lines.
59-60	3.1.1.5/ 3.1.1.6/3.1.2.2	Revisions to clarify that underground services are required for all new residential services; also clarifies customer installation of secondary cables.
62	3.1.2.4	Clarify point of demarcation for residential service
63	3.2.1.1	Minor style revision in first sentence
67-68	3.2.1.11 to 13	Minor style revisions
71	3.2.2.3	Minor style revision in first sentence
76	3.3.3(1)	Clarifies that installing/removing temporary services are at the customer’s expense
77	3.3.5(5)	Temporary poles must be inspected and approved by Electrical Safety Authority
77-78	3.3.5, 3.4.4	“Metres” spelling revisions
85	3.8	Minor style revision in last sentence
88-90	4	Definitions added to Glossary (eligible low-income customer, emergency financial assistance, OCEB, social service agency or government agency); Also updated the definition of “expansion” to align with 3.2.30 of the DSC.
134	App D	Corrected numbering of s. 11.1.5
150	App D	Corrected numbering of s. 2.2 in Schedule G
153-4	App E	Corrected numbering of s. 4.3 and s. 6.1
179	App G	Minor formatting revision
195	App J	Revised internet links to the Enersource Schedule of Rates
196-7	App K	Updated “GST” to “HST”; updated cost-recovery service charges
198-9	App L	Inserted new line on <i>Maximum Transformer Supply Chart</i> , Table “A” for 27.6/16kV primary/120/208V secondary voltage; minor style revisions to Notes.
203	App N	Corrected typo in title; minor style revisions
205	App O	Minor style revisions (Enersource name); corrected typo
208	App P	Minor style revisions (Enersource name)
210	App Q	Declaration Form added

Note that other very minor typos, spacing, capitalization and formatting changes may be reflected in this version.

1 ***Manager's Summary of the Application***

2 **Introduction**

3 Enersource Hydro Mississauga Inc. ("Enersource" or the "Company") submits its
4 cost of service ("COS") rate application ("Application") based on a forward test
5 year, for 2013 electricity distribution rates ("EDR") effective January 1, 2013
6 ("Test Year"), and for incremental capital and return ("ICR") for 2014 EDR,
7 effective January 1, 2014 ("ICR Year").

8 Specifically, the Application seeks approval for the following elements for the
9 2013 and 2014 years:

10 **2013 Test Year:**

11 2013 revenue requirements and resultant rates based on:

- 12 • forecast of Operations, Maintenance, and Administration ("OM&A")
13 expenses for 2013;
- 14 • return on rate base, including capital expenditure budgets for 2013;
- 15 • depreciation expense for 2013;
- 16 • payments in lieu of taxes ("PILs") for 2013; and
- 17 • revenue offset from other sources ("Other Revenue") for 2013.

18 **2014 ICR Year:**

19 2014 revenue requirements and resultant rates based:

- 20 • Board-approved OM&A expenses for 2013, held unchanged for 2014;
- 21 • Board-approved return on rate base, held unchanged from 2013, including
22 capital expenditure budgets for 2014;
- 23 • depreciation expense for 2014; and
- 24 • PILs for 2014 relating to incremental capital and return.

1 The substantive reasons for this request are discussed below. From a
2 procedural perspective, Enersource appreciates that its proposed approach
3 respecting the treatment of capital for a two-year period departs from past
4 practice. The Board has approved multi-year rate applications but none has
5 been limited past the first year to incremental capital only, like this Application.

6 The Board has recognized the need for new ways to approach the challenges of
7 managing the rate treatment of infrastructure investment and the approach in this
8 Application is proposed in that context. Therefore, Enersource recognizes that it
9 may be appropriate to address the structure of this proposed approach as a
10 preliminary issue in this Application.

11 **Reasons for Proposed Approach**

12 The Chair of the OEB recently stated that “one of the major challenges facing the
13 sector today and the most significant driver of costs is the scale of capital
14 spending expected over the next few years from most utilities – generators,
15 transmitters and distributors alike – to renew and modernize the system and
16 provide for new demand”.¹ As a result, the Board has recognized the need “to
17 consider how existing regulatory approaches and tools may need to be adapted
18 to ensure that public policy goals are met in a cost effective manner”.²

19 The need to adapt regulatory approaches to meet new needs of capital
20 investment has been discussed in a number of forums, including the Board’s
21 *Renewed Regulatory Framework for Electricity* (“RRFE”).³ As part of that
22 process, the Board tabled for discussion a “straw man” model (“Straw Man

¹ Rosemarie T. Leclair, Chair & CEO, Ontario Energy Board, Remarks for the Ontario Energy Network, November 21, 2011, p. 7.

² Letter from OEB to Stakeholders, November 8, 2011, Attachment A.

³ EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043, and EB-2011-0004.

1 Model”) drafted by Board staff that involves a multi-year capital plan with annual
2 adjustments.

3 The outcome of this Application provides a practical and reasonable interim
4 solution to the underlying challenges of rate regulation in a time of growing
5 capital requirements.

6 **How the Proposed Approach Differs from the Current Model**

7 The Board’s current rate setting model has resulted in nominal rate increases via
8 incentive regulation mechanism (“IRM”) since Enersource’s last COS rate
9 application for the 2008 rate year.⁴ During this period, Enersource has continued
10 to invest in essential capital infrastructure in order to deliver on the Company’s
11 mission "to consistently fulfill and exceed customer needs and stakeholder
12 requirements".

13 As a result, a material component of the deficiency for the 2013 Test Year is due
14 to the cumulative difference between the 2008 average net book value (“NBV”) of
15 assets and the 2013 Test Year average NBV. The balance of the revenue
16 deficiency is due to the changes in OM&A and depreciation since 2008, despite
17 the partial offset by the annual IRM distribution rate changes since then.

18 The result of the lag between the time in which the capital investments were
19 made from 2009 to 2012 is a one-time increase to revenue requirement of
20 6.45%. If the costs of capital were included in rate base and revenue
21 requirement at the time they were made, the annual increase of rates attributable
22 to capital investment would have been in the range of 0.15% to 3.47%, as shown

⁴ In the preparation of the Application, Enersource assumed that its 2012 IRM application, EB-2011-0100, for rates effective May 1, 2012, would be approved as updated. The Board’s decision, released April 19, 2012, is currently being reviewed, and Enersource will file any necessary updates to the Application upon completion of the review.

1 in Table 1 below. Customers would therefore have benefitted from this smoother
2 rate increase.

3 The annual investments in capital and the resulting changes in revenue
4 requirements, for each of the IRM years, are shown in Table 1 below⁵.

5 **Table 1: Change in Average Net Book Value of Assets and Revenue**
6 **Requirement, 2009 - 2012**

Year	Annual Investments in Capital ¹ (\$000s)	Cost of Capital (\$000s) ²	Annual % Change from Approved Revenue Requirement
2009	2,385	172	0.15%
2010	13,265	1,129	1.00%
2011 (MIFRS)	11,298	1,944	1.71%
2012 (MIFRS)	28,747	4,017	3.47%

¹ Reflects changes in the average net book value of assets only, excluding Smart Meter assets. Working Capital Allowance held at 2008 OEB-approved amount.

² Cost of Capital is WACC rate multiplied by the cumulative investments in capital.

7
8 Under the current IRM model, Enersource continues to make significant capital
9 investments that exceed depreciation, with little financial return. This ongoing
10 investment results in pent-up costs imposed all in one year on customers
11 pursuant to the cost of service rebasing process. This approach does not incent
12 efficiency or benefit customers; it causes confusion and concern among
13 customers due to the resulting step increase in distribution rates following a COS
14 rate application proceeding.

15 Enersource is proposing a modest change to the current approach to facilitate
16 more gradual rate changes for customers to mitigate the step increases in rates.

⁵ All references to dollar amounts are quoted in thousands of dollars throughout the Application, unless indicated otherwise.

1 The need for a modified approach is particularly timely for Enersource's
2 customers. As fully detailed in Exhibit 2 Tab 2 Schedule 2 and Exhibit 2 Tab 2
3 Schedule 2 Appendix 1, i.e., the Asset Management Plan, there is a need for
4 significant capital investment in Enersource's system starting within the next four
5 to five years, continuing over the next decade and beyond. It reflects the need to
6 replace or substantially refurbish many of Enersource's electricity system assets
7 that were installed during the City of Mississauga's boom development years of
8 the 1970's, 1980's, and 1990's. A significant portion of this vintage of assets was
9 paid for by developers and therefore is not included in the current rate base and
10 does not impact current distribution rates.

11 Enersource's direct capital investments during that same period of boom
12 development will also require a similar degree of replacement and/or
13 rehabilitation and financial returns from this investment will, in effect, replace the
14 returns generated from the retired plant.

15 In 2011, Enersource extended the useful lives of its assets subsequent to the
16 commissioning of a study prepared by Kinectrics Inc. This is discussed at Exhibit
17 2 Tab 1 Schedule 1. The impact of this extension is lower annual depreciation
18 and amortization expenses, furthering the growth in the NBV of assets.

19 When considering the impact of increased capital expenditure requirements
20 combined with lower depreciation and amortization expense recognition,
21 Enersource's rate base will increase at a significantly faster rate than in the past.
22 If this increase is recognized only at the time of a COS rate application,
23 customers will experience significant distribution rate increases every four or so
24 years.

25 The consequence of this is that sensitivity to managing rate impacts to all
26 customers will be more important than ever. Therefore, it is important to start

1 incorporating a forward-looking approach that takes a longer-term view of the
2 need for capital investment. Developing this approach while there is still some
3 lead time for major capital investments will permit customers to become adjusted
4 to this new approach within a relatively stable environment, with a relatively low
5 rate impact. (The impact on the 2014 total electricity bill for a typical residential
6 customer using 800 kWh per month is an increase from 2013 of 0.03% or \$0.03
7 per month). It also provides the Board with the opportunity to address a longer-
8 term approach to capital investment within the context of a relatively predictable
9 outcome. Addressing these issues prior to a major wave of investment expected
10 to start in the next four to five years is more prudent than waiting until Enersource
11 and the rest of the sector are in the middle of it.

12 Further, a two-year capital approach aligns with the timing of the RRFE, in that it
13 can provide experience and information that may be helpful for the Board in
14 finalizing that review. It also does not commit to a multi-year approach that may
15 interfere with the Board's timing horizon for implementing a new framework.

16 Enersource will do its part to respect customers both with regard to costs and
17 quality of service.

18 With respect to costs, the proposal includes separating the treatment of OM&A
19 from capital for the 2014 ICR Year, not unlike the Straw Man Model. However,
20 unlike the Straw Man Model, if Enersource's proposed treatment of capital is
21 approved, Enersource will hold flat OM&A levels in rates over the two years, with
22 greater incentive for increased productivity and performance outcomes.

23 As stated above, the proposed ICR Year is an interim solution for Enersource,
24 expected to be followed in subsequent years with the final model resulting from
25 the RRFE.

1 With respect to quality of service, Enersource's mission "to consistently fulfill and
2 exceed customer needs and stakeholder requirements" will continue to be a
3 primary goal of the Company. Enersource will continue to make necessary
4 investments in infrastructure whether or not the Board approves this proposed
5 interim approach. Enersource will not refrain from its obligation to meet
6 customers' reliability requirements; it is, however, proposing how the Board can
7 more effectively meet its obligation to set just and reasonable rates while
8 addressing the general desire for rate smoothing.

9 **Filing Requirements**

10 The Application has been prepared in accordance with the Board's *Update to*
11 *Chapter 2 of the Filing Requirements for Transmission and Distribution*
12 *Applications*, dated June 22, 2011 ("Filing Requirements"). Enersource has also
13 referenced the Board's *2006 Electricity Distribution Rate Handbook* ("2006 EDR
14 Handbook") for appropriate guidance.

15 For OM&A, Capital Expenditures, and Other Revenue, Enersource has provided
16 the individual Uniform System of Accounts ("USofA"). It has grouped the
17 accounts in the manner described in Appendix A (*Grouping of Accounts in the*
18 *2006 EDR Model*) of the 2006 EDR Handbook, and/or the groupings provided in
19 Appendix 2-D (*Accounts for OM&A Analysis*) of the Filing Requirements.

20 The Rate Base has been determined utilizing an average of forecasted NBV of
21 assets at year-end 2012 and 2013 plus a working capital requirement, and then a
22 NBV of assets at year-end 2013 and 2014.

23 Enersource has followed the Board's policies related to cost of capital to
24 determine the return on rate base. For the purposes of the working capital
25 requirement, Enersource has adopted the results from the lead/lag study which it
26 prepared in 2009 as an undertaking from its prior COS rate application for the

1 2008 rate year (EB-2007-0706), resulting in a working capital allowance of
2 13.5%. This is discussed further at [Exhibit 2 Tab 1 Schedule 4](#). Enersource has
3 completed a detailed load and customer forecast. A short term forecast is
4 provided at Exhibit 3 Tab 1 Schedule 2, and a long term peak demand forecast is
5 provided at Exhibit 2 Tab 2 Schedule 2 Appendix 1. An updated cost allocation
6 study has also been completed and is provided at Exhibit 7 Tab 1 Schedule 1.
7 Rate riders related to the clearance of deferral and variance accounts are being
8 proposed (discussion at Exhibit 9 Tab 1 Schedule 1) and Enersource is
9 proposing that there be no change in the current Retail Transmission Service
10 Rates (see Exhibit 8 Tab 2 Schedule 1).

11 **International Financial Reporting Standards (“IFRS”)**

12 The Board has provided⁶ for the commencement of basing COS rate applications
13 for rates effective January 1, 2012, and beyond, upon modified IFRS (“MIFRS”).⁷
14 For further discussion on MIFRS see Exhibit 1 Tab 3 Schedule 1.

15 Enersource has complied with the direction in the Board Report, and has filed its
16 Application based upon MIFRS, but for comparative purposes, has provided

⁶ OEB proceeding EB-2008-0408 resulted in the issuance of the *Report of the Board, Transition to IFRS*, on July 28, 2009, subsequently amended November 8, 2010, and March 15, 2011, and then appended by an addendum, dated June 13, 2011, (collectively, the “Board Report”).

⁷ On March 31, 2012, an announcement by Canada’s Accounting Standards Board (“AcSB”) who were meeting on March 20-21, noted the following:

“The AcSB decided to extend the deferral of the mandatory IFRS changeover date for entities with qualifying rate regulated activities by one year to January 1, 2013 in light of the recent discussions of the IASB’s future agenda.”

Enersource understands that the basis for the AcSB’s extended deferral relates to the continuing deliberations by the International Accounting Standards Board regarding its agenda project on rate regulatory activities and the potential development of interim guidance prior to pre-changeover standards. However, Enersource had already proceeded with its transition to MIFRS, effective January 1, 2012, and has elected to maintain its adoption of IFRS.

1 certain information on a CGAAP basis including the base revenue requirement.
2 Enersource proposes a rate rider to refund to customers a one-time rate base
3 adjustment of \$12,821, plus return, in 2013, reflecting the transition from CGAAP
4 to IFRS.

5 **2013 Test Year Rate Base and Revenue Requirement**

6 A detailed analysis of the reasons for the increase in rate base and revenue
7 requirement from 2008 to 2013 is provided in Exhibit 2 Tab 1 Schedule 1 and
8 Exhibit 6 Tab 1 Schedule 1, respectively. The revenue requirement in 2008
9 underpinning the design of distribution rates was \$114,689. The revenue
10 requirement proposed for 2013 is \$131,285. With increases in rates from 2009
11 to 2012, and the updated load forecast, the revenue deficiency is \$14,742 in
12 2013. Details of this are provided in Exhibit 6 Tab 1 Schedule 1, and in the
13 Revenue Requirement schedule found at Exhibit 1 Tab 2 Schedule 2 Appendix
14 2-C(i).

15 Enersource proposes a 2013 Test Year rate base pursuant to Table 3 below.

1 **Table 3: Rate Base 2008 to 2013**

2008 Rate Base	\$ 496,562
Increase in Working Capital Allowance	21,317
Major Investments	
New Administration Office	20,000
Smart Meters	30,367
Amortization for New Office and Smart Meters	(8,144)
Subtotal	42,223
Net Average Distribution Rate Base Additions	
Investments in Distribution System Assets	40,017
Investments in Information Systems	8,336
Contribution to Hydro One	4,068
Other Distribution Assets	1,544
IFRS-CGAAP Transition	12,821
Subtotal	66,786
2013 Test Year Rate Base	\$ 626,888
IFRS-CGAAP Transitional Rate Rider	(12,821)
2013 Test Year Rate Base Adjusted	\$ 614,067

- 2 Enersource proposes a 2013 Test Year revenue requirement as shown in Table
 3 4 below.

1 **Table 4: Revenue Requirement 2012 to 2013**

2012 Distribution Rates at 2013 load and customers		116,543
Increase in OM&A (excluding amortization):		
Salaries	4,065	
Benefits	3,928	
IFRS Transition - Overhead Burdens	2,774	
Bad Debt Expense	1,975	
New Administration Office	1,668	
Distribution System Maintenance and Repairs	1,350	
Asset Management Plan	1,153	
Other (net of Price Cap Index increases via IRM)	2,626	
Subtotal	19,539	
Decrease in Amortization	(6,166)	
2012 Smart Meter Funding Adder	(1,839)	
Increase in Return on Equity	4,573	
Decrease in PILs	(4,791)	
Load / Customers Impact	2,785	
Decrease in Revenue Offsets	641	
Total Revenue Deficiency ¹		14,742
2013 Revenue Requirement ²		131,285
¹ Refer to Exhibit 6 Tab 1 Schedule 1 for further information about the revenue deficiency.		
² Includes \$1,998 transformer ownership allowance requirement		

2 The total revenue deficiency includes the impact of a 2013 revenue requirement
 3 related to smart meters of \$5,164, which is only partially offset by the 2012 Smart
 4 Meter Funding Adder of \$1,839 as it represents a true-up between the
 5 cumulative funding adders versus the smart meter revenue requirement. As a
 6 result, the revenue deficiency excluding the impact of smart meters is \$11,417,
 7 as illustrated in Table 5 below.

Table 5: Revenue Deficiency Excluding Smart Meters

2013 Revenue Deficiency		14,742
2013 Smart Meter Revenue Requirement	5,164	
2012 Smart Meter Funding Adder	(1,839)	
Less: Revenue Deficiency related to Smart Meters		(3,325)
2013 Revenue Deficiency excluding Smart Meters		11,417

1 **Cost of Capital**

2 Cost of capital evidence is provided at Exhibit 5 Tab 1 Schedule 1. The return on
3 rate base is determined using the Board's deemed capital structure as provided
4 in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*
5 ("Cost of Capital Report"), dated December 11, 2009. This deemed capital
6 structure is 56% long-term debt, 4% short-term debt, and 40% equity.

7 The rate of return on equity ("ROE"), the short-term ("ST") debt rates, and the
8 long-term ("LT") debt rates are collectively referred to as the "Cost of Capital
9 Parameters". The updated Cost of Capital Parameters are calculated based on
10 the formulaic methodologies documented in the Cost of Capital Report. The
11 ROE and ST debt rates utilized as estimates in the Application are those found in
12 the Board's *Cost of Capital Parameter Updates for May 1, 2012 Cost of Service*
13 *Applications*, dated March 2, 2012.⁸

14 The LT debt rate is set at Enersource's actual weighted average debt rate based
15 on the actual LT debt outstanding at December, 2011.

16 Enersource's proposed weighted cost of capital of 6.58% in 2013 is based on:

- 17
- A deemed 60/40 debt/equity capital structure;
 - Enersource's actual weighted-average cost of LT debt of 5.0914%;
- 18

⁸ Enersource proposes that the ROE and ST debt rates be finalized according to the Board's Cost of Capital Report, to be updated for January 1, 2013 rates, expected to be published sometime in November, 2012.

- 1 • ST debt of 2.08%; and
- 2 • Return on equity 9.12%.⁹

3 **Payments in Lieu of Taxes (“PILs”) for 2013 Test Year**

4 PILs have been determined using the same methodology as in the 2006 EDR
5 Handbook. This same approach was also used for Enersource’s 2008 EDR.
6 Large Corporations Tax and Ontario Capital Tax have now been eliminated and
7 are no longer included in the calculation. Corporate income tax rates have
8 decreased from 33.5% in 2008 to 25.5% in 2013¹⁰. This has an offsetting impact
9 on the revenue requirement. However, it should be noted that 50% of the impact
10 of tax rate reductions from 2008 to 2012 have already been incorporated into
11 rates as part of Enersource’s IRM rate applications over those years. Taxes and
12 PILs are discussed further at Exhibit 4 Tab 7 Schedule 1.

13 **Depreciation**

14 Enersource has continued to depreciate its fixed assets using the same straight
15 line method as in prior years. However, it has revised the useful lives of many of
16 its assets according to a study prepared by Kinectrics Inc., as engaged by
17 Enersource and four other distributors, entitled *Enersource Corporation,*
18 *Burlington Hydro, Oakville Hydro, Halton Hills Hydro & Milton Hydro Useful Life*
19 *of Assets*, dated December 10, 2009. For reference purposes, the short name is
20 “Enersource’s Useful Lives Study” and is filed at Exhibit 2 Tab 1 Schedule 2
21 Appendix 1. The OEB subsequently retained Kinectrics Inc. to prepare a similar
22 study, entitled *Asset Depreciation Study for the Ontario Energy Board*, dated July

⁹ As stated above, to be updated upon the Board’s release of Cost of Capital Parameters for January 1, 2013.

¹⁰ Enersource will update corporate income tax rates upon government approval of the proposed Ontario budget, tabled March 28, 2012.

1 8, 2010, available on the OEB's website.¹¹ The distribution system asset useful
2 lives within these two studies are generally consistent.

3 The increase in depreciation expense resulting from capital additions since 2008
4 has been offset by the extension of many assets' useful lives. Refer to Exhibit 2
5 Tab 1 Schedule 1 for further discussion on this.

6 **Administration Office**

7 Enersource recently acquired a building at 2185 Derry Road West ("Derry Road")
8 that will serve as the new administration office for Enersource. The 3240 Mavis
9 Road ("Mavis Road") property will be reconfigured back to its originally-intended
10 use as an operations centre. The Derry Road facility is necessary to meet the
11 numerous capacity constraints and related issues faced by employees and
12 customers at Mavis Road. The Mavis Road property is unable to handle the
13 office and administrative requirements of Enersource any longer. The Derry
14 Road building and the reconfiguration of the Mavis Road facility is discussed
15 further at Exhibit 2 Tab 2 Schedule 5.

16 **Infrastructure Renewal and Expansion**

17 Enersource forecasts an increase in the average NBV of assets between 2008
18 and 2013 of \$109,010, due to investment in distribution infrastructure and the
19 purchase of the administration office. This includes investments documented
20 within Enersource's Asset Management Plan ("AMP"), which is provided at
21 Exhibit 2 Tab 2 Schedule 2 Appendix 1. The AMP addresses the issues of

¹¹ <http://www.ontarioenergyboard.ca/OEB/ Documents/EB-2010-0178/Kinetrics-418033-OEB%20Asset%20Amortization-%20Final%20Rep.pdf>

1 managing an aging infrastructure, and the need for investments in 2013, and
2 beyond.

3 Major capital projects include the construction and upgrades of municipal
4 substations and subtransmission systems, rebuilds of certain subdivisions,
5 continuous asset replacement programs, and general investment to address
6 system capacity growth, and upgrades.

7 **Workforce Planning**

8 Exhibit 4 Tab 3 Schedule 1 provides details of Enersource's workforce planning
9 strategy. This includes an analysis of future retirements and the need for
10 expansion of Enersource's apprenticeship program and other hiring to meet the
11 ongoing need for a qualified workforce. This strategy also identifies areas in
12 which additional staffing is required to support additional regulatory and
13 customer-focused initiatives related to self-serve billing and payments, as well as
14 service to low-income customers. Compensation increases related to labour
15 contracts and increased costs of benefits are also discussed. In particular,
16 Enersource has experienced significant increases in contribution rates as
17 required by the Ontario Municipal Employees' Retirement System ("OMERS")
18 pension plan.

19 **Smart Metering Integration Plan ("SMIP")**

20 Enersource's Smart Metering Integration Plan ("SMIP") will have been
21 substantially completed before 2013, with all major expenditures having been
22 completed and virtually all customer accounts registered with the Meter Data
23 Management and Repository ("MDM/R"). Enersource discusses the details at
24 Exhibit 9 Tab 2 Schedule 1 and presents all of the costs and revenues of its
25 SMIP in Exhibit 9 Tab 2 Schedule 1 Appendix 2-Q. Enersource is seeking the
26 Board's determination that all of the spending to the end of 2012 has been

1 prudent, and to include all of the smart meter capital additions to the end of 2012
2 in its 2013 rate base.

3 Enersource's 2008 rate base included stranded meters. Since that time,
4 Enersource has been removing stranded meters from fixed assets each year and
5 allocating those costs to the regulatory asset deferral account. Enersource is
6 proposing to remove stranded meters from its 2013 rate base. Details are
7 provided in Exhibit 9 Tab 2 Schedule 2 and Exhibit 9 Tab 2 Schedule 2 Appendix
8 2-R.

9 **Green Energy Act Plan**

10 Enersource is filing its Green Energy Act Basic Plan. This is discussed in Exhibit
11 2 Tab 2 Schedule 3 and Appendix 1 to that exhibit.

12 **Other Revenue**

13 To determine the revenue requirement to be used for setting distribution rates,
14 revenue from other sources (also known as "offset revenue") must be subtracted
15 from the total revenue. Also, the credit provided to customers for transformer
16 ownership must be added. Other Revenue is addressed further at Exhibit 3 Tab
17 3 Schedule 1.

18 **Customer Count and Load Forecast**

19 Enersource has completed detailed load and customer forecasts. A short term
20 load forecast is provided at Exhibit 3 Tab 1 Schedule 2, and a long term peak
21 demand forecast is provided at Exhibit 2 Tab 2 Schedule 2 Appendix 1.
22 Customer forecasts are found at Attachments 6 and 7 of Exhibit 3 Tab 1
23 Schedule 2.

1 The load forecast methodology uses a series of regression models with inputs of
2 historical load data and demographic data from the City of Mississauga, historical
3 weather data, and economic variables from the Conference Board of Canada.
4 An adjustment has been made to the model results to reflect the anticipated
5 conservation and demand management targets which Enersource is required to
6 meet as a condition of its license.

7 While the number of customers has continued to grow (forecast at 6.7% between
8 2008 and 2013), the usage per customer has been steadily declining. Further,
9 due to energy conservation, increasing housing density, as well as the lagging
10 impacts of the recent economic recession, there is a decrease of 4.4% in the
11 forecast in the kWh sales from the weather-normalized 2008 actuals to the 2013
12 Test Year forecast net of conservation impacts.

13 **Cost Allocation**

14 An updated cost allocation study has also been completed and can be found at
15 Exhibit 7 Tab 1 Schedule 1 and Appendix 2-O to that exhibit. This update
16 demonstrates that for all rate classes, the revenue-to-cost ratios fall within the
17 ranges established by the *Report of the Board on the Review of Electricity*
18 *Distribution Cost Allocation Policy* (EB-2010-0219), issued March 31, 2011.

19 Enersource currently does not have a separate Unmetered Scattered Load
20 (“USL”) rate class. A new USL rate class has been included in the Cost
21 Allocation Model and proposed Tariff of Rates and Charges for the 2013 Test
22 Year.

23 **Other Effects on Rates**

24 In addition to those changes discussed above (in the revenue requirement,
25 customer count, load forecasts, and cost allocation), there are a number of other
26 factors that will impact customer bills, which are discussed below.

1 **Clearance of Variance and Deferral Accounts**

2 As of December 31, 2011, Enersource has accumulated a \$907 net refund to
3 ratepayers in deferral and variance accounts (excluding smart meter related
4 disposition balances) for which it is seeking disposition, including carrying
5 charges projected to December 31, 2012. Details of these accounts are included
6 in Exhibit 9 Tab 1 Schedule 1.

7 This net refund includes a recovery of \$2,105 related to Account 1588 Sub-
8 Account Global Adjustment, which is applicable only from customers who are not
9 on the regulated price plan (“RPP”) and therefore the balance should only be
10 recovered from non-RPP customers. As a result, Enersource has proposed rate
11 riders to refund \$3,012 to all customer classes and to debit the \$2,105 only to
12 non-RPP customers.

13 The OEB approved Enersource’s application for a two-year disposition of Group
14 1 deferral and variance account balances effective February 1, 2012¹². The total
15 amount approved for disposition of account balances at December 31, 2010
16 including interest to January 31, 2012 totalled \$40,106. Enersource has
17 excluded these amounts from this Application.

18 Enersource has also excluded from this Application disposition of the balance in
19 Account 1595, Recovery of Regulatory Assets (2009), which were previously
20 approved by the Board for disposition¹³ effective February 1, 2009 over a two-
21 year period.

¹² EB-2011-0266, Decision dated December 9, 2011. The application was made pursuant to the Board’s Report on Electricity Distributors’ Deferral and Variance Account Review Initiative (the “EDDVAR Report”), dated July 31, 2009.

¹³ EB-2009-0405 Enersource EDDVAR application; decision dated January 29, 2010.

1 Rate riders related to the clearance of deferral and variance accounts are found
2 at Exhibit 9 Tab 1 Schedule 1 Appendix 3.

3 **Revenue Sufficiency/Deficiency**

4 Enersource's revenue deficiency in 2013 is \$14,742, as shown above and as
5 discussed at Exhibit 6 Tab 1 Schedule 1.

6 **Low Voltage ("LV") Charges**

7 Enersource is proposing to create an LV rate to recover Hydro One's LV charges
8 to Enersource from customers for the 2013 Test Year. Currently, Enersource
9 records LV charges in a variance account. This is addressed in Exhibit 8 Tab 6
10 Schedule 1.

11 **Distribution System Loss Adjustment Factor**

12 Enersource is implementing a computerized load flow program that will allow
13 Enersource to analyze losses in the system more efficiently. Enersource
14 presently does much of this analysis manually using data from prior periods and
15 applying its knowledge of the distribution system. Automating this analysis is
16 expected to identify robust solutions to line losses that can be tested against a
17 variety of operating scenarios in an accurate and timely manner.

18 Enersource is proposing to continue with the current OEB-approved total loss
19 factor ("TLF") of 1.0360 for Secondary Metered Customers < 5000 kW for the
20 2013 Test Year. Details are provided at Exhibit 8 Tab 7 Schedule 1.

21 **Rate Impacts for the 2013 Test Year**

22 Exhibit 8 Tab 9 Schedule 1 Appendix 2-V shows the impacts to electricity bills
23 resulting from this Application for all customer classes.

1 The impact on the 2013 total electricity bill for a typical residential customer using
2 800 kilowatt-hours (“kWh”) per month is an increase of 4.9% or \$5.20 per month,
3 including all proposed rate riders. For the typical RPP General Service less than
4 50 kilowatt (“kW”) customer using 2,000 kWh per month, the impact on the total
5 bill is an increase of 1.9% or \$5.40 per month.

6 **2014 ICR Year Rate Base and Revenue Requirement**

7 The revenue requirement proposed for 2014 is \$134,481, including transformer
8 allowance. The revenue deficiency is \$3,196 in 2014 relative to the 2013 Test
9 Year. Details of this are provided in Exhibit 6 Tab 1 Schedule 1, and in the
10 Revenue Requirement schedule found at Exhibit 1 Tab 2 Schedule 2 Appendix
11 2-C(ii).

12 Enersource proposes a 2014 ICR Year rate base pursuant to Table 6 below.

13 **Table 6: Rate Base 2013 to 2014**

<u>Rate Base 2013 to 2014</u>	
2013 Test Year Rate Base Adjusted	614,067
Net Book Value of Assets	16,496
IFRS-CGAAP Transitional Rate Rider	12,821
2014 ICR Year Rate Base	643,384

14

15 Enersource proposes a 2014 ICR Year revenue requirement shown in Table 7
16 below.

1 **Table 7: Revenue Requirement 2013 to 2014**

Revenue Requirement 2013 to 2014	
2013 Revenue Requirement	\$ 131,285
Return on Rate Base	1,086
Depreciation	1,532
PILs	<u>578</u>
Subtotal	3,196
2014 Revenue Requirement*	\$ 134,481
* Includes transformer allowance; includes new capital but no change to OM&A from 2013.	

2 **Cost of Capital for 2014 ICR Year**

3 As in the 2013 Test Year described above, Enersource's proposed weighted cost
 4 of capital of 6.58% for 2014 is based on:

- 5 • A deemed 60/40 debt/equity capital structure;
- 6 • Enersource's actual cost of LT debt of 5.0914%;
- 7 • ST debt of 2.08%; and
- 8 • Return on equity 9.12%.¹⁴

9 **PILs for 2014 ICR Year**

10 Corporate income tax rates decrease from 25.5% in 2013 to 25.0% in 2014.¹⁵
 11 This has an offsetting impact on the revenue requirement.

¹⁴ Enersource proposes to use the same ROE in 2014 as is approved by the Board and used for 2013.

¹⁵ Enersource will update corporate income tax rates upon government approval of the proposed Ontario budget, tabled March 28, 2012.

1 **Depreciation**

2 Enersource has applied the same practice for depreciation in 2014 as is
3 described above for depreciation in 2013.

4 **Renovations to the Operations Centre**

5 The reconfiguration and return of the Mavis Road facility to an Operations Centre
6 is expected to cost approximately \$4,000 in 2013 and \$1,000 in 2014. The move
7 of administrative staff to the new Administration Office in 2012 will also allow
8 Enersource to do some long-needed work at the Operations Centre. This work
9 includes replacing windows to enhance the energy efficiency and address
10 environmental issues in the building, and replacing aged workstations, carpet,
11 and lighting. Much of the heating, ventilation, and air conditioning has reached
12 the end of its useful life and will be replaced. Training areas for the outside staff
13 for “in-class” and “hands-on” trades training will be created, and washroom
14 facilities for outside staff will be renewed. Asphalt paving of the entire yard will
15 also be completed.

16 **Infrastructure Renewal and Expansion**

17 Enersource forecasts an increase in the average NBV of assets between 2013
18 and 2014 of \$16,496, due to investment in distribution infrastructure. This
19 includes investments detailed in the AMP which addresses the need for
20 investments in 2014, and beyond.

21 Major capital projects planned for 2014 include a number of MS projects (e.g.
22 Rubin, Park Royal), many subdivision rebuilds, and numerous overhead rebuild
23 projects.

1 **Rate Impacts for the 2014 ICR Year**

2 Exhibit 8 Tab 9 Schedule 1 Appendix 2-V shows the impacts to electricity bills
3 resulting from this Application for all customer classes.

4 The impact on the 2014 total electricity bill for a typical residential customer using
5 800 kWh per month is an increase from 2013 of 0.03% or \$0.03 per month. For
6 a typical RPP General Service less than 50 kW customer using 2,000 kWh per
7 month, the impact on the total bill is an increase from 2013 of 1.8% or \$5.05 per
8 month.

1 ***Budget Overview (Capital and Operating)***

2 Enersource compiles its annual budget information by forecasting the following:

- 3 • Operating, maintenance, and administration expenses (“OM&A”);
- 4 • Capital expenditures, recoveries, depreciation, and amortization
- 5 expenses;
- 6 • Corporate expenses; and
- 7 • Revenues.

8 The financial projections included in the budget and three-year forecast are
9 heavily dependent on Enersource’s assumptions concerning the future direction
10 of the industry with particular regard to utility distribution rates, regulated rates of
11 return, and the recovery of regulatory asset investments. The budget is closely
12 aligned with the Corporate Strategic Plan of business engagement, external
13 engagement, and organizational engagement.

14 The annual business planning process begins in the third quarter of each year,
15 and culminates upon approval of the budget and three-year forecast by
16 Enersource’s Board of Directors each December. The budget process consists
17 of four steps:

- 18 1. Setting objectives;
- 19 2. Development of price and load forecasts for energy and distribution
- 20 revenue;
- 21 3. Coordination and review of all budget components; and
- 22 4. Obtaining final approval.

1 **Setting Objectives**

2 During the 2012 budgeting process, the following strategic initiatives were
3 identified:

- 4 • Asset management;
- 5 • New administration office;
- 6 • Customer self-service on website;
- 7 • Workforce sustainability;
- 8 • Position Enersource as “Employer of Choice”;
- 9 • Time of use billing; and
- 10 • Low income account management.

11 The asset management and new administration office initiatives were identified
12 as key initiatives and have been discussed further in Exhibit 2 Tab 2 Schedule 2,
13 the Asset Management Plan (“AMP”) evidence, and Exhibit 2 Tab 2 Schedule 5,
14 Administration Office and Operations Centre evidence.

15 The strategic initiatives were prepared by senior management and passed down
16 through successive levels in the company. The budget guidelines,
17 responsibilities, and timelines are outlined by senior management at the budget
18 kick-off meeting.

19 **Development of Price and Load Forecasts for Energy and Distribution**
20 **Revenue**

21 The Finance department, in coordination with the Settlement group, provides
22 price and load forecasts to derive the energy revenue forecast. Additional
23 information on energy and distribution revenue forecasting is provided in the
24 Revenue Forecast section below.

1 **Coordination and Review of all Budget Components**

2 The Finance department, in coordination with Human Resources, facilitates
3 meetings with all business unit managers to obtain their operating and capital
4 forecasts. Each area of the company has been organized based on type of
5 function or service provided. Each division is further subdivided into a cost
6 center in JD Edwards (“JDE”) and is assigned to a business unit manager who is
7 held accountable for the actual expenditures. The capital and OM&A budgets
8 that result from this planning process are discussed in Exhibits 2 and Exhibit 4,
9 respectively.

10 The Finance department compiles and consolidates all budget information. The
11 budget is prepared incorporating OM&A and capital expenditures consistent with
12 the strategic plan, as well as forecasts of revenue, cost of power, amortization,
13 finance charges, income tax, and working capital. Budget packages are
14 prepared for final review by the CEO and other members of the senior
15 management team. All spending is reviewed to ensure alignment with
16 Enersource’s strategic initiatives.

17 **Obtaining Final Approval**

18 The resulting budget and three-year financial forecast and underlying
19 assumptions are presented for approval to the Enersource Board of Directors.

20 An overview of Enersource’s budgeting process is outlined below.

21 **Operating, Maintenance, and Administration Expenses**

22 The OM&A budget for the 2012 Bridge Year and the 2013 Test Year have been
23 forecasted utilizing a bottom-up or zero-based approach. These forecasts are
24 compared to prior-year experience for reasonableness by each divisional

1 Director or Vice President, with the assistance of Enersource Corporation's
2 finance staff. Each business unit is reviewed by the business unit manager, the
3 finance lead, and the divisional leader to ensure financial projections are
4 sufficient for known and expected activities. After every business unit is
5 forecasted and requirements approved, the budget is consolidated. The
6 consolidated budget is reviewed and adjusted if necessary by the Chief
7 Operating Officer and Chief Financial Officer.

8 **Major OM&A Assumptions**

9 **Labour and Benefit Rates**

10 Compensation estimates are based on the four-year collective agreement
11 ("Collective Agreement") between Enersource and the International Brotherhood
12 of Electrical Workers ("IBEW"), and include annual increases in OMERS
13 contributory earnings, benefits, and statutory employment contributions. The
14 Collective Agreement became effective April 1, 2010 and is set to expire on
15 March 31, 2014. It provides for increases of 3.00% in the first and second years
16 of the Collective Agreement and 3.25% in the third and fourth years.

17 The benefit rate allocation is used to recover costs for statutory deductions (CPP,
18 EI, WSIB, etc.), health benefits, pension costs, training costs, and professional
19 dues. Benefit rates have increased to align with increases in employee benefit
20 costs mainly due to increase in OMERS pension expenses. The benefit rates for
21 the 2012 Bridge Year and 2013 Test Year are provided in Table 1.

1 **Table 1: Benefit Rates, 2012 to 2013**

Benefit Rates	2012	2013
Outside union employees	60%	61%
Inside union employees	50%	50%
Non-union employees	38%	39%

2 **New Positions**

3 Additional headcount requests were supported by position requisitions which
 4 identified the job requirements, reasons for the positions, and an explanation of
 5 the business impact if the position is not approved. All headcount additions were
 6 approved by the executive team before inclusion in the budget.

7 **Interest Income**

8 Average short-term interest rates are based on the major Canadian banks.
 9 Enersource invests primarily in Bankers' Acceptances which yield prime less 2%.
 10 Prime rates from 2008 through 2013 are shown in Table 2.

11 **Table 2: Prime Rate Forecast Included in Budget (%)**

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test
Prime Rate	4.8	2.4	2.6	3.0	3.0	3.2

12 **Interest Expense**

13 The Borealis-Enersource Series Bonds matured on May 3, 2011 and were
 14 refinanced on April 29, 2011 into two tranches of debt obligations. The first

1 tranche is for \$110,000 due April 29, 2021 at an interest rate of 4.52%. The
2 second tranche is for \$210,000 due April 29, 2041 at an interest rate of 5.30%.
3 Interest expense is predominantly due to the cost of servicing Enersource's debt.
4 Interest expense is partially offset by a credit pertaining to the capitalization of
5 borrowing costs. The capitalization rate used for 2012 to 2014 under IFRS is
6 5.09%, which is Enersource's effective weighted average cost of borrowings.

7 **Major Balance Sheet Items (A/R, Unbilled, A/P)**

8 Enersource typically experiences similar monthly electricity consumption and
9 demand year over year. As a result, the projected balances for accounts
10 receivable, unbilled revenue, and accounts payable at year-end are based on
11 historical trending as well as the major assumptions included in the budget.

12 **Conservation and Demand Management**

13 The OEB issued the *Conservation and Demand Management Code for Electricity*
14 *Distributors*¹ that outlines the obligation and requirements of distributors to
15 deliver CDM programs designed and funded by the Ontario Power Authority
16 ("OPA"). Enersource plans on implementing many of these programs, and will
17 examine opportunities for delivering joint distributor designed programs where
18 funding and regulatory approval is available.

19 The estimated CDM program funding and expenditures for the 2012 Bridge Year
20 and 2013 Test Year are shown in Table 3. Enersource expects no impact on its
21 revenue requirement for CDM programs.

¹ Ontario Energy Board *Conservation and Demand Management Code for Electricity Distributors*, dated September 16, 2010.

1 **Table 3: CDM Program Funding and Costs, 2012 to 2013 (\$000s)**

CDM Funding	2012 Bridge Year	2013 Test Year
OPA-Contracted Program Funding	24,685	22,655
Program Expenditures	(24,685)	(22,655)
Income Before Taxes	-	-

2 The OPA's funding formula provides for a cost efficiency incentive payment to
 3 distributors at the end of the four-year term based on cost savings represented
 4 by the difference between the approved distributor program administration
 5 budget and the actual amount spent. As a result, Enersource's budget assumes
 6 that no margins will be realized from these programs.

7 CDM expenditures have been categorized as non-utility expenses on the pro-
 8 forma financial statements.

9 **Corporate Expenses**

10 Corporate expenses included in the budget for the 2012 Bridge Year and the
 11 2013 Test Year have also been forecasted using a bottom-up approach. Items
 12 within this budget expense include retailer transaction costs.

13 **Capital Expenditures**

14 The capital budgeting process begins with the completion of an AMP with the
 15 objective of evaluating distribution assets, and making recommendations on the
 16 timing of asset replacement, taking into consideration various factors such as
 17 asset condition, age, criticality, reliability information, as well as environmental
 18 and customer impacts.

1 A list of projects is created describing the driver, scope, costs, and benefits of the
2 project. The main focus is the period for the next five years; however, a longer-
3 term outlook is also produced using the available information.

4 Projects are selected and prioritized, balancing requirements such as capacity
5 requirements, service quality, and customer requirements with the strategic
6 objectives of the Company

7 As a part of the planning process, risk evaluations are completed for each major
8 project, which identifies the consequences and the impact of the project to the
9 community and worker safety, economics and service quality risks,
10 environmental, reputation, and legal risks.

11 All other capital expenditures are budgeted on a business unit basis and
12 evaluated based on expected need (e.g., number of additional computers for new
13 hires), forecasted business requirements, scheduled replacements, and
14 upgrades.

15 For further details on planning of capital expenditures please refer to Exhibit 2
16 Tab 2 Schedule 1.

17 The Finance department, in collaboration with business unit managers, evaluates
18 each capital expenditure against the expected useful lives of each asset type to
19 determine the annual depreciation expense to include in the budget.

20 **Revenue Forecast**

21 The revenue budget or forecast is comprised of three separate components:

- 22 • Energy Revenue;
- 23 • Distribution Revenue; and
- 24 • Other Revenue.

1 **Energy Revenue**

2 Enersource’s load forecasting process utilizes multivariate regression load
3 forecast models based on weather, calendar, and econometric variables to
4 estimate the relationship between energy consumption or peak demand to
5 analytical factors and drivers. The analytical factors include sixteen years of
6 actual historical energy consumption data, actual weather data, and calendar
7 data. Model drivers include econometric data such as gross domestic product
8 (“GDP”), consumer price index (“CPI”), population, and employment which are
9 obtained from Conference Board of Canada as well as the Building and Planning
10 Department with the City of Mississauga (“City” or “Mississauga”). Enersource
11 has been utilizing this load forecast process since 2004 and has found it to be
12 robust and effective.

13 Although weather is a significant contributor to both energy consumption and
14 peak demand in Mississauga, Enersource’s load forecasting process does not
15 predict weather. Instead, Enersource utilizes weather scenarios to derive system
16 load energy consumption forecasts and system load peak demand forecasts.
17 Two scenarios are derived using thirty-one years of actual weather data to
18 establish a normal and extreme weather scenarios. Detailed information on
19 these scenarios can be found in Exhibit 3 Tab 1 Schedule 1.

20 Enersource relied on reports prepared by Navigant Consulting and the Regulated
21 Price Plan Report (“RPP”) prepared by the OEB to forecast energy and Global
22 Adjustment (“GA”) prices.

23 Table 4 below shows the Average Hourly Ontario Energy Price (“HOEP”), GA
24 and RPP prices that were used in the calculation of power supply expenses in
25 the 2013 Test Year.

1 **Table 4: Average HOEP, GA, and RPP Prices, 2008 to 2013**

	Avg. HOEP ²	Change from Prior Year	Avg. GA ³	Change from Prior Year	Avg. RPP ⁴	Change from Prior Year
	¢/kWh		¢/kWh		¢/kWh	
2008	5.2		0.5		5.7	
2009	3.2	-39%	2.9	448%	6.1	6%
2010	3.8	20%	2.8	-4%	6.6	8%
2011	3.2	-17%	4.0	45%	7.2	9%
2012	3.6	16%	4.0	-2%	7.6	6%
2013	3.8	5%	4.2	5%	8.0	5%

2 Enersource relied on 2012 Board-approved retail transmission service rates and
 3 wholesale market service rates for determining network, connection, and
 4 wholesale market service rates. The energy revenue forecast was then derived
 5 by using the modeled energy load purchases forecast multiplied by the
 6 forecasted commodity prices.

7 **Distribution Revenue**

8 Distribution revenue was forecasted utilizing the forecasted throughput
 9 consumption volumes that were also used to determine energy revenue. For
 10 larger customer classes, weather-normalized demand-based billing determinants
 11 (in kW) were derived from weather-normalized energy consumption (in kWh) and
 12 average load factors from actuals experienced in the most recent five years.
 13 Demand-based billing determinants were calculated separately for each
 14 applicable class. Energy consumption volumes and peak demands were then
 15 multiplied by currently-approved distribution rates to yield the distribution revenue
 16 forecast for the 2012 Bridge Year and 2013 Test Year.

² Source: 2012 Average HOEP – “Ontario Wholesale Electricity Market Price Forecast” prepared by Navigant Consulting Ltd.; October 4, 2011

³ Source: 2012 Average RPP – “Regulated Price Plan Price Report” prepared by Ontario Energy Board; October 17, 2011

⁴ A 5% increase assumed for 2013.

1 Other assumptions regarding forecasted customer number growth and forecast
 2 adjustments resulting from CDM activities can be found at Exhibit 3 Tab 1
 3 Schedule 1.

4 **Other Revenue**

5 Other revenue relates to all utility revenues other than distribution and cost of
 6 power revenues with the exception of Conservation and Demand Management.
 7 Other revenues are also known as revenue offsets as these other operating
 8 incomes and other distribution revenues are used to offset the service revenue
 9 requirement to determine the distribution revenue requirement. Other revenue is
 10 comprised of Specific Service Charges, Late Payment Charges, Retailer Service
 11 Charges , Other Regulated Revenue, and Interest Revenue. Specific budget
 12 assumptions on which Enersource relied for each source of other revenue are
 13 detailed in Exhibit 3 Tab 3 Schedule 1.

14 **Other Economic Assumptions**


15 Other economic assumptions are tax rates and regulatory carrying charges.
 16 These are shown in Tables 5 and 6, respectively.


17 **Table 5: Tax Rates, 2008 to 2014 (%)**

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test	2014 Forecast
Federal Tax	19.5	19.0	18.0	16.5	15.0	15.0	15.0
Ontario Tax Rate	14.0	14.0	13.0	11.75	11.25	10.5	10.0
Combined Tax Rate	33.5	33.0	31.0	28.25	26.25	25.5	25.0
Ontario Capital Tax Rate	0.225	0.225	0.075	0.0	0.0	0.0	0.0

1 **Table 6: Regulatory Carrying Charges, 2008 to 2014 (%)**

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test	2014 Forecast
Qtr 1	5.14	2.45	0.55	1.47	1.47	1.47	1.47
Qtr 2	4.08	1.00	0.55	1.47	1.47	1.47	1.47
Qtr 3	3.35	0.55	0.89	1.47	1.47	1.47	1.47
Qtr 4	3.35	0.55	1.20	1.47	1.47	1.47	1.47




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Choose Your Utility:
Cooperative Hydro Fmbrun Inc.
E.L.K. Energy Inc.
Enersource Hydro Mississauga Inc.

File Number: EB-2012-0033

Rate Year: 2013



Click here to print the entire workbook

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Enersource Hydro Mississauga Inc.
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Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) **Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.**
- (5) **Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel**



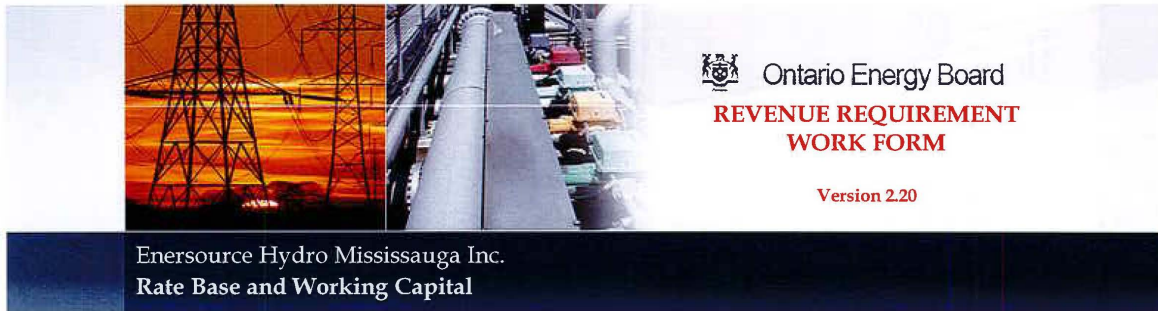
Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

Version 2.20

Enersource Hydro Mississauga Inc.
Data Input (1)

	Initial Application	(6)	Per Board Decision
1 Rate Base			
Gross Fixed Assets (average)	\$578,268,452	\$ 578,268,452	\$578,268,452
Accumulated Depreciation (average)	(\$58,621,336) (5)	(\$58,621,336)	(\$58,621,336)
Allowance for Working Capital			
Controllable Expenses	\$61,099,415	\$ 61,099,415	\$61,099,415
Cost of Power	\$733,279,616	\$ 733,279,616	\$733,279,616
Working Capital Rate (%)	13.50%	13.50%	13.50%
2 Utility Income			
Operating Revenues:			
Distribution Revenue at Current Rates	\$116,542,615		
Distribution Revenue at Proposed Rates	\$131,285,166		
Other Revenue:			
Specific Service Charges	\$1,236,783		
Late Payment Charges	\$1,800,000		
Other Distribution Revenue	\$1,260,695		
Other Income and Deductions	\$532,207		
Total Revenue Offsets	\$4,829,685 (7)		
Operating Expenses:			
OM+A Expenses	\$59,899,415	\$ 59,899,415	\$59,899,415
Depreciation/Amortization	\$28,772,771	\$ 28,772,771	\$28,772,771
Property taxes	\$1,200,000	\$ 1,200,000	\$1,200,000
Other expenses	\$1,997,963 ##	1997963	\$1,997,963
3 Taxes/PILs			
Taxable Income:			
Adjustments required to arrive at taxable income	(\$12,441,224) (3)		
Utility Income Taxes and Rates:			
Income taxes (not grossed up)	\$2,229,053 ##		
Income taxes (grossed up)	\$2,980,508		
Federal tax (%)	15.00%		
Provincial tax (%)	10.21%		
Income Tax Credits	(\$400,000)		
4 Capitalization/Cost of Capital			
Capital Structure:			
Long-term debt Capitalization Ratio (%)	56.0%		
Short-term debt Capitalization Ratio (%)	4.0% (2)	(2)	(2)
Common Equity Capitalization Ratio (%)	40.0%		
Preferred Shares Capitalization Ratio (%)			
	100.0%		
Cost of Capital			
Long-term debt Cost Rate (%)	5.09%		
Short-term debt Cost Rate (%)	2.08%		
Common Equity Cost Rate (%)	9.12%		
Preferred Shares Cost Rate (%)			

- Notes:**
- General** Data inputs are required on Sheets 3, 10A and 10B. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- (2) 4.0% unless an Applicant has proposed or been approved for another amount.
- (3) Net of addbacks and deductions to arrive at taxable income.
- (4) Average of Gross Fixed Assets at beginning and end of the Test Year
- (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (6) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (8) Transformer Allowance
- (9) PILs amount includes reduction related to tax credits



Line No.	Particulars	Initial Application	Per Board Decision
1	Gross Fixed Assets (average) (3)	\$578,268,452	\$578,268,452
2	Accumulated Depreciation (average) (3)	(\$58,621,336)	(\$58,621,336)
3	Net Fixed Assets (average) (3)	\$519,647,116	\$519,647,116
4	Allowance for Working Capital (1)	\$107,241,169	\$107,241,169
5	Total Rate Base	\$626,888,285	\$626,888,285

Allowance for Working Capital - Derivation

6	Controllable Expenses	\$61,099,415	\$61,099,415
7	Cost of Power	\$733,279,616	\$733,279,616
8	Working Capital Base	\$794,379,031	\$794,379,031
9	Working Capital Rate % (2)	13.50%	13.50%
10	Working Capital Allowance	\$107,241,169	\$107,241,169

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study.
 (3) Average of opening and closing balances for the year.



Line No.	Particulars	Initial Application				Per Board Decision
Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)	\$131,285,166	(\$131,285,166)	\$-	\$-	\$-
2	Other Revenue (1)	\$4,829,685	(\$4,829,685)	\$-	\$-	\$-
3	Total Operating Revenues	\$136,114,851	(\$136,114,851)	\$-	\$-	\$-
Operating Expenses:						
4	OM+A Expenses	\$59,899,415	\$-	\$59,899,415	\$-	\$59,899,415
5	Depreciation/Amortization	\$28,772,771	\$-	\$28,772,771	\$-	\$28,772,771
6	Property taxes	\$1,200,000	\$-	\$1,200,000	\$-	\$1,200,000
7	Capital taxes	\$-	\$-	\$-	\$-	\$-
8	Other expense	\$1,997,963	\$-	\$1,997,963	\$-	\$1,997,963
9	Subtotal (lines 4 to 8)	\$91,870,149	\$-	\$91,870,149	\$-	\$91,870,149
10	Deemed Interest Expense	\$18,395,310	(\$18,395,310)	\$-	\$-	\$-
11	Total Expenses (lines 9 to 10)	\$110,265,459	(\$18,395,310)	\$91,870,149	\$-	\$91,870,149
12	Utility income before income taxes	\$25,849,392	(\$117,719,541)	(\$91,870,149)	\$-	(\$91,870,149)
13	Income taxes (grossed-up)	\$2,980,508	\$-	\$2,980,508	\$-	\$2,980,508
14	Utility net income	\$22,868,885	(\$117,719,541)	(\$94,850,657)	\$-	(\$94,850,657)

Notes

Other Revenues / Revenue Offsets

(1)	Specific Service Charges	\$1,236,783		\$-		\$-
	Late Payment Charges	\$1,800,000		\$-		\$-
	Other Distribution Revenue	\$1,260,695		\$-		\$-
	Other Income and Deductions	\$532,207		\$-		\$-
	Total Revenue Offsets	\$4,829,685	\$-	\$-	\$-	\$-



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Enersource Hydro Mississauga Inc.
 Taxes/PILs

Line No.	Particulars	Application		Per Board Decision
Determination of Taxable Income				
1	Utility net income before taxes	\$22,868,885	\$ -	\$ -
2	Adjustments required to arrive at taxable utility income	(\$12,441,224)	\$ -	(\$12,441,224)
3	Taxable income	<u>\$10,427,661</u>	<u>\$ -</u>	<u>(\$12,441,224)</u>
Calculation of Utility Income Taxes				
4	Income taxes	\$2,229,053	\$2,229,053	\$2,229,053
6	Total taxes	<u>\$2,229,053</u>	<u>\$2,229,053</u>	<u>\$2,229,053</u>
7	Gross-up of Income Taxes	\$751,455	\$751,455	\$751,455
8	Grossed-up Income Taxes	<u>\$2,980,508</u>	<u>\$2,980,508</u>	<u>\$2,980,508</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$2,980,508</u>	<u>\$2,980,508</u>	<u>\$2,980,508</u>
10	Other tax Credits	(\$400,000) (1)	(\$400,000)	(\$400,000)
Tax Rates				
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	10.21%	10.21%	10.21%
13	Total tax rate (%)	<u>25.21%</u>	<u>25.21%</u>	<u>25.21%</u>

Notes

(1) PILs amount includes reduction related to tax credits.



 Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**

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**Enersource Hydro Mississauga Inc.
 Capitalization/Cost of Capital**

Line No.	Particulars	Capitalization Ratio	Cost Rate	Return
Initial Application				
		(%)	(\$)	(%)
	Debt			(\$)
1	Long-term Debt	56.00%	\$351,057,440	5.09%
2	Short-term Debt	4.00%	\$25,075,531	2.08%
3	Total Debt	60.00%	\$376,132,971	4.89%
	Equity			
4	Common Equity	40.00%	\$250,755,314	9.12%
5	Preferred Shares	0.00%	\$ -	0.00%
6	Total Equity	40.00%	\$250,755,314	9.12%
7	Total	100.00%	\$626,888,285	6.58%
		(%)	(\$)	(%)
	Debt			(\$)
1	Long-term Debt	0.00%	\$ -	0.00%
2	Short-term Debt	0.00%	\$ -	0.00%
3	Total Debt	0.00%	\$ -	0.00%
	Equity			
4	Common Equity	0.00%	\$ -	0.00%
5	Preferred Shares	0.00%	\$ -	0.00%
6	Total Equity	0.00%	\$ -	0.00%
7	Total	0.00%	\$626,888,285	0.00%
		(%)	(\$)	(%)
	Debt			(\$)
8	Long-term Debt	0.00%	\$ -	5.09%
9	Short-term Debt	0.00%	\$ -	2.08%
10	Total Debt	0.00%	\$ -	0.00%
	Equity			
11	Common Equity	0.00%	\$ -	9.12%
12	Preferred Shares	0.00%	\$ -	0.00%
13	Total Equity	0.00%	\$ -	0.00%
14	Total	0.00%	\$626,888,285	0.00%

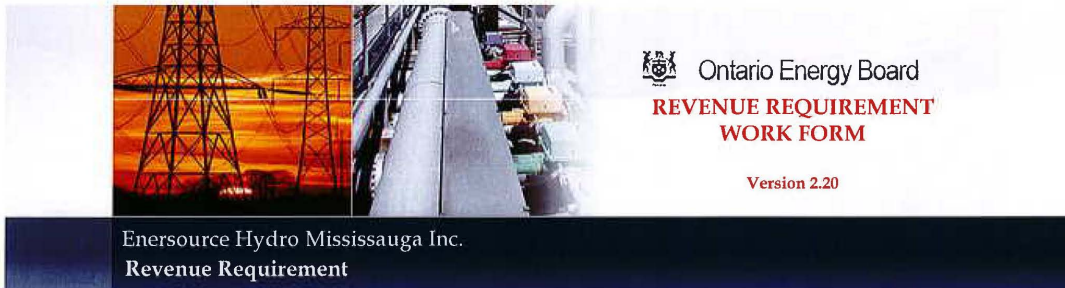
Notes
 (1)

4.0% unless an Applicant has proposed or been approved for another amount.



Line No.	Particulars	Initial Application		Per Board Decision		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$14,742,553		(\$29,401,480)		\$91,870,149
2	Distribution Revenue	\$116,542,615	\$116,542,613	\$116,542,615	\$160,686,646	\$ -	(\$91,870,149)
3	Other Operating Revenue	\$4,829,685	\$4,829,685	\$ -	\$ -	\$ -	\$ -
	Offsets - net						
4	Total Revenue	\$121,372,300	\$136,114,851	\$116,542,615	\$131,285,166	\$ -	\$ -
5	Operating Expenses	\$91,870,149	\$91,870,149	\$91,870,149	\$91,870,149	\$91,870,149	\$91,870,149
6	Deemed Interest Expense	\$18,395,310	\$18,395,310	\$ -	\$ -	\$ -	\$ -
	Total Cost and Expenses	\$110,265,459	\$110,265,459	\$91,870,149	\$91,870,149	\$91,870,149	\$91,870,149
7	Utility Income Before Income Taxes	\$11,106,841	\$25,849,392	\$24,672,466	\$39,415,017	(\$91,870,149)	(\$91,870,149)
8	Tax Adjustments to Accounting	(\$12,441,224)	(\$12,441,224)	(\$12,441,224)	(\$12,441,224)	\$ -	\$ -
	Income per 2009 PILs						
9	Taxable Income	(\$1,334,383)	\$13,408,168	\$12,231,242	\$26,973,793	(\$91,870,149)	(\$91,870,149)
10	Income Tax Rate	25.21%	25.21%	25.21%	25.21%	25.21%	25.21%
11	Income Tax on Taxable Income	(\$336,429)	\$3,380,509	\$3,083,779	\$6,800,716	(\$23,162,587)	(\$23,162,587)
12	Income Tax Credits	(\$400,000)	(\$400,000)	(\$400,000)	(\$400,000)	\$ -	\$ -
13	Utility Net Income	\$11,843,270	\$22,868,885	\$21,988,687	(\$94,850,657)	(\$68,707,562)	(\$84,850,657)
14	Utility Rate Base	\$626,888,285	\$626,888,285	\$626,888,285	\$626,888,285	\$626,888,285	\$626,888,285
	Deemed Equity Portion of Rate Base	\$250,755,314	\$250,755,314	\$ -	\$ -	\$ -	\$ -
15	Income/(Equity Portion of Rate Base)	4.72%	9.12%	0.00%	0.00%	0.00%	0.00%
16	Target Return - Equity on Rate Base	9.12%	9.12%	0.00%	0.00%	0.00%	0.00%
17	Deficiency/Sufficiency in Return on Equity	-4.40%	0.00%	0.00%	0.00%	0.00%	0.00%
18	Indicated Rate of Return	4.82%	6.58%	3.51%	0.00%	-10.96%	0.00%
19	Requested Rate of Return on Rate Base	6.58%	6.58%	0.00%	0.00%	0.00%	0.00%
20	Deficiency/Sufficiency in Rate of Return	-1.76%	0.00%	3.51%	0.00%	-10.96%	0.00%
21	Target Return on Equity	\$22,868,885	\$22,868,885	\$ -	\$ -	\$ -	\$ -
22	Revenue Deficiency/(Sufficiency)	\$11,025,615	(\$0)	(\$21,988,687)	\$ -	\$68,707,562	\$ -
23	Gross Revenue	\$14,742,553 (1)		(\$29,401,480) (1)		\$91,870,149 (1)	
	Deficiency/(Sufficiency)						

Notes:
 (1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Line No.	Particulars	Application		Per Board Decision	
1	OM&A Expenses	\$59,899,415	\$59,899,415	\$59,899,415	\$59,899,415
2	Amortization/Depreciation	\$28,772,771	\$28,772,771	\$28,772,771	\$28,772,771
3	Property Taxes	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
5	Income Taxes (Grossed up)	\$2,980,508	\$2,980,508	\$2,980,508	\$2,980,508
6	Other Expenses	\$1,997,963	\$1,997,963	\$1,997,963	\$1,997,963
7	Return				
	Deemed Interest Expense	\$18,395,310	\$ -	\$ -	\$ -
	Return on Deemed Equity	\$22,868,885	\$ -	\$ -	\$ -
8	Service Revenue Requirement (before Revenues)	\$136,114,851	\$94,850,657	\$94,850,657	\$94,850,657
9	Revenue Offsets	\$4,829,685	\$ -	\$ -	\$ -
10	Base Revenue Requirement	\$131,285,166	\$94,850,657	\$94,850,657	\$94,850,657
11	Distribution revenue	\$131,285,166	\$ -	\$ -	\$ -
12	Other revenue	\$4,829,685	\$ -	\$ -	\$ -
13	Total revenue	\$136,114,851	\$ -	\$ -	\$ -
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	(\$0) (1)	(\$94,850,657) (1)	(\$94,850,657) (1)	(\$94,850,657) (1)

Notes

(1) Line 11 - Line 8





EnerSource Hydro Mississauga Inc.
Bill Impacts - Residential

		Consumption <input type="text" value="800"/> kWh							
Charge Unit	Current Board-Approved			Proposed			Impact		
	Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change	
1	Monthly Service Charge		1 \$		1 \$		\$ -		
2	Smart Meter Rate Adder		1 \$		1 \$		\$ -		
3	Service Charge Rate Adder(s)		1 \$		1 \$		\$ -		
4	Service Charge Rate Rider(s)		1 \$		1 \$		\$ -		
5	Distribution Volumetric Rate	800	\$ -	800	\$ -	\$ -	\$ -		
6	Low Voltage Rate Adder	800	\$ -	800	\$ -	\$ -	\$ -		
7	Volumetric Rate Adder(s)	800	\$ -	800	\$ -	\$ -	\$ -		
8	Volumetric Rate Rider(s)	800	\$ -	800	\$ -	\$ -	\$ -		
9	Smart Meter Disposition Rider	800	\$ -	800	\$ -	\$ -	\$ -		
10	LRAM & SSM Rate Rider	800	\$ -	800	\$ -	\$ -	\$ -		
11	Deferral/Variance Account Disposition Rate Rider	800	\$ -	800	\$ -	\$ -	\$ -		
12			\$ -			\$ -	\$ -		
13			\$ -			\$ -	\$ -		
14			\$ -			\$ -	\$ -		
15			\$ -			\$ -	\$ -		
16	Sub-Total A - Distribution		\$ -			\$ -	\$ -		
17	RTSR - Network		800 \$		800 \$		\$ -		
18	RTSR - Line and Transformation Connection		800 \$		800 \$		\$ -		
19	Sub-Total B - Delivery (Including Sub-Total A)		\$ -			\$ -	\$ -		
20	Wholesale Market Service Charge (WMSC)		800 \$		800 \$		\$ -		
21	Rural and Remote Rate Protection (RRRP)		800 \$		800 \$		\$ -		
22	Special Purpose Charge		800 \$		800 \$		\$ -		
23	Standard Supply Service Charge		1 \$		1 \$		\$ -		
24	Debt Retirement Charge (DRC)		800 \$		800 \$		\$ -		
25	Energy		800 \$		800 \$		\$ -		
26			\$ -			\$ -	\$ -		
27			\$ -			\$ -	\$ -		
28	Total Bill (before Taxes)		\$ -			\$ -	\$ -		
29	HST	13%	\$ -	13%	\$ -	\$ -	\$ -		
30	Total Bill (including Sub-total B)		\$ -			\$ -	\$ -		
31	Ontario Clean Energy Benefit (OCEB)	-10%	\$ -	-10%	\$ -	\$ -	\$ -		
32	Total Bill (including OCEB)		\$ -			\$ -	\$ -		
33	Loss Factor (%)	Note 1	<input type="text"/>		<input type="text"/>				

Notes:
 (1): Enter existing and proposed total loss factor (Secondary Metered Customer < 5,000 kW) as a percentage.

BILL IMPACTS FOR ALL RATE CLASSES ARE PROVIDED IN APPENDIX 2-V.



Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

Version 2.20


Enersource Hydro Mississauga Inc.
Bill Impacts - General Service < 50 kW


Consumption kWh

	Charge Unit	Current Board-Approved			Proposed			Impact	
		Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change
1	Monthly Service Charge		1	\$ -		1	\$ -	\$ -	
2	Smart Meter Rate Adder		1	\$ -		1	\$ -	\$ -	
3	Service Charge Rate Adder(s)		1	\$ -		1	\$ -	\$ -	
4	Service Charge Rate Rider(s)		1	\$ -		1	\$ -	\$ -	
5	Distribution Volumetric Rate		2000	\$ -		2000	\$ -	\$ -	
6	Low Voltage Rate Adder		2000	\$ -		2000	\$ -	\$ -	
7	Volumetric Rate Adder(s)		2000	\$ -		2000	\$ -	\$ -	
8	Volumetric Rate Rider(s)		2000	\$ -		2000	\$ -	\$ -	
9	Smart Meter Disposition Rider		2000	\$ -		2000	\$ -	\$ -	
10	LRAM & SSM Rider		2000	\$ -		2000	\$ -	\$ -	
11	Deferral/Variance Account Disposition Rate Rider		2000	\$ -		2000	\$ -	\$ -	
12				\$ -			\$ -	\$ -	
13				\$ -			\$ -	\$ -	
14				\$ -			\$ -	\$ -	
15				\$ -			\$ -	\$ -	
16	Sub-Total A - Distribution			\$ -			\$ -	\$ -	
17	RTSR - Network		2000	\$ -		2000	\$ -	\$ -	
18	RTSR - Line and Transformation Connection		2000	\$ -		2000	\$ -	\$ -	
19	Sub-Total B - Delivery (including Sub-Total A)			\$ -			\$ -	\$ -	
20	Wholesale Market Service Charge (WMSC)		2000	\$ -		2000	\$ -	\$ -	
21	Rural and Remote Rate Protection (RRRP)		2000	\$ -		2000	\$ -	\$ -	
22	Special Purpose Charge		2000	\$ -		2000	\$ -	\$ -	
23	Standard Supply Service Charge		1	\$ -		1	\$ -	\$ -	
24	Debt Retirement Charge (DRC)		2000	\$ -		2000	\$ -	\$ -	
25	Energy		2000	\$ -		2000	\$ -	\$ -	
26				\$ -			\$ -	\$ -	
27				\$ -			\$ -	\$ -	
28	Total Bill (before Taxes)			\$ -			\$ -	\$ -	
29	HST			13%			13%	\$ -	
30	Total Bill (including Sub-total B)			\$ -			\$ -	\$ -	
31	Ontario Clean Energy Benefit (OCEB)			-10%			-10%	\$ -	
32	Total Bill (including OCEB)			\$ -			\$ -	\$ -	
33	Loss Factor	(1)		0.00%			0.00%		

Notes:
 (1): See Note (1) from Sheet 10A, Bill Impacts - Residential

BILL IMPACTS FOR ALL RATE CLASSES ARE PROVIDED IN APPENDIX 2-V.



 Ontario Energy Board
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Choose Your Utility:	File Number:	Rate Year:
<input type="text" value="E.I.K. Energy Inc."/> <input type="text" value="Enersource Hydro Mississauga Inc."/> <input type="text" value="ENWI Utilities Ltd"/>	<input type="text" value="EB-2012-0033"/>	<input type="text" value="2014"/>

Application Contact Information

Name:

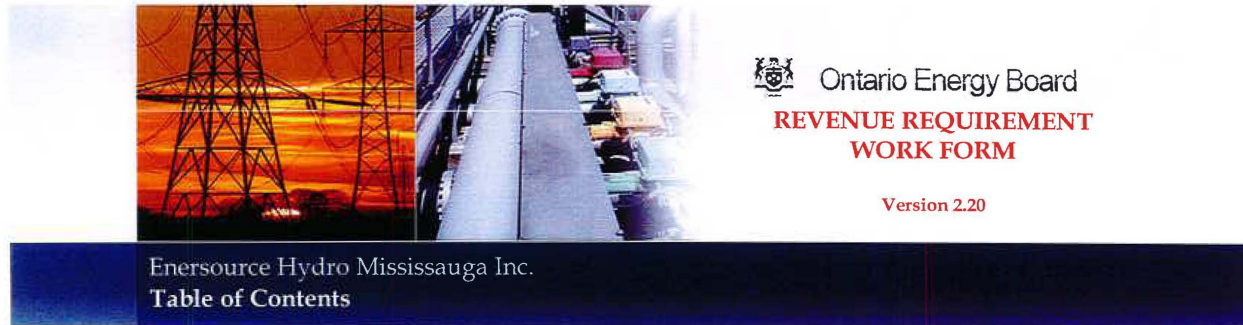
Title:

Phone Number:

Email Address:

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This Revenue Requirement Work Form Model is protected by copyright and is being made available to you solely for the purpose of your application, any subsequent updates and preparing or reviewing your draft rate order. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.



[1. Info](#)

[2. Table of Contents](#)

[3. Data Input Sheet](#)

[4. Rate Base](#)

[5. Utility Income](#)

[6. Taxes PILs](#)

[7. Cost of Capital](#)

[8. Rev Def Suff](#)

[9. Rev Regt](#)


[10A. Bill Impacts - Residential](#)

[10B. Bill Impacts - GS LT 50kW](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) *Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.*
- (5) *Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel*



 Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**

Version 2.20

Enersource Hydro Mississauga Inc.
Data Input (1)

	Initial Application	(6)	Per Board Decision
1 Rate Base			
Gross Fixed Assets (average)	\$620,109,281	\$ 620,109,281	\$620,109,281
Accumulated Depreciation (average)	(\$83,966,292) (6)	(\$83,966,292)	(\$83,966,292)
Allowance for Working Capital			
Controllable Expenses	\$61,099,415	\$ 61,099,415	\$61,099,415
Cost of Power	\$733,279,616	\$ 733,279,616	\$733,279,616
Working Capital Rate (%)	13.50%	13.50%	13.50%
2 Utility Income			
Operating Revenues:			
Distribution Revenue at Current Rates	\$131,285,166 (9)		
Distribution Revenue at Proposed Rates	\$134,481,135		
Other Revenues:			
Specific Service Charges	\$1,236,783		
Late Payment Charges	\$1,800,000		
Other Distribution Revenue	\$1,260,695		
Other Income and Deductions	\$532,207		
Total Revenue Offsets	\$4,829,685 (7)		
Operating Expenses:			
OM+A Expenses	\$59,899,415	\$ 59,899,415	\$59,899,415
Depreciation/Amortization	\$30,304,933	\$ 30,304,933	\$30,304,933
Property taxes	\$1,200,000	\$ 1,200,000	\$1,200,000
Other expenses	\$1,997,962 (8)	\$ 1,997,962	\$1,997,962
3 Taxes/PILs			
Taxable Income:			
Adjustments required to arrive at taxable Income	(\$11,053,648) (3)		
Utility Income Taxes and Rates			
Income taxes (not grossed up)	\$2,676,752 ##		
Income taxes (grossed up)	\$3,658,494		
Federal tax (%)	15.00%		
Provincial tax (%)	9.78%		
Income Tax Credits	(\$400,000)		
4 Capitalization/Cost of Capital			
Capital Structure			
Long-term debt Capitalization Ratio (%)	56.0%		
Short-term debt Capitalization Ratio (%)	4.0% (2)	(2)	(2)
Common Equity Capitalization Ratio (%)	40.0%		
Preferred Shares Capitalization Ratio (%)	100.0%		
Cost of Capital			
Long-term debt Cost Rate (%)	5.09%		
Short-term debt Cost Rate (%)	2.08%		
Common Equity Cost Rate (%)	9.12%		
Preferred Shares Cost Rate (%)			

Notes:

- General** Data inputs are required on Sheets 3, 10A and 10B. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
 - (2) 4.0% unless an Applicant has proposed or been approved for another amount
 - (3) Net of addbacks and deductions to arrive at taxable income.
 - (4) Average of Gross Fixed Assets at beginning and end of the Test Year
 - (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
 - (6) Select option from drop-down list by clicking on call M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
 - (7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
 - (8) Transformer Allowance
 - (9) Proposed 2013 distribution rates based on cost of service
 - (10) PILs amount has been reduced by the amount of the income tax credits



Ontario Energy Board
REVENUE REQUIREMENT
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Enersource Hydro Mississauga Inc.
Rate Base and Working Capital

Line No.	Particulars	Initial Application				Per Board Decision
1	Gross Fixed Assets (average) (3)	\$620,109,281	\$ -	\$620,109,281	\$ -	\$620,109,281
2	Accumulated Depreciation (average) (3)	(\$83,966,292)	\$ -	(\$83,966,292)	\$ -	(\$83,966,292)
3	Net Fixed Assets (average) (3)	\$536,142,989	\$ -	\$536,142,989	\$ -	\$536,142,989
4	Allowance for Working Capital (1)	\$107,241,169	\$ -	\$107,241,169	\$ -	\$107,241,169
5	Total Rate Base	\$643,384,158	\$ -	\$643,384,158	\$ -	\$643,384,158

(1)

Allowance for Working Capital - Derivation						
6	Controllable Expenses	\$61,099,415	\$ -	\$61,099,415	\$ -	\$61,099,415
7	Cost of Power	\$733,279,616	\$ -	\$733,279,616	\$ -	\$733,279,616
8	Working Capital Base	\$794,379,031	\$ -	\$794,379,031	\$ -	\$794,379,031
9	Working Capital Rate % (2)	13.50%	0.00%	13.50%	0.00%	13.50%
10	Working Capital Allowance	\$107,241,169	\$ -	\$107,241,169	\$ -	\$107,241,169

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study.
 (3) Average of opening and closing balances for the year.



 Ontario Energy Board
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Enersource Hydro Mississauga Inc.
Utility Income


Line No.	Particulars	Initial Application				Per Board Decision
Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)	\$134,481,135	(\$134,481,135)	\$ -	\$ -	\$ -
2	Other Revenue (1)	\$4,829,685	(\$4,829,685)	\$ -	\$ -	\$ -
3	Total Operating Revenues	\$139,310,820	(\$139,310,820)	\$ -	\$ -	\$ -
Operating Expenses:						
4	OM+A Expenses	\$59,899,415	\$ -	\$59,899,415	\$ -	\$59,899,415
5	Depreciation/Amortization	\$30,304,933	\$ -	\$30,304,933	\$ -	\$30,304,933
6	Property taxes	\$1,200,000	\$ -	\$1,200,000	\$ -	\$1,200,000
7	Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other expense	\$1,997,962	\$ -	\$1,997,962	\$ -	\$1,997,962
9	Subtotal (lines 4 to 8)	\$93,402,310	\$ -	\$93,402,310	\$ -	\$93,402,310
10	Deemed Interest Expense	\$18,879,362	(\$18,879,362)	\$ -	\$ -	\$ -
11	Total Expenses (lines 9 to 10)	\$112,281,672	(\$18,879,362)	\$93,402,310	\$ -	\$93,402,310
12	Utility income before income taxes	\$27,029,148	(\$120,431,458)	(\$93,402,310)	\$ -	(\$93,402,310)
13	Income taxes (grossed-up)	\$3,558,494	\$ -	\$3,558,494	\$ -	\$3,558,494
14	Utility net income	\$23,470,654	(\$120,431,458)	(\$96,960,804)	\$ -	(\$96,960,804)

Notes

Other Revenues / Revenue Offsets

(1)	Specific Service Charges	\$1,236,783		\$ -		\$ -
	Late Payment Charges	\$1,800,000		\$ -		\$ -
	Other Distribution Revenue	\$1,260,695		\$ -		\$ -
	Other Income and Deductions	\$532,207		\$ -		\$ -
	Total Revenue Offsets	\$4,829,685	\$ -	\$ -	\$ -	\$ -



 Ontario Energy Board
**REVENUE REQUIREMENT
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Enersource Hydro Mississauga Inc.
Taxes/PILs

Line No.	Particulars	Application		Per Board Decision
Determination of Taxable Income				
1	Utility net income before taxes	\$23,470,654	\$ -	\$ -
2	Adjustments required to arrive at taxable utility income	(\$11,053,648)	\$ -	(\$11,053,648)
3	Taxable income	<u>\$12,417,006</u>	<u>\$ -</u>	<u>(\$11,053,648)</u>
Calculation of Utility Income Taxes				
4	Income taxes	\$2,676,752	\$2,676,752	\$2,676,752
6	Total taxes	<u>\$2,676,752</u>	<u>\$2,676,752</u>	<u>\$2,676,752</u>
7	Gross-up of Income Taxes	\$881,742	\$881,742	\$881,742
8	Grossed-up Income Taxes	<u>\$3,558,494</u>	<u>\$3,558,494</u>	<u>\$3,558,494</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$3,558,494</u>	<u>\$3,558,494</u>	<u>\$3,558,494</u>
10	Other tax Credits	(\$400,000) (1)	(\$400,000)	(\$400,000)
Tax Rates				
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	9.78%	9.78%	9.78%
13	Total tax rate (%)	<u>24.78%</u>	<u>24.78%</u>	<u>24.78%</u>

Notes

1 PILs amount includes reduction due to income tax credits



 Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**
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Enersource Hydro Mississauga Inc.
 Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
Initial Application					
		(%)	(\$)	(%)	(\$)
	<u>Debt</u>				
1	Long-term Debt	56.00%	\$360,295,129	5.09%	\$18,344,066
2	Short-term Debt	4.00%	\$25,735,366	2.08%	\$535,296
3	Total Debt	60.00%	\$386,030,495	4.89%	\$18,879,362
	<u>Equity</u>				
4	Common Equity	40.00%	\$257,353,663	9.12%	\$23,470,654
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$257,353,663	9.12%	\$23,470,654
7	Total	100.00%	\$643,384,158	6.58%	\$42,350,016
		(%)	(\$)	(%)	(\$)
	<u>Debt</u>				
1	Long-term Debt	0.00%	\$ -	0.00%	\$ -
2	Short-term Debt	0.00%	\$ -	0.00%	\$ -
3	Total Debt	0.00%	\$ -	0.00%	\$ -
	<u>Equity</u>				
4	Common Equity	0.00%	\$ -	0.00%	\$ -
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	0.00%	\$ -	0.00%	\$ -
7	Total	0.00%	\$643,384,158	0.00%	\$ -
Per Board Decision					
		(%)	(\$)	(%)	(\$)
	<u>Debt</u>				
8	Long-term Debt	0.00%	\$ -	5.09%	\$ -
9	Short-term Debt	0.00%	\$ -	2.08%	\$ -
10	Total Debt	0.00%	\$ -	0.00%	\$ -
	<u>Equity</u>				
11	Common Equity	0.00%	\$ -	9.12%	\$ -
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	0.00%	\$ -	0.00%	\$ -
14	Total	0.00%	\$643,384,158	0.00%	\$ -

Notes

(1) 4.0% unless an Applicant has proposed or been approved for another amount.



Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

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Enersource Hydro Mississauga Inc.
 Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application				Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$3,195,967		(\$42,055,773)		\$93,402,310
2	Distribution Revenue	\$131,285,166	\$131,285,168	\$131,285,166	\$176,536,908	\$-	(\$93,402,310)
3	Other Operating Revenue	\$4,829,685	\$4,829,685	\$-	\$-	\$-	\$-
4	Offsets - net						
4	Total Revenue	\$136,114,851	\$139,310,820	\$131,285,166	\$134,481,135	\$-	\$-
5	Operating Expenses	\$93,402,310	\$93,402,310	\$93,402,310	\$93,402,310	\$93,402,310	\$93,402,310
6	Deemed Interest Expense	\$18,879,362	\$18,879,362	\$-	\$-	\$-	\$-
6	Total Cost and Expenses	\$112,281,672	\$112,281,672	\$93,402,310	\$93,402,310	\$93,402,310	\$93,402,310
7	Utility Income Before Income Taxes	\$23,833,179	\$27,029,148	\$37,882,856	\$41,078,825	(\$93,402,310)	(\$93,402,310)
8	Tax Adjustments to Accounting Income per 2009 PILs	(\$11,053,648)	(\$11,053,648)	(\$11,053,648)	(\$11,053,648)	\$-	\$-
9	Taxable Income	\$12,779,531	\$15,975,500	\$26,829,208	\$30,025,177	(\$93,402,310)	(\$93,402,310)
10	Income Tax Rate	24.78%	24.78%	24.78%	24.78%	24.78%	24.78%
11	Income Tax on Taxable Income	\$3,166,579	\$3,958,493	\$6,647,881	\$7,439,795	(\$23,143,710)	(\$23,143,710)
12	Income Tax Credits	(\$400,000)	(\$400,000)	(\$400,000)	(\$400,000)	\$-	\$-
13	Utility Net Income	\$21,066,600	\$23,470,654	\$31,634,975	(\$98,960,804)	(\$70,258,600)	(\$98,960,804)
14	Utility Rate Base	\$643,384,158	\$643,384,158	\$643,384,158	\$643,384,158	\$643,384,158	\$643,384,158
	Deemed Equity Portion of Rate Base	\$257,353,663	\$257,353,663	\$-	\$-	\$-	\$-
15	Income/(Equity Portion of Rate Base)	8.19%	9.12%	0.00%	0.00%	0.00%	0.00%
16	Target Return - Equity on Rate Base	9.12%	9.12%	0.00%	0.00%	0.00%	0.00%
17	Deficiency/Sufficiency in Return on Equity	-0.93%	0.00%	0.00%	0.00%	0.00%	0.00%
18	Indicated Rate of Return	6.21%	6.58%	4.92%	0.00%	-10.92%	0.00%
19	Requested Rate of Return on Rate Base	6.58%	6.58%	0.00%	0.00%	0.00%	0.00%
20	Deficiency/Sufficiency in Rate of Return	-0.37%	0.00%	4.92%	0.00%	-10.92%	0.00%
21	Target Return on Equity	\$23,470,654	\$23,470,654	\$-	\$-	\$-	\$-
22	Revenue Deficiency/(Sufficiency)	\$2,404,054	(\$0)	(\$31,634,975)	\$-	\$70,258,600	\$-
23	Gross Revenue	\$3,195,967 (1)		(\$42,055,773) (1)		\$93,402,310 (1)	
	Deficiency/(Sufficiency)						

Notes:
 (1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



 Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**

Version 2.20

Enersource Hydro Mississauga Inc.
Revenue Requirement

Line No.	Particulars	Application		Per Board Decision	
1	OM&A Expenses	\$59,899,415		\$59,899,415	
2	Amortization/Depreciation	\$30,304,933		\$30,304,933	
3	Property Taxes	\$1,200,000		\$1,200,000	
5	Income Taxes (Grossed up)	\$3,558,494		\$3,558,494	
6	Other Expenses	\$1,997,962		\$1,997,962	
7	Return				
	Deemed Interest Expense	\$18,879,362	\$ -	\$ -	\$ -
	Return on Deemed Equity	\$23,470,654	\$ -	\$ -	\$ -
8	Service Revenue Requirement (before Revenues)	\$139,310,820	\$96,960,804	\$96,960,804	
9	Revenue Offsets	\$4,829,685	\$ -	\$ -	
10	Base Revenue Requirement	\$134,481,135	\$96,960,804	\$96,960,804	
11	Distribution revenue	\$134,481,135	\$ -	\$ -	
12	Other revenue	\$4,829,685	\$ -	\$ -	
13	Total revenue	\$139,310,820	\$ -	\$ -	
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	(\$0)	(1)	(\$96,960,804)	(1)

Notes
 (1)

Line 11 - Line 8



Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

Version 2.20

Bill Impacts - Residential

☐ Application of New Loss Factor to all applicable items ☐ Application of new Loss Factor to Delivery Items Only

Consumption kWh

	Charge Unit	Current Board-Approved			Proposed			Impact	
		Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change
1	Monthly Service Charge		1	\$ -		1	\$ -	\$ -	
2	Smart Meter Rate Adder		1	\$ -		1	\$ -	\$ -	
3	Service Charge Rate Adder(s)		1	\$ -		1	\$ -	\$ -	
4	Service Charge Rate Rider(s)		1	\$ -		1	\$ -	\$ -	
5	Distribution Volumetric Rate		800	\$ -		800	\$ -	\$ -	
6	Low Voltage Rate Adder		800	\$ -		800	\$ -	\$ -	
7	Volumetric Rate Adder(s)		800	\$ -		800	\$ -	\$ -	
8	Volumetric Rate Rider(s)		800	\$ -		800	\$ -	\$ -	
9	Smart Meter Disposition Rider		800	\$ -		800	\$ -	\$ -	
10	LRAM & SSM Rate Rider		800	\$ -		800	\$ -	\$ -	
11	Deferral/Variance Account Disposition Rate Rider		800	\$ -		800	\$ -	\$ -	
12				\$ -			\$ -	\$ -	
13				\$ -			\$ -	\$ -	
14				\$ -			\$ -	\$ -	
15				\$ -			\$ -	\$ -	
16	Sub-Total A - Distribution			\$ -			\$ -	\$ -	
17	RTSR - Network		800	\$ -		800	\$ -	\$ -	
18	RTSR - Line and Transformation Connection		800	\$ -		800	\$ -	\$ -	
19	Sub-Total B - Delivery (Including Sub-Total A)			\$ -			\$ -	\$ -	
20	Wholesale Market Service Charge (WMSC)		800	\$ -		800	\$ -	\$ -	
21	Rural and Remote Rate Protection (RRRP)		800	\$ -		800	\$ -	\$ -	
22	Special Purpose Charge		800	\$ -		800	\$ -	\$ -	
23	Standard Supply Service Charge		1	\$ -		1	\$ -	\$ -	
24	Debt Retirement Charge (DRC)		800	\$ -		800	\$ -	\$ -	
25	Energy		800	\$ -		800	\$ -	\$ -	
26				\$ -			\$ -	\$ -	
27				\$ -			\$ -	\$ -	
28	Total Bill (before Taxes)			\$ -			\$ -	\$ -	
29	HST			13%			13%	\$ -	
30	Total Bill (including Sub-total B)			\$ -			\$ -	\$ -	
31	Ontario Clean Energy Benefit (OCEB)			-10%			-10%	\$ -	
32	Total Bill (including OCEB)			\$ -			\$ -	\$ -	
33	Loss Factor (%)	Note 1	<input type="text"/>		<input type="text"/>				

Notes:
 (1): Enter existing and proposed total loss factor (Secondary Metered Customer < 5,000 kW) as a percentage.

BILL IMPACTS FOR ALL RATE CLASSES ARE PROVIDED IN APPENDIX 2-V.



Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

Version 2.20

Enersource Hydro Mississauga Inc.
Bill Impacts - General Service < 50 kW

☞ Application of New Loss Factor to all applicable items ☞ Application of new Loss Factor to Delivery Items Only

Consumption kWh

Charge Unit	Current Board-Approved			Proposed			Impact	
	Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change
1 Monthly Service Charge		1	\$ -		1	\$ -	\$ -	
2 Smart Meter Rate Adder		1	\$ -		1	\$ -	\$ -	
3 Service Charge Rate Adder(s)		1	\$ -		1	\$ -	\$ -	
4 Service Charge Rate Rider(s)		1	\$ -		1	\$ -	\$ -	
5 Distribution Volumetric Rate		2000	\$ -		2000	\$ -	\$ -	
6 Low Voltage Rate Adder		2000	\$ -		2000	\$ -	\$ -	
7 Volumetric Rate Adder(s)		2000	\$ -		2000	\$ -	\$ -	
8 Volumetric Rate Rider(s)		2000	\$ -		2000	\$ -	\$ -	
9 Smart Meter Disposition Rider		2000	\$ -		2000	\$ -	\$ -	
10 LRAM & SSM Rider		2000	\$ -		2000	\$ -	\$ -	
11 Deferral/Variance Account Disposition Rate Rider		2000	\$ -		2000	\$ -	\$ -	
12			\$ -			\$ -	\$ -	
13			\$ -			\$ -	\$ -	
14			\$ -			\$ -	\$ -	
15			\$ -			\$ -	\$ -	
16 Sub-Total A - Distribution			\$ -			\$ -	\$ -	
17 RTSR - Network		2000	\$ -		2000	\$ -	\$ -	
18 RTSR - Line and Transformation Connection		2000	\$ -		2000	\$ -	\$ -	
19 Sub-Total B - Delivery (Including Sub-Total A)			\$ -			\$ -	\$ -	
20 Wholesale Market Service Charge (WMSC)		2000	\$ -		2000	\$ -	\$ -	
21 Rural and Remote Rate Protection (RRRP)		2000	\$ -		2000	\$ -	\$ -	
22 Special Purpose Charge		2000	\$ -		2000	\$ -	\$ -	
23 Standard Supply Service Charge		1	\$ -		1	\$ -	\$ -	
24 Debt Retirement Charge (DRC)		2000	\$ -		2000	\$ -	\$ -	
25 Energy		2000	\$ -		2000	\$ -	\$ -	
26			\$ -			\$ -	\$ -	
27			\$ -			\$ -	\$ -	
28 Total Bill (before Taxes)			\$ -			\$ -	\$ -	
29 HST	13%		\$ -	13%		\$ -	\$ -	
30 Total Bill (including Sub-total B)			\$ -			\$ -	\$ -	
31 Ontario Clean Energy Benefit (OCEB)	-10%		\$ -	-10%		\$ -	\$ -	
32 Total Bill (including OCEB)			\$ -			\$ -	\$ -	
33 Loss Factor	(1)	<input type="text" value="0.00%"/>		<input type="text" value="0.00%"/>				

Notes:

(1): See Note (1) from Sheet 10A. Bill Impacts - Residential

BILL IMPACTS FOR ALL RATE CLASSES ARE PROVIDED IN APPENDIX 2-V.

1 ***Changes in Methodology***

2 **Alignment of Rate Year with Fiscal Year**

3 Enersource is seeking Board approval for rates effective January 1, 2013 in this
4 application. This would align Enersource's distribution rates with its fiscal year,
5 which is also the calendar year. This is a change in the prior method of
6 implementing new distribution rates effective May 1.

7 History of Rate Setting Timing

8 In the distant past, up until 2000, rates were implemented January 1, under
9 Ontario Hydro regulation. With the introduction of electricity deregulation in
10 Ontario, and the unbundling of rates, most distributors had their first rate
11 adjustment on March 1, 2001, as provided for in the Board's 2000 release of the
12 Electricity Distribution Rate Handbook. There was a further distribution rate
13 change March 1, 2002 and then the commodity market opened on May 1, 2002.
14 There were no distribution rate changes in 2003.

15 In early 2004, electricity distributors were permitted to begin recovering
16 regulatory assets in their rates. The Board approved the applications of
17 distributors to recover 25% of their December 31, 2002 regulatory asset balances
18 (or additional amounts for rate stability) in their distribution rates implemented on
19 April 1, 2004, which aligned the distribution rate change with the commodity rate
20 change. It made sense to align both rate changes at that time because
21 distributors were not permitted to submit a cost of service distribution rate
22 application. The next distribution rate change, including funding for the third
23 tranche of Market Adjusted Revenue Requirement ("MARR") for conservation
24 and demand management ("CDM") programs, was April 1, 2005.

1 It wasn't until 2006 that both commodity rates and distribution rates began to
2 change in May and November. This was implemented by the Board via the
3 release of the 2006 Electricity Distribution Rate Handbook, without any particular
4 proceeding, so the implications were never discussed or considered publicly.

5 Throughout this history, the fiscal year for Enersource did not change; it has
6 always been a January 1 start date.

7 History of Enersource's Requests to align its Rate Year with its Fiscal Year

8 On November 7, 2008, Enersource filed a Third Generation Incentive Regulation
9 Mechanism ("3rd GIRM") application (EB-2008-0171) with the Board, seeking,
10 among other things, an interim rate order to reflect Enersource's intention to file a
11 subsequent application to align its rate year with its fiscal year.

12 The Board issued its decision in EB-2008-0171 on March 16, 2009, and denied
13 Enersource's request for an interim rate order. In short, the Board concluded
14 that pursuant to Section 21(7) of the *Ontario Energy Board Act, 1998*, the Board
15 may not declare rates interim after the final disposition of the matter. That is,
16 once the Board issues its final rate order, the proceeding is over and the current
17 panel does not have the power to declare these same rates interim at a later
18 date.

19 On July 6, 2009, Enersource filed a 3rd GIRM application (EB-2009-0193) with
20 the Board, seeking, among other things, an alignment of its rate year with its
21 fiscal year. On December 15, 2009, the Board issued its decision, denying
22 Enersource's request for the alignment. The Board accepted Enersource's
23 argument that aligning its rate year with its financial year would simplify reporting
24 to the investment community and thus saw merit in the request. However, the
25 Board expressed belief that other distributors would also be interested in a
26 change in rate year to January 1. The implications of such a change needed to

1 be examined more fully, in a Board policy context. The Board decided that it
2 would initiate a brief consultation process in the matter in the near future.

3 Summary of OEB Guidance

4 On January 21, 2010, the Board initiated a consultative process to review the
5 need for and the implications of a potential alignment of the rate year with the
6 fiscal year for electricity distributors (EB-2009-0423). The process invited
7 comments from interested stakeholders, and Enersource, as a member of the
8 Coalition of Large Distributors (the "CLD"), submitted comments.

9 The comments received from all of the interested parties provided the Board with
10 sufficient information to provide guidance in this matter. As a result, the Board
11 concluded to allow each distributor the discretion to apply for alignment of its rate
12 year with the fiscal year, specifically within a cost of service application (as
13 opposed to filing such a request within an incentive regulation mechanism
14 application).

15 The Board expressed its expectation that the distributor was to include an
16 analysis of the benefits and ratemaking implications, if any, of the alignment as
17 part of its application. In order to assist a distributor in this regard, the Board
18 included examples of the issues that should be addressed, such examples found
19 in Appendix B of its guidance, dated April 15, 2010.

20 Below are the Board's enumerated issues, and Enersource's responses.

21 **1.** What are the benefits to the distributor of changing the rate year to match the
22 fiscal year?

23 The first and foremost benefit would be the opportunity for Enersource to earn its
24 Board-approved rate of return over the period of Enersource's fiscal year. This

1 would eliminate the discrepancy between Enersource's regulated rate of return
2 and its actual fiscal year rate of return.

3 As well, this would eliminate the need to explain such discrepancies to
4 stakeholders including shareholders, bond holders, and credit rating agencies, a
5 recurring task which unproductively consumes company resources.
6 Explanations of financial results are complicated if the revenues are not aligned
7 with the costs, particularly in a year with a cost of service rate application. This
8 misalignment results in the need for explanations about the impact of the stub
9 period from the prior rate year.

10 As per sections 2.1.6 and 2.1.7 of the Electricity Reporting and Record Keeping
11 Requirements, all electricity distribution reporting to the Board is provided on a
12 calendar-year basis, and all data used for input into evidence filed for rate
13 applications is based on the calendar year. Thus, changing the rate year to a
14 January 1 start would allow for consistency in the data collection and
15 presentation by Enersource, and for easily comparing the application evidence to
16 data from prior periods. This benefit of consistency would be enjoyed by all
17 parties: Enersource, the Board, and Intervenors.

18 There is another issue to consider: the calculation of Payments in Lieu of Taxes
19 ("PILs"). Under the current May 1 rate year, the PILs allowance is collected from
20 May to April, but applicable to a tax year from January to December. Any stub
21 period issues are ignored, as was acknowledged in the 2006 Electricity
22 Distribution Rate Handbook¹. This issue is resolved with the Board approving
23 Enersource's alignment of its rate year with the calendar year.

¹ See 2006 Electricity Distribution Rate Handbook, section 7.2.8.

1 **2.** What would be the implications of such a change from a ratepayers'
2 perspective? For example, is it a concern that electricity consumers would see
3 more frequent rate changes?

4 Natural gas customers in Ontario experience commodity rate changes quarterly
5 without apparent confusion or concern. On the electricity side, customers are
6 subject to Board-approved rate riders for implementation on dates other than
7 May 1, without apparent confusion or concern. It is routine for electricity
8 distributors to communicate such rate changes to their customers via bill
9 messages, bill inserts and other forms of notification in order to mitigate
10 confusion. A distribution rate change for January 1 can be communicated in the
11 same way.

12 As an example, in the past two years, Enersource has implemented rate changes
13 on February 1 (both in 2010 and in 2012) via the application of rate riders to clear
14 outstanding balances in variance and deferral accounts. The changes were
15 communicated to customers via bill messages, and there were minimal increases
16 in the number of customer phone calls and inquiries to Enersource regarding
17 these February 1 rate changes.

18 Also, all classes of ratepayers above the level of GS<50 kWh, have the option to
19 buy electricity at the Hourly Ontario Electricity Price ("HOEP") which fluctuates
20 with every monthly bill. A proposed January 1 distribution rate change would
21 likely be dwarfed by the significance of the monthly commodity rate changes for
22 these classes of customers.

23 Furthermore, with customers transitioning to time-of-use rates, residential and
24 GS<50 kWh customers will potentially see more frequent bill impacts and rate
25 changes than they have experienced in the past. Enersource submits that

1 adding a distribution rate change in January instead of May will not stand out in
2 this increasingly more frequent rate changing environment.

3 Thus, it can be concluded that an additional rate change in the year is not a
4 concern for ratepayers. Presumably, with the Board's approval of a January 1
5 rate year, Enersource will have three options (January 1, May 1, and November
6 1) as appropriate dates for implementing other rate changes such as rate riders
7 and rate adders. As a customer of Enersource, this may result in better
8 predictability for when a rate change will occur.

9 **3.** Under a Cost of Service mechanism, what are the specific issues from a
10 ratemaking perspective of transitioning to a rate year that would be aligned with
11 the fiscal year, and how should these issues be specifically addressed?

12 The main issue with respect to changing a rate year while under a cost of service
13 application is the need to ensure that neither ratepayers nor shareholders are
14 prejudiced by the transition. However, in the past, shareholders have been
15 disadvantaged by postponements in recovery of revenue requirements. The
16 undoing of that disadvantage is not prejudicial to customers.

17 Enersource submits that the alignment of the rate year with the fiscal year via a
18 cost of service rate application resolves issues that currently exist, as opposed to
19 creating issues.

20 In the specific case of filing a traditional May 1 cost of service rate application,
21 there are unnecessary complexities whereby the costs presented are from
22 January to December, but the collection of associated revenues (if approved) are
23 delayed until the following May to April time period. Typically, a Board decision
24 would not be issued until a short while before the May 1 implementation date,
25 well into the calendar year. A decision which varies from the company's applied-
26 for revenue requirement may be problematic for Enersource, as costs pursuant

1 to fiscal year/calendar year budgets will have begun to be borne by the time the
2 decision is issued.

3 Or, alternatively, Enersource might decide to delay spending until receipt of a
4 Board decision, which would result in a variance from the full annual spending
5 budget. These needless variances will need to be explained in future rate
6 proceedings, using up the Board's and other parties' resources.

7 Rebasing January 1 aligns with the planning and budgeting cycle, and it is
8 irrelevant that Enersource would be exiting from its 3rd GIRM regulatory compact
9 early due to the fact that everything is being rebased as of January 1.

10 **4.** What would be the specific issues relating to the timeliness of existing filing
11 requirements such as bridge year information, audited financial statements, RRR
12 reporting, tax returns, and review and disposition of deferral and variance
13 account balances, and how should these be specifically addressed?

14 The timing for submitting a January 1 cost of service rate application is April 27
15 (as required by the OEB for a January 1, 2013 rate year²) which allows for the
16 provision of actuals for the entire prior calendar year, 2011 (the "Historical Year").

17 Data for 2012 (the "Bridge Year") is based on actuals that are available at the
18 time of filing, and balance of the year as budgeted; granted, very little actual data
19 for the Bridge Year is available for submitting a cost of service rate application by
20 April 27. However, it is typical of the Interrogatory Request ("IR") process to
21 update Bridge Year data, which may include actuals up to the end of June.
22 Historical Year audited financial statements are included in a cost of service rate
23 application. For May 1 rate years the proceeding timing would only incorporate

² Pursuant to a letter from the OEB to electricity distributors, dated January 26, 2012

1 historical audited statements to be available for the year preceding the Historical
2 Year. For a January 1 rate year application, audited financial statements for the
3 prior fiscal year, i.e., the Historical Year, are available by the April 27 filing
4 deadline.

5 Historical Year actual tax returns are available in June of the Bridge Year; these
6 tax returns are filed as a matter of course with the OEB subsequent to filing of
7 the initial application, prior to the expiry of the IR period.

8 Balances in deferral and variance accounts as of December 31 of the Historical
9 Year are available by the April 27 filing deadline, for a January 1 rate year cost of
10 service application. The deferral and variance accounts would also be cleared
11 earlier with a January 1 start date, i.e., within twelve months instead of the
12 current sixteen months.

13 Regardless of the implementation date, there will always be some need to use
14 prior year trends and budgeted/estimated data to support a cost of service rate
15 application which will be tested in the process of the IRs and hearing. This
16 Application is no different.

17 **5.** Is there merit in considering the alignment during a Cost of Service application
18 but having the implementation of the alignment take effect on January 1st of the
19 following year as part of the distributor's first IRM-based adjustment?

20 Enersource sees no merit in delaying the implementation of the alignment. In
21 fact, a delay would merely continue the ongoing disadvantage to shareholders by
22 an unnecessary postponement in recovery of revenue requirement applicable to
23 the 2013 Test Year.

1 **Adoption of Modified International Financial Reporting Standards**

2 Until recently³, the Canadian Accounting Standards Board required Enersource
3 to transition to International Financial Reporting Standards (“IFRS”)⁴ for financial
4 reporting effective January 1, 2012. The adoption of IFRS changes the manner
5 in which Enersource performs its accounting and the reporting of financial
6 results, and creates impacts on regulated rates and charges.

7 Enersource has taken an active role in the Board’s series of consultations to
8 develop policy and provide guidance regarding the transition to IFRS. The first
9 phase of the consultation (EB-2008-0408) culminated with the issuance of the
10 *Report of the Board, Transition to IFRS*, on July 28, 2009, subsequently
11 amended November 8, 2010, and March 15, 2011, and then appended by an
12 addendum, dated June 13, 2011, (collectively, the “Board Report”).

13 Enersource has utilized the Board Report for policy guidance on the transition to
14 IFRS, and specifically its requirements for regulatory accounting, regulatory
15 reporting, and the filing requirements for this Application.

16 This one-time adjustment to rate base plus return, resulting from the changes in
17 asset lives and depreciation by moving to IFRS, is explained more fully at Exhibit

³ On March 31, 2012, an announcement by Canada’s Accounting Standards Board (“AcSB”), who were meeting on March 20-21, noted the following:

“The AcSB decided to extend the deferral of the mandatory IFRS changeover date for entities with qualifying rate regulated activities by one year to January 1, 2013 in light of the recent discussions of the IASB’s future agenda.”

Enersource understands that the basis for the AcSB’s extended deferral relates to the continuing deliberations by the International Accounting Standards Board regarding its agenda project on rate regulatory activities and the potential development of interim guidance prior to pre-changeover standards. However, Enersource has elected to proceed with its transition to IFRS, effective January 1, 2012.

⁴ The Board uses the term “modified IFRS” or “MIFRS” to refer to IFRS accounting as modified for regulatory purposes consistent with the Board Report.

1 9 Tab 1 Schedule 1 and Exhibit 2 Tab 1 Schedule 1. Enersource is seeking to
2 clear the deferral account, which has captured the transition costs in moving to
3 IFRS, via a rate rider.

4 **Use of Econometric Data in Load Forecasting**

5 Enersource`s load forecasts for this Application were completed using
6 econometric data obtained from the Conference Board of Canada for the Toronto
7 region which also includes Mississauga`s economy. Prior to this, Enersource
8 utilized econometric projections from Ontario`s Ministry of Finance which were
9 also used to underpin the provincial budgets. Statistical evaluation of the
10 econometric data against historical energy consumption and peak demand in
11 Mississauga demonstrates that the econometric data is statistically significant.

12 **Weather Correction of Rate Class Electricity Consumption**

13 Enersource has developed multivariate regression models to capture the
14 relationships between energy sales for each rate class and a number of
15 explanatory variables including weather, calendar, econometric, and other
16 variables. The models were developed with actual data from 2004 to 2011 using
17 the same inputs as the system energy and system peak demand forecast
18 models. The rate class sales models derive weather-corrected energy sales for
19 each rate class, using the normal weather scenario. The models were found to
20 be statistically well-fit, and provide individual rate class weather corrections.

21 **Changes in Rate Classes**

22 Enersource is proposing an adjustment to its rate classes. Enersource currently
23 has no separate Unmetered Scattered Loads ("USL") rate class, as the USL
24 customers are included as part of the Small Commercial rate class. A new USL
25 rate class has been included in the Cost Allocation Model and proposed Tariff of

1 Rates and Charges, addressed at Exhibit 7 Tab 1 Schedule 1 and Exhibit 8 Tab
2 8 Schedule 1, respectively. Enersource is proposing to merge the Small
3 Commercial less than 50 kW rate class with the General Service less than 50 kW
4 rate class. These customers are not sufficiently different in service setup, billing,
5 collections, and meter reading profiles to require a separate rate class.

1 ***Audited Financial Statements***

2 Enersource's audited 2009, 2010, and 2011 financial statements are provided at
3 Exhibit 1 Tab 3 Schedule 1 Appendices 1, 2 and 3, respectively.

4 **IFRS Transition - Financial Information**

5 International Financial Reporting Standards 1 ("IFRS 1") contains general
6 transition recognition, measurement, presentation, and disclosure requirements
7 applicable to an entity for the preparation of its first interim and annual financial
8 statements in accordance with IFRS.

9 Enersource is a first-time adopter of IFRS¹ and will issue its first set of annual
10 financial statements in early 2013 that include an explicit and unreserved
11 statement of compliance with IFRS.

12 IFRS 1 requires Enersource to:

- 13 • Prepare and present an opening IFRS statement of financial position and
14 related adjustments at the date of Enersource's adoption of IFRS, January 1,
15 2011²;

¹ On March 31, 2012, an announcement by Canada's Accounting Standards Board ("AcSB") who were meeting on March 20-21, noted the following:

"The AcSB decided to extend the deferral of the mandatory IFRS changeover date for entities with qualifying rate regulated activities by one year to January 1, 2013 in light of the recent discussions of the IASB's future agenda."

Enersource understands that the basis for the AcSB's extended deferral relates to the continuing deliberations by the International Accounting Standards Board regarding its agenda project on rate regulatory activities and the potential development of interim guidance prior to pre-changeover standards. However, Enersource had already proceeded with its transition to MIFRS, effective January 1, 2012, and has elected to maintain its adoption of IFRS.

² Enersource's adoption of IFRS was January 1, 2011, for comparative purposes, and Enersource transitioned to IFRS effective January 1, 2012.

- 1 • Select relevant accounting policies and apply these policies retrospectively to
2 all reporting periods ending December 31, 2012, and December 31, 2011 for
3 comparative purposes;
 - 4 • Apply relevant mandatory exceptions from retrospective application;
 - 5 • Make the choice on whether to apply any of the exemptions from
6 retrospective application;
 - 7 • Provide the required disclosures and explain how the transition from
8 Canadian Generally Accepted Accounting Principles (“CGAAP”) to IFRS
9 affected its reported financial position, financial performance, and cash flows;
10 and
 - 11 • Prepare and disclose a reconciliation of equity and comprehensive income
12 reported under CGAAP to equity and comprehensive income reported under
13 IFRS each quarter.
- 14 Enersource determined the following significant IFRS items would apply to
15 Enersource’s statement of financial position and statement of comprehensive
16 income:
- 17 • Previous CGAAP carrying amount as deemed cost for property, plant, and
18 equipment (“PPE”) and Intangible Assets (IFRS 1, paragraph D8B) at the
19 date of transition;
 - 20 • Derecognize all regulatory assets and regulatory liabilities at the date of
21 transition (IFRS 1, paragraph 10(b));
 - 22 • Adopt revised useful lives based on an independent third-party evaluation
23 and IAS 16/IAS 38 requirements; and

- 1 • Revise post-employment benefit accounting procedures based on IAS
2 19R.

3 Each of these four topics is discussed more fully below.

4 **Previous CGAAP Carrying Amount as Deemed Costs for PPE and**
5 **Intangible Assets (IFRS 1, Paragraph D8B)**

6 Enersource elected to use the deemed cost election under IFRS 1 for opening
7 balance sheet values for its PPE and Intangible Assets. Based on paragraph
8 D8B of IFRS 1, entities with operations subject to rate regulations may hold items
9 of PPE or Intangible Assets where the carrying amount of such items might
10 include amounts that were determined under previous GAAP, but do not qualify
11 for capitalization in accordance with IFRS.

12 Under this exemption, the deemed cost at the date of transition becomes the new
13 IFRS cost basis. The accumulated amortization recognized under previous
14 CGAAP prior to the transition date, will be included with the gross book values so
15 that the net book values will not be affected. Amortization requirements under
16 IFRS are determined based on the deemed cost and useful life estimates at the
17 date of transition.

18 At the date of transition to IFRS, an entity shall also test for impairment in
19 accordance with IAS 36 each item for which this exemption is used. Enersource
20 reviewed this additional requirement against the information provided in IAS 36
21 and determined that it will not have any impairment at the date of transition.

22 **Derecognize All Assets and Liabilities (IFRS 1, Paragraph 10(b))**

23 Under IFRS 1, paragraph 10(b), an entity is required to not recognize items as
24 assets or liabilities if IFRS does not permit recognition. Enersource reviewed all
25 2010 ending assets and liabilities previously recognized under CGAAP to

1 determine if the requirements for recognition under IFRS were met. The
2 following adjustments were required to the opening IFRS statement of financial
3 position:

4 **Regulatory Assets and Liabilities**

5 Enersource determined, based on the position of the International Accounting
6 Standards Board (“IASB”), and various industry expert opinions, that regulatory
7 assets and liabilities do not meet the definitions contained within the IFRS
8 Conceptual Framework of Financial Reporting. Enersource derecognized, at the
9 date of transition, all regulatory assets and liabilities as an adjustment to opening
10 retained earnings. These adjustments were material and will be disclosed in
11 Enersource’s notes to the financial statements.

12 **Employee Benefits**

13 Enersource elected to adopt the amended IAS 19 early. Enersource recognized
14 all past service costs (unrecognized plan amendment costs) and all unrealized
15 actuarial gains and losses at the date of transition. At the date of transition all re-
16 measurements were reclassified to retained earnings.

17 **Income Taxes**

18 Currently, under IFRS, rate-regulated accounting is not permitted. As a result,
19 the regulatory liability for the deferred income tax asset recorded under CGAAP
20 will be derecognized through retained earnings upon Enersource’s adoption, for
21 comparative purposes, of IFRS at January 1, 2011. Furthermore, the reversal of,
22 or increase in, temporary differences after January 1, 2011, relating to fixed
23 assets, retirement benefit liability, and other items for which the deferred taxes
24 are expected to be recovered from or returned to customers in future rates, will
25 now result in a deferred tax expense or recovery under IFRS. Under CGAAP,

1 the change in these temporary differences would result in a change in the
2 regulatory liability for the deferred income tax asset.

3 **Adopt Revised Useful Lives Based on an Independent Third Party**
4 **Evaluation and IAS 16/IAS 38 Requirements**

5 **Componentization Structure and Depreciation**

6 IFRS requires items of PPE and Intangible Assets that have costs that are
7 significant in relation to the total cost of the item, for which different depreciation
8 methods or rates are appropriate, to be depreciated separately.

9 In prior years, under CGAAP, utilities were permitted to pool assets and use
10 service lives that were approved by the OEB. IFRS currently does not have a
11 rate-regulated standard and does not allow for the use of externally-approved
12 depreciation rates.

13 Therefore, Enersource, in conjunction with four other utilities, engaged Kinectrics
14 Inc., to conduct an independent third party study of asset useful lives. The study
15 is entitled *Enersource Corporation, Burlington Hydro, Oakville Hydro, Halton Hills*
16 *Hydro & Milton Hydro Useful Life of Assets*, dated December 10, 2009. For
17 reference purposes, the short name is “Enersource’s Useful Lives Study”, and is
18 filed at Exhibit 2 Tab 1 Schedule 2 Appendix 1. The OEB subsequently retained
19 Kinectrics Inc. to prepare a similar study, entitled *Asset Depreciation Study for*
20 *the Ontario Energy Board*, dated July 8, 2010, available on the OEB’s website.³
21 Based on the results of the Enersource’s Useful Lives Study and internal
22 analysis, Enersource revised its componentization structure and revised the
23 estimated useful lives of its distribution system assets and other assets that form

³<http://www.ontarioenergyboard.ca/OEB/ Documents/EB-2010-0178/Kinectrics-418033-OEB%20Asset%20Amortization-%20Final%20Rep.pdf>

1 part of PPE. These useful lives adopted by Enersource are consistent with the
2 *Asset Depreciation Study for the Ontario Energy Board*.

3 **Change in Capitalization Policy**

4 IFRS prescribes which costs can be included as part of the cost of an asset and
5 indicates that only costs that are directly attributable to a specific asset can be
6 capitalized. Indirect overhead costs, such as general and administration costs
7 that are not directly attributable to an asset, that were being capitalized under
8 CGAAP, are not permitted under IFRS.

9 Furthermore, the OEB stated in the Board Report⁴ that utilities were to adhere to
10 modified IFRS (“MIFRS”) capitalization accounting requirements for rate making
11 and regulatory reporting purposes after the date of adoption of IFRS.

12 After extensive internal analysis and review by an external IFRS advisor,
13 Enersource concluded that it would cease the capitalization of general overhead
14 costs, including labour burdens, general administration, material handling, and
15 fleet burdens, for regulatory and external reporting under IFRS. This change
16 resulted in a decrease in the amount of costs capitalized and an increase in
17 operating expenses.

18 **Early Derecognition of Assets**

19 Under IFRS an asset should be derecognized when it is disposed or when no
20 future economic benefits are expected from its use. Any gain or loss upon
21 derecognition should be included in profit or loss when the item is derecognized.

⁴ OEB proceeding EB-2008-0408 resulted in the issuance of the *Report of the Board, Transition to IFRS*, on July 28, 2009, subsequently amended November 8, 2010, and March 15, 2011, and then appended by an addendum, dated June 13, 2011, (collectively, the “Board Report”).

1 As described in the Board Report, electricity distributors are required to reclassify
2 such gains and losses as depreciation expense and disclose these amounts
3 separately.

4 As stated previously, Enersource pooled assets under CGAAP and did not
5 derecognize an asset unless an amount or individual component could be
6 determined accurately. Under IFRS, Enersource is required to derecognize or
7 expense an item when it is disposed of rather than over the estimated useful life
8 of the pool. Essentially, Enersource has more depreciation expenses (losses) in
9 the current period under IFRS than it would have had under CGAAP.

10 **Revise Post-Employment Benefit Accounting Procedures Based on IAS**
11 **19R**

12 Since Enersource elected to adopt the amended IAS 19 early, all future re-
13 measurements will be recognized in the current period. Post-employment
14 benefits actuary gains and losses, the impact to Enersource at the date of
15 transition, and future re-measurements are discussed more fully below.

16 **Post-Employment Benefits - Actuary Gains and Losses**

17 Enersource's current OMERS pension plan is a multi-employer public sector
18 defined-benefit pension plan funded by equal contributions from participating
19 employers and employees as well as by investment earnings of the plan.
20 Pension contributions received from all OMERS employers and members are
21 combined and used jointly to purchase investments. Under OMERS' funding and
22 investment structure, investments and actuarial evaluations are determined on a
23 commingled basis across all employers and as a result, information for individual
24 employers is unavailable.

1 As Enersource does not have the information to account for its proportionate
2 share of the defined benefit obligation and plan assets, Enersource will continue
3 to account for Enersource's participation in OMERS as a defined contribution
4 plan in accordance with IAS 19R.34, and all contributions to the plan will continue
5 to be expensed in the current period under IFRS.

6 Enersource also provides post-employment life, health, and dental benefits to its
7 employees. Enersource uses an actuary to determine the cost of these benefits
8 as well as measure the plan obligation. The actuary uses the projected benefit
9 method pro-rated on services (sometimes known as the projected unit credit
10 method) as well as management's best estimate assumptions. Under CGAAP,
11 net actuarial gains and losses that exceed 10% of the accrued benefit obligation
12 would be amortized into expense on a straight-line basis over the expected
13 average remaining service lifetime. The accrued post-employment life, health,
14 and dental liability at the date of transition is in excess of \$4,000. Enersource
15 does not have any plan assets.

16 Under CGAAP, Enersource would have an actuary perform a full actuarial
17 valuation of the plan every three years. At the end of each intervening period,
18 Enersource would obtain from the actuary an update for any material changes
19 that may have been caused by interest rates as well as any changes to health
20 and dental cost increases. Enersource will continue to receive a full report every
21 three years and material updates from the actuary in the intervening years under
22 IFRS.

23 The ultimate cost of a defined-benefit plan may be influenced by many variables,
24 such as final salaries, employee turnover and mortality, employee contributions,
25 and medical cost trends. In order to measure the present value of the post-

1 employment benefit obligation and the related current service cost, it is
2 necessary to:

- 3 • apply an actuarial valuation method;
- 4 • attribute benefit to periods of service; and
- 5 • make actuarial assumptions.

6 **Impact to Enersource at the Date of Transition**

7 Based on paragraph IAS 19R, paragraph 103, Enersource recognized the entire
8 transition obligation as a vested past service cost and all re-measurements at the
9 date of transition to IFRS as opening adjustments to retained earnings. The net
10 impact at the date of transition was a reduction of the post-employment accrued
11 liability of \$160 of which \$150 relates to Enersource. The balance is attributable
12 to the non-regulated affiliates of Enersource.

13 **Future Re-Measurements**

14 Actuarial gains and losses result from increases or decreases in the present
15 value of the defined-benefit obligation because of changes in actuarial
16 assumptions and experience adjustments. Some examples of causes of
17 actuarial gains and losses include:

- 18 • unexpectedly high or low rates of employee turnover, early retirement, or
19 mortality, or increases in salaries, benefits (if the formal or constructive
20 terms of the plan provide for inflationary benefit increases), or medical
21 costs;
- 22 • the effect of changes to assumptions concerning benefit payment options;

- 1 • the effect of changes in estimates of future employee turnover, early
2 retirement or mortality, or of increases in salaries, benefits (if the formal or
3 constructive terms of a plan provide for inflationary benefit increases), or
4 medical costs; and

- 5 • the effect of changes in the discount rate.

6 Under the IAS 19R.57 (d) standard, as amended June, 2011, the amortization or
7 “corridor approach” for actuarial gains and losses exceeding 10% was removed.
8 As a result, Enersource will be recognizing actuarial gains and losses or re-
9 measurements immediately in Other Comprehensive Income (“OCI”). Since
10 Enersource adopted the amended standard early, all future actuarial gains and
11 losses will be recorded as OCI in the current period rather than be amortized.
12 The actuary loss at the end of 2011 was \$822 of which \$769 relates to
13 Enersource. The balance is attributable to the non-regulated affiliates of
14 Enersource. The actuary loss is found in the report entitled “*Post-Employment*
15 *Benefits for Employees of Enersource Corporation*”, prepared by Morneau
16 Shepell Ltd., and provided at Exhibit 1 Tab 3 Schedule 1 Appendix 4 (“Morneau
17 Shepell Report”)⁵.

18 Enersource proposes to accumulate all re-measurements recognized in OCI in
19 an OEB-approved deferral account. As such, Enersource is requesting OEB
20 approval for a deferral account to record the re-measurements recognized in
21 OCI, and will request to clear the cumulative balance each time Enersource
22 submits a new cost of service rate application.

⁵ *Post-Employment Benefits for Employees of Enersource Corporation, Accounting Report as at December 31, 2011*, Prepared January, 2012, by Morneau Shepell, at p. 6.

1 Based on the above, Enersource is seeking to recover over one year the net
2 change from the transition to IFRS and the 2011 actuary loss. In total,
3 Enersource is seeking to recover from customers \$619 over a one-year term.
4 Due to the amount requested for disposition, a recovery period of longer than
5 one year would result in a \$0.000/kWh rate rider for certain customer classes.

6 Actuary gains and losses that are recognized in OCI between the end of 2012
7 and Enersource's next cost of service rate application will be tracked in the
8 deferral account and any balance in the account will be refunded or recovered in
9 future rates.

10 Table 1 below provides post-employment benefit accounting impacts.

11 **Table 1: Post-Employment Benefit Accounting Impacts (\$000s)**

Description	Accounting Impact
Enersource Portion of IFRS Transition	\$ (150)
Enersource 2011 Portion of OCI Re-Measurements	769
Total to be Recovered Over One Year	\$ 619

12 Enersource has included the annual post-employment expenses in its annual
13 benefit rates per employee type.

Financial Statements of

**ENERSOURCE HYDRO
MISSISSAUGA INC.**

Year ended December 31, 2009



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Enersource Hydro Mississauga Inc. as at December 31, 2009 and the statements of income and other comprehensive income, retained earnings 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' in a stylized, cursive font. A horizontal line is drawn underneath the signature.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 12, 2010

ENERSOURCE HYDRO MISSISSAUGA INC.

Balance Sheet
 (In thousands of dollars)

December 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,133	\$ 52,329
Accounts receivable (note 14(b))	56,874	55,320
Unbilled revenue	50,568	53,816
Amounts due from related parties, without interest (note 15)	134	81
Income taxes receivable	501	-
Inventory (note 3)	7,747	7,012
Prepaid expenses and deposits	1,000	1,738
Future income tax assets (note 5(c))	514	-
	128,471	170,296
Capital assets (note 2)	435,171	418,948
Intangible assets (note 4)	14,420	10,336
Deposits and prudentials	20,225	20,363
Regulatory assets (note 7)	12,238	2,371
Other deferred costs (note 1(g))	4,951	3,071
Future income tax assets (note 5(c))	33,491	-
	520,496	455,089
	\$ 648,967	\$ 625,385

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 92,443	\$ 89,561
Income taxes payable	-	2,741
Advance payments	2,054	2,830
Amounts due to related parties, without interest (note 15)	1,309	1,568
Regulatory liability for future income tax assets (note 5(d))	252	-
Regulatory liabilities (note 7)	-	18,295
	96,058	114,995
Long-term liabilities:		
Bonds payable (note 8)	289,256	288,735
Deposits	20,225	20,363
Employee retirement and post-retirement benefits (note 9)	3,912	3,545
Regulatory liability for future income tax assets (note 5(d))	33,491	-
	346,884	312,643
Shareholders' equity:		
Capital stock (note 10)	155,629	155,629
Retained earnings	50,396	42,118
	206,025	197,747
Contingencies (note 12)		
Commitments (note 13)		
	\$ 648,967	\$ 625,385

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Income and Other Comprehensive Income
 (In thousands of dollars)

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Energy sales	\$ 444,166	\$ 548,255
Distribution	115,488	109,979
Other	8,801	5,723
	<u>568,455</u>	<u>663,957</u>
Operating expenses:		
Energy purchases	444,166	548,255
Operations, maintenance and administration	47,267	39,642
Amortization of capital assets	35,020	32,254
Amortization of intangible assets	1,224	1,056
Amortization of regulatory liabilities	(2,278)	(2,514)
	<u>525,399</u>	<u>618,693</u>
Operating income	43,056	45,264
Non-operating revenue (expense):		
Interest income	604	2,604
Interest expense	(18,499)	(19,229)
Foreign exchange gain (loss)	(383)	907
	<u>(18,278)</u>	<u>(15,718)</u>
Income before income taxes	24,778	29,546
Income taxes (note 5(b))	6,251	11,512
Net income and other comprehensive income	<u>\$ 18,527</u>	<u>\$ 18,034</u>

Statement of Retained Earnings (In thousands of dollars)

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Retained earnings, beginning of year	\$ 42,118	\$ 32,973
Net income and other comprehensive income	18,527	18,034
Accounting policy change (note 1(p) and note 5(a))	571	—
Dividends paid (note 10)	(10,820)	(8,889)
Retained earnings, end of year	<u>\$ 50,396</u>	<u>\$ 42,118</u>

See accompanying notes to financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Cash Flows
 (In thousands of dollars)

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net income	\$ 18,527	\$ 18,034
Items not affecting cash:		
Amortization of debt issue costs	523	179
Amortization of capital assets	35,020	32,254
Amortization of intangible assets	1,224	1,056
Amortization of regulatory liabilities	(2,278)	(2,514)
Gain on the disposal of capital assets	(179)	(145)
Employee post-retirement benefits	367	482
Future income tax expense	309	—
	53,513	49,346
Change in non-cash operating working capital (note 11)	(17,268)	17,607
	36,245	66,953
Financing activities:		
Deposits	(138)	(1,386)
Dividends paid	(10,820)	(8,889)
	(10,958)	(10,275)
Investing activities:		
Deposits and prudentials	138	1,386
Additions to capital assets	(50,653)	(41,327)
Additions to intangible assets	(5,904)	(5,639)
Other deferred costs	(1,880)	(1,258)
Proceeds on the disposal of capital assets	314	297
Decrease (increase) in regulatory assets	(8,498)	7,612
	(66,483)	(38,929)
Increase (decrease) in cash and cash equivalents	(41,196)	17,749
Cash and cash equivalents, beginning of year	52,329	34,580
Cash and cash equivalents, end of year	\$ 11,133	\$ 52,329
Supplemental cash flow information:		
Interest received	\$ 681	\$ 2,657
Interest paid	18,241	18,241
Payments in lieu of corporate income taxes paid	11,742	12,949

See accompanying notes to financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements
(In thousands of dollars)

Year ended December 31, 2009

Enersource Hydro Mississauga Inc. (the "Corporation") is the electric distribution utility for residents of the City of Mississauga (the "City").

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP").

(b) Rate setting:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs not included in the Corporation's smart meter revenue requirement, as directed by the OEB.
- (v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyl ("PCB") regulations.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

The OEB has the power to establish electricity prices under a regulated price plan ("RPP") for low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust the electricity commodity prices charged to these RPP consumers every six months as required.

Regulated Price Plan:

	January 2008 - April 2008	May 2008 - October 2008	November 2008 - April 2009	May 2009 - October 2009	November 2009 - December 2009
Residential consumption threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh	1,000 kWh
Non-residential consumption threshold	750 kWh	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.050/kWh	\$.050/kWh	\$.056/kWh	\$.057/kWh	\$.058/kWh
Price above threshold	\$.059/kWh	\$.059/kWh	\$.065/kWh	\$.066/kWh	\$.067/kWh

The Corporation submitted a rate re-basing application to the OEB on August 23, 2007 for the rate period beginning on May 1, 2008 through April 30, 2009. A settlement negotiated with intervenors was accepted by the OEB on January 4, 2008. On April 18, 2008, the OEB released its final decision and order on this rate application. The Corporation implemented this distribution rate decision, along with OEB-approved changes to the recovery of regulatory assets and refund of regulatory liabilities on May 1, 2008.

In November 2008, the Corporation submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(d) Revenue recognition:

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution rates and charges that is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue that represents electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Other revenue is recognized as services are rendered or contract milestones are achieved.

(e) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of capital assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy and Infrastructure.

(f) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as capital assets.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(g) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution systems, is removed from the accounts at the end of their estimated service lives.

In the event that facts and circumstances indicate that capital assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Amortization of capital asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

Buildings and other fixtures	20 - 60 years
Distribution station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Equipment and furniture	2 - 10 years

Construction in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of capital assets. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index (formally known as Scotia Capital Inc. Bond Index), as published on the OEB website, updated quarterly. The prescribed interest rate for the construction work in process accounts is as follows:

	January 2008 - June 2008	July 2008 - December 2008	January 2009 - June 2009	July 2009 - September 2009	October 2009 - December 2009
Allowance rate	5.18%	5.43%	6.61%	5.67%	4.66%

(h) Intangible assets:

Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use. Intangible assets are assets that lack physical substance, other than financial assets.

Amortization of intangible asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

Computer software	2 - 10 years
-------------------	--------------

The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(j) Deposits and prudentials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudentials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

(k) Pension and other post-employment benefits:

The Corporation accounts for its participation in Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the year.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(m) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(n) Financial instruments:

Financial assets, financial liabilities and non-financial derivatives are recorded on the balance sheet at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Corporation designates its cash and cash equivalents, deposits and prudentials, as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

Effective May 1, 2008 the Corporation was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Corporation may differ from the OEB deemed structure.

(p) Changes in accounting policies:

(i) Credit risk and the fair value of financial assets and financial liabilities:

In January 2009, the CICA issued Emerging Issues Committee ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 is to be applied retrospectively without restatements of prior years to all financial assets and liabilities measured at fair value in interim and annual statements for years ending on or after the date of issuance of this abstract. This change did not have a material impact on the results of operations.

(ii) Future tax assets and liabilities:

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3465, Income Taxes ("Section 3465"), which required the Corporation to record income taxes using the asset and liability method. Under this method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from settlement or recovery of assets and liabilities at their carrying values. The adoption of this section required the Corporation to recognize future income tax liabilities and assets as well as a regulatory asset or liability for future income taxes expected to be recovered from or refunded to customers through future distribution rates.

The financial statements were adjusted retrospectively without restatement. The adoption of this accounting policy change resulted in an increase to retained earnings of \$571.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

1. Significant accounting policies (continued):

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the year in which the tax change was enacted or substantively enacted.

Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings.

(q) Future accounting changes:

Transition to IFRS:

The Accounting Standards Board ("AcSB") has adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its year ended December 31, 2010, and the opening balance sheet as at January 1, 2010. The Corporation is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on the future financial position and results of operations is not reasonably determinable or estimable.

2. Capital assets:

2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ —	\$ 4,071
Buildings	17,112	5,743	11,369
Distribution station equipment	92,299	35,473	56,826
Overhead and underground distribution system	682,983	339,850	343,133
Equipment and furniture	30,298	15,295	15,003
Construction in progress:			
Electric distribution system	4,769	—	4,769
	\$ 831,532	\$ 396,361	\$ 435,171

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

2. Capital assets (continued):

2008	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ —	\$ 4,071
Buildings	16,614	5,381	11,233
Distribution station equipment	84,686	34,687	49,999
Overhead and underground distribution system	651,143	317,523	333,620
Equipment and furniture	28,084	15,385	12,699
Construction in progress:			
Electric distribution system	5,786	—	5,786
Computer hardware	1,540	—	1,540
	\$ 791,924	\$ 372,976	\$ 418,948

During the year, \$1,031 (2008 - \$766), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2009 was \$1,276 (2008 - \$1,026). The amount of inventory that was written down due to obsolescence was \$10 (2008 - \$31).

4. Intangible assets:

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,471	\$ 2,596	\$ 13,875
Software in development	545	—	545
	\$ 17,016	\$ 2,596	\$ 14,420

2008	Cost	Accumulated amortization	Net book value
Computer software	\$ 3,562	\$ 1,484	\$ 2,078
Software in development	8,258	—	8,258
	\$ 11,820	\$ 1,484	\$ 10,336

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

5. Income taxes:

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The impact of the retrospective adjustment and significant components of the Corporation's future tax assets, liabilities, expense and retained earnings are as follows:

(a) Future income tax changes in the statement of retained earnings:

	January 1, 2009
Regulatory assets and liabilities	\$ 214
Unrealized gain on foreign exchange	357
	<u>\$ 571</u>

(b) Components of provision for income taxes:

Current income tax expense	\$ 5,942
Future income tax expense	309
	<u>\$ 6,251</u>

(c) Significant components of future income tax assets on the 2009 balance sheet are as follows:

Capital and intangible assets	\$ 24,580
Regulatory liability for future income taxes	8,236
Regulatory assets and liabilities	259
Retirement benefit liability	978
Other temporary differences	(48)
	<u>\$ 34,005</u>

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

5. Income taxes (continued):

The future tax asset is presented on the 2009 balance sheet as follows:

Future income tax assets, current	\$ 514
Future income tax assets, non-current	33,491
	<u>\$ 34,005</u>

- (d) Management expects that \$25,507 of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of \$8,236. Accordingly, \$33,743 has been recorded as a regulatory liability for future income taxes.

The regulatory liability for future income tax assets is presented on the 2009 balance sheet as follows:

Regulatory liability for future income taxes, current	\$ 252
Regulatory liability for future income taxes, non-current	33,491
	<u>\$ 33,743</u>

6. Capital asset purchase commitments and additions:

Capital asset purchase commitments outstanding as at December 31, 2009 total \$6,946 (2008 - \$11,028).

7. Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future distribution rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

With the adoption of Section 3465, the Corporation was also required to record a regulatory liability relating to the amount of future tax assets that are expected to be recovered or refunded through distribution rates.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

7. Regulatory assets and liabilities (continued):

Regulatory balances are comprised principally as follows:

- (a) Post-market opening retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the Independent Electricity System Operator ("IESO") for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.
- (b) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to do so until directed by the OEB.

The following table demonstrates the impact on 2009 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below:

	2009	2008	Estimated remaining settlement period (years)	2009 impact on earnings net of income taxes ((a)(i))
Regulatory assets:				
Other regulatory assets ((a)(iii))	\$ 1,585	\$ -	2	\$ (1,585)
Smart meter revenue/expense ((a)(ii))	6,380	2,371	2	(2,012)
	\$ 7,965	\$ 2,371		\$ (3,597)
Regulatory liabilities (assets):				
Other regulatory liabilities ((a)(iii))	\$ -	\$ 540	-	\$ -
Net regulatory liabilities approved for refund ((a)(iv))	305	2,563	1 - 2	305
Retail settlement variances ((a)(v))	32,520	22,519	1 - 2	289
Global Adjustment retail settlement variance ((a)(vi))	(37,098)	(7,327)	1 - 2	(208)
	\$ (4,273)	\$ 18,295		\$ 386
Regulatory liability for future income tax assets ((a)(vii))	\$ 33,743	\$ -	-	\$ -

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

7. Regulatory assets and liabilities (continued):

(a) Explanatory notes:

- (i) The 2009 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.
- (ii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Corporation has recognized revenue and costs for smart meter investments to December 31, 2009. This amount reflects the deferred revenue and associated costs not included in the Corporation's smart meter revenue requirement.
- (iii) The OEB requires that the Corporation record and defer the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental expenses needed to comply with Environment Canada's new regulations associated with PCB's. The remaining balance reflects the difference between tax rates used for rate setting and the corporate tax rates applied.
- (iv) The OEB-approved net refund of \$7,021 regulatory liabilities plus interest amount was refunded to customers from May 1, 2008 through April 30, 2009, as per the April 18, 2008 distribution rate decision. This amount reflects the undistributed liability which will be refunded to customers in a future period.
- (v) The OEB requires that the Corporation record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference since January 1, 2007 plus interest charged at an OEB approved rate.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

7. Regulatory assets and liabilities (continued):

(vi) The Global Adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from the Corporation's customers.

(vii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and retail settlement variances, as directed by the OEB. As at December 31, 2009, this net accrued interest amounted to \$105 (2008 - \$864).

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with the Corporation's customers.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts recorded on the balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

7. Regulatory assets and liabilities (continued):

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

8. Bonds payable:

	2009	2008
6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ 290,000	\$ 290,000
Deferred debt issue costs (net of accumulated amortization of \$3,592 (2008 - \$3,071))	(744)	(1,265)
Net bonds payable	\$ 289,256	\$ 288,735

The Borealis-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. Interest expense for the year ended December 31, 2009 included \$18,241 (2008 - \$18,241) in respect of interest on long-term debt and amortization of debt issue costs in the amount of \$523 (2008 - \$179).

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

8. Bonds payable (continued):

The Corporation has the following material covenants associated with its long-term debt:

- (a) The consolidated Enersource Corporation financial statements must be audited, comply with GAAP and be filed directly on The System for Electronic Document Analysis and Retrieval ("SEDAR").
- (b) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.
- (c) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.
- (d) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:
 - (i) No default or event of default shall have occurred and be continuing, or shall occur; and
 - (ii) The aggregate amount of all such investments made shall not exceed the greater of (i) \$20,000 and (ii) 5% of consolidated net worth.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

9. Employee retirement and post-retirement benefits:

(a) Pensions:

During fiscal 2009, the Corporation expensed contributions made to OMERS of \$1,826 (2008 - \$1,767).

(b) Other retirement and post-retirement benefits:

The amounts presented are based upon an actuarial valuation performed in February 2010 as of December 31, 2009. The next valuation will be performed for the year ending December 31, 2012.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

9. Employee retirement and post-retirement benefits (continued):

Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits obligation:

	2009	2008
Change in benefit obligations:		
Accrued benefit obligation, beginning of year	\$ 3,594	\$ 4,284
Current service cost	143	200
Amortization of transition obligation	141	141
Interest cost	259	223
Benefits paid	(73)	(76)
Transition obligation	(141)	(141)
Amortization of actuarial gain	(98)	-
Net actuarial loss (gain)	388	(1,037)
Post-employment benefits obligation, end of year	\$ 4,213	\$ 3,594

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

	2009	2008
Accrued benefit, end of year	\$ 4,213	\$ 3,594
Unrecognized transition obligation	(658)	(799)
Unrecognized actuarial loss	357	750
Accrued benefit liability	\$ 3,912	\$ 3,545

(iii) Significant assumptions:

	2009	2008
Discount rate	7.25%	5.25%
Health care cost increases	15.00%	14.00%
Dental cost increases	5.00%	5.00%
Rate of compensation increase	2.50%	2.50%

The total post-employment benefits liability for this plan at December 31, 2009 is \$3,912 (2008 - \$3,545). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

	2009	2008
Amortization of transition obligation	\$ 136	\$ 136
Current service cost	143	199
Interest cost	259	223
Amortization of actuarial gain	(98)	—
	<u>\$ 440</u>	<u>\$ 558</u>

The December 31, 2009 actuarial valuation assumed health care costs would increase by 9% in 2010, then grading down to 5% per annum after 10 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately \$295.

10. Capital stock:

The Corporation is a wholly owned subsidiary of Enersource Corporation, the parent company. Capital stock consists of the following:

	2009	2008
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	\$ 155,629	\$ 155,629

Dividends may be declared by the Board of Directors through a resolution.

In 2009, a dividend of \$10,820 (2008 - \$8,889) was declared and paid to the shareholder of the Corporation.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

11. Change in non-cash operating working capital:

	2009	2008
Accounts receivable	\$ (1,554)	\$ (693)
Unbilled revenue	3,248	4,718
Income taxes receivable	(501)	-
Inventory	(735)	(440)
Prepaid expenses and deposits	738	(316)
Accounts payable and accrued liabilities	2,882	19,924
Accounts payable and accrued liabilities in assets	778	(2,431)
Income taxes payable	(2,741)	57
Amounts due to/from related parties	(312)	667
Advance payments	(776)	1,281
Regulatory liabilities	(18,295)	(5,160)
	<u>\$ (17,268)</u>	<u>\$ 17,607</u>

Accrued liabilities relating to additions to capital assets and intangible assets for the year ended December 31, 2009 was \$5,029 (2008 - \$5,807) has been excluded from the change in non-cash operating working capital and from cash used in investing activities.

12. Contingencies:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence through Alternative Risk Services.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

12. Contingencies (continued):

(b) Environmental matters:

(i) Enersource is subject to numerous environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various identified sites. At December 31, 2008, the Corporation provided \$180 for testing and future remediation. For the year ended December 31, 2009, the Corporation's total environmental expense was \$673, which includes an accrual of \$450 for future remediation activities.

(ii) Environment Canada has issued new regulations governing the management of PCBs. The Corporation is in the process of determining the extent and impact that the new regulations will have on the organization. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses that may be incurred to comply with the new regulations for potential recovery through future rates. As at December 31, 2009 the Corporation has deferred \$914 included in regulatory assets, representing costs incurred for compliance with the new regulations.

(c) Other claims:

A class action claiming \$500,000 in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class, consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the Local Distribution Companies ("LDCs") 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 ("EDA") is undertaking the defence of this class action.

On March 2, 2010, the EDA reached a settlement in principle of this litigation on behalf of all LDCs. This tentative settlement requires the consent and approval of all LDCs and approval of the Ontario Superior Court of Justice in order to become effective.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

12. Contingencies (continued):

If the settlement becomes effective, the Corporation will be released from all claims made in the litigation. If the settlement is not approved, the litigation will continue and the Corporation will remain exposed to ongoing legal costs and to a possible judgment in the case for an amount greater than its share included in the settlement.

This potential settlement, if finalized, is not expected to have a material impact on the Corporation's results of operations.

13. Commitments:

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$9,344 (2008 - \$9,344).

14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate their fair values because of the short term to maturity of these financial instruments.

The bonds, having a carrying value of \$290,000 (2008 - \$290,000), have a fair value of \$307,168 (2008 - \$299,805), based on year-end quoted market prices.

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

14. Financial instruments (continued):

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow-through nature of commodity costs, and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of \$681 as at December 31, 2009 (2008 - \$3,136).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Corporation is generally considered insignificant.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including, limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2009, met the credit exposure limits specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2009, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

14. Financial instruments (continued):

- (ii) The Corporation as permitted by the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.
- (iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 5.2% of the total net outstanding balance.
- (iv) The Corporation included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2009	2008
Total accounts receivable	\$ 57,597	\$ 57,175
Less allowance for doubtful accounts	(723)	(1,855)
Total accounts receivable, net	\$ 56,874	\$ 55,320
Of which:		
Not yet due	\$ 32,889	\$ 47,108
Past due 1 day but not more than 15	16,126	4,203
Past due 15 days but not more than 45	4,952	1,723
Past due 45 days but not more than 75	662	862
Past due 75 days but not more than 105	966	2,229
Past due more than 105 days	2,002	1,050
Less allowance for doubtful accounts	(723)	(1,855)
Total accounts receivable, net	\$ 56,874	\$ 55,320

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2009

14. Financial instruments (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 92,443	\$ -	\$ -
Bond interest and principal payable	18,241	299,121	-
Total	\$ 110,684	\$ 299,121	\$ -

The Borealis-Enersource Series Bonds mature in May, 2011 and are expected to be refinanced at that time.

(d) Interest rate risk

The Corporation minimizes interest rate risk by issuing long term fixed rate debt.

15. Related party transactions:

The Corporation provides electricity and services to the principal shareholder of its parent company, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2009	2008
Electrical energy	\$ 8,250	\$ 7,998
Streetlighting energy	5,245	4,537

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2009

15. Related party transactions (continued):

The Corporation charged the City \$403 for other construction services in 2009 (2008 - \$541).

At December 31, 2009, the Corporation incurred property taxes payable to the City of \$800 (2008 - \$791).

At December 31, 2009, accounts payable and accrued liabilities include \$37 (2008 - \$21) due to the City and accounts receivable include \$2,254 (2008 - \$2,206) due from the City.

The Corporation charged BPC \$9 (2008 - \$10) for an access agreement and was recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2009, accounts receivable included \$1 (2008 - \$1) due from BPC.

During 2009, the Corporation was charged \$11,738 (2008 - \$7,041) by Enerpower Corporation for the construction of distribution infrastructure. At December 31, 2009, accounts payable and accrued liabilities due to Enerpower Corporation were \$1,871 (2008 - \$3,147).

Amounts due from related parties include \$134 (2008 - \$81) from a company under common control and nil (2008 - nil) from the parent company.

Amounts due to related parties include \$80 (2008 - \$238) to a company under common control and \$1,229 (2008 - \$1,330) to the parent company.

16. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2009 is \$58,705 (2008 - \$53,146) owed in respect of electricity purchases through the IESO.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**ENERSOURCE HYDRO
MISSISSAUGA INC.**

Year ended December 31, 2010

Independent Auditors' Report

To the Shareholders of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the balance sheets as at December 31, 2010 and December 31, 2009, the statements of income and comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enersource Hydro Mississauga Inc. as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and extends to the right, ending under the "P" of "LLP".

Chartered Accountants, Licensed Public Accountants
March 8, 2011
Toronto, Ontario

ENERSOURCE HYDRO MISSISSAUGA INC.

Balance Sheet
 (In thousands of dollars)
 December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,393	\$ 11,133
Accounts receivable (note 14(b))	54,090	56,874
Unbilled revenue	67,048	50,568
Amounts due from related parties, without interest (note 15)	606	134
Income taxes receivable	-	501
Inventory (note 3)	7,540	7,747
Prepaid expenses and deposits	1,046	1,000
Future income tax assets (note 5(b))	-	514
	<u>159,723</u>	<u>128,471</u>
Fixed assets (note 2)	445,872	435,171
Intangible assets (note 4)	15,583	14,420
Deposits and prudentials (note 6)	20,739	20,225
Regulatory assets (note 7)	20,013	12,238
Other deferred costs (note 1(g))	90	4,951
Future income tax assets (note 5(b))	32,495	33,491
	<u>534,792</u>	<u>520,496</u>
	<u>\$ 694,515</u>	<u>\$ 648,967</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 87,423	\$ 92,443
Income taxes payable	3,413	-
Deferred revenue	148	-
Advance payments	2,718	2,054
Amounts due to related parties, without interest (note 15)	1,417	1,309
Future income tax liability (note 5(b))	209	-
Regulatory liability for future income tax assets (note 5 (c))	149	252
Regulatory liabilities (note 7)	39,671	-
Bonds payable (note 8)	289,811	-
	<u>424,959</u>	<u>96,058</u>
Long-term liabilities:		
Bonds payable (note 8)	-	289,256
Deposits	20,739	20,225
Employee retirement and post-retirement benefits (note 9)	3,783	3,912
Regulatory liability for future income tax assets (note 5(c))	32,495	33,491
	<u>57,017</u>	<u>346,884</u>
Shareholders' equity:		
Capital stock (note 10)	155,629	155,629
Retained earnings	56,910	50,396
	<u>212,539</u>	<u>206,025</u>
Contingencies (note 12)		
Commitments (notes 6 and 13)		
	<u>\$ 694,515</u>	<u>\$ 648,967</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

_____ Director _____ Director

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Income and Comprehensive Income
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Energy sales	\$ 509,505	\$ 444,166
Distribution	120,076	117,766
Recovery (refund) of regulatory accounts	7,429	(2,278)
Other	11,136	8,801
	<u>648,146</u>	<u>568,455</u>
Operating expenses:		
Energy purchases	509,505	444,166
Operations, maintenance and administration	51,124	47,234
Amortization of fixed assets	36,177	35,020
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
	<u>606,171</u>	<u>525,366</u>
Operating income	41,975	43,089
Non-operating revenue (expense):		
Interest income	485	604
Interest expense	(18,982)	(18,532)
Foreign exchange loss	(22)	(383)
	<u>(18,519)</u>	<u>(18,311)</u>
Income before income tax expense	23,456	24,778
Income tax expense (note 5(a))	6,404	6,251
Net income and comprehensive income	<u>\$ 17,052</u>	<u>\$ 18,527</u>

Statement of Retained Earnings
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Retained earnings, beginning of year	\$ 50,396	\$ 42,689
Net income and comprehensive income	17,052	18,527
Dividends paid (note 10)	(10,538)	(10,820)
Retained earnings, end of year	<u>\$ 56,910</u>	<u>\$ 50,396</u>

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Cash Flows
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 17,052	\$ 18,527
Items not affecting cash:		
Amortization of debt issue costs	555	523
Amortization of fixed assets	36,177	35,020
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
Gain on the disposal of fixed assets	(167)	(179)
Employee retirement and post-retirement benefits	(129)	367
Future income tax expense	620	309
	63,473	53,513
Change in non-cash operating working capital (note 11)	24,893	(17,268)
	88,366	36,245
Financing activities:		
Deposits	514	(138)
Dividends paid	(10,538)	(10,820)
	(10,024)	(10,958)
Investing activities:		
Deposits and prudentials	(514)	138
Additions to fixed assets	(38,669)	(49,581)
Additions to intangible assets	(3,633)	(5,904)
Other deferred costs	(2,246)	(2,952)
Proceeds on disposal of fixed assets	184	314
Increase in regulatory assets	(15,204)	(8,498)
	(60,082)	(66,483)
Increase (decrease) in cash and cash equivalents	18,260	(41,196)
Cash and cash equivalents, beginning of year	11,133	52,329
Cash and cash equivalents, end of year	\$ 29,393	\$ 11,133
Supplemental cash flow information:		
Interest received	\$ 473	\$ 681
Interest paid	18,241	18,241
Income taxes paid	1,410	11,742

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements
(In thousands of dollars)

Year ended December 31, 2010

Enersource Hydro Mississauga Inc. (the "Corporation") is the electric distribution utility for residents of the City of Mississauga (the "City").

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP").

(b) Rate setting:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs not included in the Corporation's smart meter revenue requirement, as directed by the OEB.
- (v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyls ("PCB") regulations.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

The OEB has the power to establish electricity prices to be charged under a regulated price plan ("RPP"), as summarized in the following chart, to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these RPP consumers every six months as required.

Regulated Price Plan:

	November 2010 - December 2010	May 2010 - October 2010	November 2009 - April 2010	May 2009 - October 2009	January 2009 - April 2009
Residential consumption threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh	1,000 kWh
Non-residential consumption threshold	750 kWh	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.064/kWh	\$.065/kWh	\$.058/kWh	\$.057/kWh	\$.056/kWh
Price above threshold	\$.074/kWh	\$.075/kWh	\$.067/kWh	\$.066/kWh	\$.065/kWh

The Corporation submitted an electricity distribution rate re-basing application to the OEB on August 23, 2007 for the rate period May 1, 2008 through April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The final distribution rates and charges for 2008 based upon the settlement were approved on April 18, 2008.

In November 2008, the Corporation submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

On November 27, 2009 the Corporation submitted an application to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net refund of \$12,800 was approved by the OEB on January 29, 2010.

The Corporation submitted a formula based rate application in July 2009 to the OEB which was approved on March 29, 2010. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2010.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(d) Revenue recognition:

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution rates and charges that is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue that represents electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Other revenue is recognized as services are rendered or contract milestones are achieved.

(e) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of fixed assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(f) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as fixed assets.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

(g) Fixed assets:

Fixed assets are recorded at cost and are comprised of labour, materials, contracted services, engineering costs, overheads and an OEB-approved allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution systems, is removed from the accounts at the end of their estimated service lives.

In the event that facts and circumstances indicate that fixed assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Amortization of fixed asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

Buildings and other fixtures	20 - 60 years
Distribution station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Meters	15 - 25 years
Equipment and furniture	10 years
Rolling stock	4 - 8 years
Computer hardware	5 years

Construction in progress is comprised of assets under construction, that are not currently available for use and are not amortized

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of fixed assets where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index as published on the OEB website, updated quarterly. The prescribed interest rate for the construction work in process accounts is as follows:

	<u>Allowance Rate</u>
October 2010 – December 2010	4.01%
July 2010 – September 2010	4.66%
January 2010 – June 2010	4.34%
October 2009 – December 2009	4.66%
July 2009 – September 2009	5.67%
January 2009 – June 2009	6.61%

(h) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use.

Indefinite life intangible assets such as easements are held in perpetuity and are not amortized. The amortization of other intangible asset values are charged to operations on a straight-line basis over their estimated service lives as follows:

Computer software	2 - 10 years
-------------------	--------------

The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(j) Deposits and prudentials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudentials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

(k) Pension and other post-employment benefits:

The Corporation accounts for its participation in Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the year.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), both as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(m) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

(n) Financial instruments:

Financial assets, financial liabilities and non-financial derivatives are recorded on the consolidated balance sheets at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Corporation designates its cash and cash equivalents and deposits and prudentials as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Effective May 1, 2008, the Corporation was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Corporation may differ from the OEB deemed structure.

(p) Future accounting changes:

Transition to International Financial Reporting Standards:

In October 2010, the Accounting Standards Board ("AcSB") issued an amendment to the Introduction of Part 1 of the CICA Handbook to permit qualifying entities with rate-regulated activities the option to defer their adoption of IFRS to annual periods beginning on or after January 1, 2012. Entities using the deferral are required to disclose that fact.

Prior to this amendment, the AcSB required publicly accountable enterprises to adopt IFRS for interim and annual reporting periods beginning on or after January 1, 2011, including comparative amounts for the prior year.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

The Corporation will continue to prepare its financial statements according to Canadian GAAP for 2011 and has elected to adopt IFRS for interim and annual financial statements relating to annual periods beginning on January 1, 2012.

2. Fixed assets:

2010	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	18,599	6,148	12,451
Distribution station equipment	96,906	38,706	58,200
Overhead and underground distribution system	656,534	339,317	317,217
Meters	57,299	24,027	33,272
Equipment and furniture	8,670	4,024	4,646
Rolling stock	15,016	9,205	5,811
Computer Hardware	7,148	3,540	3,608
Construction in progress	6,596	–	6,596
	\$ 870,839	\$ 424,967	\$ 445,872

2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	17,112	5,743	11,369
Distribution station equipment	92,299	35,473	56,826
Overhead and underground distribution system	631,222	317,747	313,475
Meters	52,227	22,103	30,124
Equipment and furniture	8,629	3,395	5,234
Rolling Stock	15,018	9,143	5,875
Computer Hardware	6,652	2,757	3,895
Construction in progress	4,302	–	4,302
	\$ 831,532	\$ 396,361	\$ 435,171

During the year, \$314 (2009 - \$1,031), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2010 was \$1,011 (2009 - \$1,276). The amount of inventory that was written down due to obsolescence was \$48 (2009 - \$10).

4. Intangible assets:

2010	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,549	\$ 2,806	\$ 13,743
Software in development	1,804	–	1,804
Easements	36	–	36
	\$ 18,389	\$ 2,806	\$ 15,583

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,471	\$ 2,596	\$ 13,875
Software in development	545	–	545
	\$ 17,016	\$ 2,596	\$ 14,420

5. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

	2010	2009
Federal and Ontario statutory income tax rate	31.0%	33.0%
Income before provision for income taxes	\$ 23,456	\$ 24,778
	<u>\$ 23,456</u>	<u>\$ 24,778</u>
Provision for income taxes at statutory rate	\$ 7,271	\$ 8,177
Increase (decrease) resulting from:		
Amortization less than capital cost allowance	(615)	(1,528)
Other timing differences between accounting net income and net income for tax purposes	(252)	(398)
Provision for income taxes	<u>\$ 6,404</u>	<u>\$ 6,251</u>
Effective income tax rate	27.3%	25.2%

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Corporation's future tax assets, liabilities and expense are as follows:

(a) Components of provision for income taxes:

	2010	2009
Current income tax expense	\$ 5,784	\$ 5,942
Future income tax expense	620	309
	<u>\$ 6,404</u>	<u>\$ 6,251</u>

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

- (b) Significant components of future income tax assets and liabilities on the balance sheet are as follows:

	2010	2009
Fixed and intangible assets	\$ 23,496	\$ 24,580
Regulatory liability for future income taxes	8,025	8,236
Regulatory assets and liabilities	(388)	259
Employee retirement and post retirement benefits	1,073	978
Other temporary differences	80	(48)
	<u>\$ 32,286</u>	<u>\$ 34,005</u>

The future tax asset is presented on the balance sheet as follows:

	2010	2009
Future income tax assets, current	\$ —	\$ 514
Future income tax assets, non-current	32,495	33,491
	<u>\$ 32,495</u>	<u>\$ 34,005</u>

The future tax liability is presented on the balance sheet as follows:

	2010	2009
Future income tax liability, current	\$ 209	\$ —
Future income tax liability, non-current	—	—
	<u>\$ 209</u>	<u>\$ —</u>

- (c) Management expects that \$24,619 (2009 - \$25,507) of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of \$8,025 (2009 - \$8,236). Accordingly, \$32,644 (2009 - \$33,743) has been recorded as a regulatory liability for future income taxes.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

The regulatory liability for future income tax assets is presented on the balance sheet as follows:

	2010	2009
Regulatory liability for future income taxes, current	\$ 149	\$ 252
Regulatory liability for future income taxes, non-current	32,495	33,491
	<u>\$ 32,644</u>	<u>\$ 33,743</u>

6. Deposits and prudentials:

The following outlines the deposits and prudentials of the Corporation, posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	2010		2009	
	Cash and cash equivalents	Letters of credit/ letters of guarantee	Cash and cash equivalents	Letters of credit/ letters of guarantee
Customer deposits	\$ 20,739	\$ –	\$ 20,225	\$ –
Security with IESO	–	10,588	–	9,344
	<u>\$ 20,739</u>	<u>\$ 10,588</u>	<u>\$ 20,225</u>	<u>\$ 9,344</u>

Security deposits:

(a) Customer deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

Contingent obligations:

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

6. Deposits and prudentials (continued):

failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$10,588 (2009 - \$9,344)

7. Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future distribution rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

The Corporation is also required to record a regulatory liability or asset relating to the amount of future tax assets that are expected to be refunded or recovered through distribution rates.

Regulatory balances are comprised principally as follows:

- (i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.
- (ii) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to be deferred until directed by the OEB.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

The following table demonstrates the impact on 2010 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below.

	2010	2009	Estimated remaining settlement period (years)	2010 impact on earnings net of income taxes ((a)(i))
Regulatory assets (liabilities):				
Other regulatory assets ((a)(ii))	\$ 2,590	\$ 1,585	2	\$ (1,005)
Smart meter revenue/expense ((a)(iii))	9,572	6,380	2	(3,192)
Special Purpose Charge ((a)(iv))	1,705	-	1 - 2	(13)
Late Payment Penalty ((a)(v))	1,006	-	1 - 2	(729)
Net regulatory assets approved for recovery ((a)(vi))	5,140	-	1 - 2	(68)
Retail Settlement & Global adjustment variances ((a)(vii))	-	4,273	1 - 2	-
	\$ 20,013	\$ 12,238		\$ (5,007)
Regulatory liabilities (assets):				
Retail Settlement & Global Adjustment variances ((a)(vii))	39,671	-	1 - 2	202
	\$ 39,671	\$ -		\$ 202
Regulatory liability for future income tax assets ((a)(viii))	\$ 32,644	\$ 33,743	-	\$ -

(a) Explanatory notes:

- (i) The 2010 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.
- (ii) The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental costs needed to comply with Environment Canada's new regulations associated with PCBs. The OEB also requires that the Corporation record and defer the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects PILs differences resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

- (iii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Corporation has recognized revenue and costs for smart meter investments to December 31, 2010. The OEB also established guidelines for the accounting treatment for stranded meter costs, which directed distributors to defer stranded meter costs as a regulatory asset. This amount represents the cumulative costs related to stranded conventional meters.
- (iv) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy conservation and renewable energy program costs and that the SPC would be recoverable through distribution rates. The Corporation was assessed \$3,016 for its apportioned share of the total provincial amount of \$53,695. This amount represents the Corporation's remaining SPC assessment to be recovered.
- (v) On March 2, 2010, the Electricity Distributors Association ("EDA") reached a settlement in principle in a class action suit which claimed that Local Distribution Companies ("LDCs") were charging late payment interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The settlement received consent and approval by all LDCs. On July 22, 2010 the Ontario Superior Court of Justice approved the settlement which stipulates that LDCs will collectively pay \$17,000 in damages by June 30, 2011 to the Winter Warmth Fund or similar charities, after deducting legal fees. On February 22, 2011 the OEB approved the recovery of the late payment penalty through distribution rates effective May 1, 2011.
- (vi) On November 27, 2009, the Corporation submitted an application to the OEB to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net recovery of \$12,800 was approved by the OEB on January 29, 2010. During 2010, the Corporation recovered \$7,660 and expects to recover the remaining balance from January 1, 2011 to January 31, 2012.
- (vii) The OEB requires the Corporation to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference for all accounts plus interest at an OEB approved rate since January 1, 2008, excluding energy variance

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

account which reflects this difference from October 1, 2009. The global adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from the Corporation's customers. The global adjustment variance reflects this difference since October 1, 2009 plus interest charged at an OEB approved rate.

(viii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and liabilities, as directed by the OEB. As at December 31, 2010, this net accrued interest amounted to \$104 (2009 - \$105).

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with the Corporation's customers.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the consolidated financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts recorded on the consolidated balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

8. Bonds payable:

	2010	2009
6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ 290,000	\$ 290,000
Deferred debt issue costs (net of accumulated amortization of \$4,147 (2009 - \$3,592))	(189)	(744)
Net bonds payable	\$ 289,811	\$ 289,256

The BPC Energy Corporation ("Borealis")-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. The Borealis-Enersource Series Bonds will mature on May 3, 2011 and are intended to be refinanced at that time. The bonds are classified as a short-term liability. Interest expense for the year ended December 31, 2010 included \$18,241 (2009 - \$18,241) in respect of interest on this debt and amortization of debt issue costs in the amount of \$555 (2009 - \$523).

The Corporation has the following material covenants associated with its long-term debt:

- (a) The consolidated financial statements must be audited, comply with GAAP and be filed directly on the System for Electronic Document Analysis and Retrieval ("SEDAR").
- (b) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

8. Bonds Payable (continued):

- (c) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.
- (d) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:
 - (i) No default or event of default shall have occurred and be continuing, or shall occur; and
 - (ii) The aggregate amount of all such investments made shall not exceed the greater of (a) \$20,000 and (b) 5% of consolidated net worth.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

9. Employee retirement and post-retirement benefits:

- (a) Pensions:

During fiscal 2010, the Corporation expensed contributions made to OMERS of \$1,948 (2009 - \$1,826).

- (b) Other retirement and post-retirement benefits:

The Corporation measures its accrued benefit obligations for accounting purposes at December 31 each year. The latest actuarial valuation was performed as at December 31, 2009.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

9. Employee retirement and post-retirement benefits (continued):

Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits obligation:

	2010	2009
Change in benefit obligations:		
Accrued benefit obligation, beginning of year	\$ 4,213	\$ 3,594
Adjustment to opening balance	(509)	-
Current service cost	145	143
Amortization of transition obligation	134	141
Interest cost	227	259
Benefits paid	(126)	(73)
Transition obligation	(134)	(141)
Amortization of actuarial gain	-	(98)
Net actuarial loss	249	388
Post-employment benefits obligation, end of year	\$ 4,199	\$ 4,213

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

	2010	2009
Accrued benefit, end of year	\$ 4,199	\$ 4,213
Unrecognized transition obligation	(524)	(658)
Unrecognized actuarial gain	108	357
Accrued benefit liability	\$ 3,783	\$ 3,912

(iii) Significant assumptions:

	2010	2009
Discount rate	6.00%	7.25%
Health care cost increases	9.00%	12.00%
Dental cost increases	4.00%	5.00%
Rate of compensation increase	3.00%	2.50%

The total post-employment benefits liability for this plan at December 31, 2010 is \$3,783 (2009 - \$3,912). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

	2010	2009
Amortization of transition obligation	\$ 134	\$ 136
Current service cost	145	143
Interest cost	227	259
Amortization of actuarial gain	-	(98)
	\$ 506	\$ 440

The December 31, 2010 accounting report assumed health care costs would increase by 9% in 2011, then grading down to 5% per annum after 8 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately \$277.

10. Capital stock:

	2010	2009
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	\$ 155,629	\$ 155,629

Dividends may be declared by the Board of Directors through a resolution.

In 2010, a dividend of \$10,538 (2009 - \$10,820) was declared and paid to the shareholder of the Corporation.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

11. Change in non-cash operating working capital:

	2010	2009
Accounts receivable	\$ 2,784	\$ (1,554)
Unbilled revenue	(16,480)	3,248
Income taxes receivable	501	(501)
Inventory	207	(735)
Prepaid expenses and deposits	(46)	738
Accounts payable and accrued liabilities	(5,020)	2,882
Accounts payable and accrued liabilities in assets	(585)	778
Income taxes payable	3,413	(2,741)
Amounts due to/from related parties	(364)	(312)
Deferred revenue	148	-
Advance payments	664	(776)
Regulatory liabilities	39,671	(18,295)
	<u>\$ 24,893</u>	<u>\$ (17,268)</u>

Accrued liabilities relating to additions to fixed assets and intangible assets for the year ended December 31, 2010 of \$5,614 (2009 - \$5,029) have been excluded from the change in non-cash operating working capital and from cash used in investing activities.

12. Contingencies:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

12. Contingencies (continued):

(b) Environmental matters:

- (i) The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual future environmental expenditures may vary from these estimates. As at December 31, 2010, the Corporation provided \$217 (2009 - \$450) for testing and future remediation.
- (ii) Environment Canada has issued new regulations governing the management of PCB's. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses incurred to comply with the new regulations. As at December 31, 2010, the Corporation deferred \$974 (2009 - \$914) included in regulatory assets, representing costs incurred for compliance with the new regulations.

13. Commitments:

Fixed asset purchase commitments outstanding as at December 31, 2010 total \$7,524 (2009 - \$6,946).

As at December 31, 2010, the future minimum annual lease payments under property operating leases totalled \$121 (2009 - \$116).

14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate their fair values because of the short term to maturity of these financial instruments.

The bonds, having a principal amount of \$290,000 (2009 - \$290,000), have a fair value of \$294,318 (2009 - \$307,168), based on year-end quoted market prices.

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of commodity costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of \$103 as at December 31, 2010 (2009 - \$681).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2010, met the criteria specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.
- (ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 8.7% (2009 – 5.2%) of the total net outstanding balance.

(iv) The Corporation included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2010	2009
Total accounts receivable	\$ 56,558	\$ 57,597
Less allowance for doubtful accounts	(2,468)	(723)
Total accounts receivable, net	\$ 54,090	\$ 56,874
Of which:		
Not yet due	\$ 36,082	\$ 32,889
Past due 1 day but not more than 15	8,506	16,126
Past due 15 days but not more than 45	5,627	4,952
Past due 45 days but not more than 75	1,625	662
Past due 75 days but not more than 105	1,329	966
Past due more than 105 days	3,389	2,002
Less: Allowance for doubtful accounts	(2,468)	(723)
Total accounts receivable, net	\$ 54,090	\$ 56,874

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 87,423	\$ -	\$ -
Bond interest and principle payable	299,121	-	-
	\$ 386,544	\$ -	\$ -

The Borealis-Enersource Series Bonds mature in May, 2011 and are expected to be refinanced at that time.

(d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

15. Related party transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2010	2009
Electrical energy	\$ 9,677	\$ 8,250
Streetlighting energy	6,098	5,245

At December 31, 2010, accounts payable and accrued liabilities include \$33 (2009 - \$37) due to the City and accounts receivable include \$1,588 (2009 - \$2,254) due from the City.

At December 31, 2010, the Corporation incurred property taxes which are paid to the City in the amount of \$814 (2009 - \$800).

The Corporation charged Borealis \$9 (2009 - \$9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2010, accounts receivable included \$nil (2009 - \$1) due from Borealis.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

15. Related party transactions (continued)

Amounts due from related parties include \$606 (2009 - \$134) from a company under common control and \$nil (2009 – nil) from the parent company.

Amounts due to related parties include \$127 (2009 - \$80) to a company under common control and \$1,290 (2009 – \$1,229) to the parent company.

16. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2010 is \$63,438 (2009 - \$58,705) owed in respect of electricity purchases through the IESO.

17. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.

Financial Statements of

**ENERSOURCE HYDRO
MISSISSAUGA INC.**

Year ended December 31, 2010

Independent Auditors' Report

To the Shareholders of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the balance sheets as at December 31, 2010 and December 31, 2009, the statements of income and comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enersource Hydro Mississauga Inc. as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Accountants, Licensed Public Accountants
March 8, 2011
Toronto, Ontario

ENERSOURCE HYDRO MISSISSAUGA INC.

Balance Sheet
 (In thousands of dollars)
 December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,393	\$ 11,133
Accounts receivable (note 14(b))	54,090	56,874
Unbilled revenue	67,048	50,568
Amounts due from related parties, without interest (note 15)	606	134
Income taxes receivable	-	501
Inventory (note 3)	7,540	7,747
Prepaid expenses and deposits	1,046	1,000
Future income tax assets (note 5(b))	-	514
	<u>159,723</u>	<u>128,471</u>
Fixed assets (note 2)	445,872	435,171
Intangible assets (note 4)	15,583	14,420
Deposits and prudentials (note 6)	20,739	20,225
Regulatory assets (note 7)	20,013	12,238
Other deferred costs (note 1(g))	90	4,951
Future income tax assets (note 5(b))	32,495	33,491
	<u>534,792</u>	<u>520,496</u>
	<u>\$ 694,515</u>	<u>\$ 648,967</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 87,423	\$ 92,443
Income taxes payable	3,413	-
Deferred revenue	148	-
Advance payments	2,718	2,054
Amounts due to related parties, without interest (note 15)	1,417	1,309
Future income tax liability (note 5(b))	209	-
Regulatory liability for future income tax assets (note 5 (c))	149	252
Regulatory liabilities (note 7)	39,671	-
Bonds payable (note 8)	289,811	-
	<u>424,959</u>	<u>96,058</u>
Long-term liabilities:		
Bonds payable (note 8)	-	289,256
Deposits	20,739	20,225
Employee retirement and post-retirement benefits (note 9)	3,783	3,912
Regulatory liability for future income tax assets (note 5(c))	32,495	33,491
	<u>57,017</u>	<u>346,884</u>
Shareholders' equity:		
Capital stock (note 10)	155,629	155,629
Retained earnings	56,910	50,396
	<u>212,539</u>	<u>206,025</u>
Contingencies (note 12)		
Commitments (notes 6 and 13)		
	<u>\$ 694,515</u>	<u>\$ 648,967</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

_____ Director _____ Director

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Income and Comprehensive Income
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Energy sales	\$ 509,505	\$ 444,166
Distribution	120,076	117,766
Recovery (refund) of regulatory accounts	7,429	(2,278)
Other	11,136	8,801
	<u>648,146</u>	<u>568,455</u>
Operating expenses:		
Energy purchases	509,505	444,166
Operations, maintenance and administration	51,124	47,234
Amortization of fixed assets	36,177	35,020
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
	<u>606,171</u>	<u>525,366</u>
Operating income	41,975	43,089
Non-operating revenue (expense):		
Interest income	485	604
Interest expense	(18,982)	(18,532)
Foreign exchange loss	(22)	(383)
	<u>(18,519)</u>	<u>(18,311)</u>
Income before income tax expense	23,456	24,778
Income tax expense (note 5(a))	6,404	6,251
Net income and comprehensive income	<u>\$ 17,052</u>	<u>\$ 18,527</u>

Statement of Retained Earnings
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Retained earnings, beginning of year	\$ 50,396	\$ 42,689
Net income and comprehensive income	17,052	18,527
Dividends paid (note 10)	(10,538)	(10,820)
Retained earnings, end of year	<u>\$ 56,910</u>	<u>\$ 50,396</u>

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Cash Flows
 (In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 17,052	\$ 18,527
Items not affecting cash:		
Amortization of debt issue costs	555	523
Amortization of fixed assets	36,177	35,020
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
Gain on the disposal of fixed assets	(167)	(179)
Employee retirement and post-retirement benefits	(129)	367
Future income tax expense	620	309
	63,473	53,513
Change in non-cash operating working capital (note 11)	24,893	(17,268)
	88,366	36,245
Financing activities:		
Deposits	514	(138)
Dividends paid	(10,538)	(10,820)
	(10,024)	(10,958)
Investing activities:		
Deposits and prudentials	(514)	138
Additions to fixed assets	(38,669)	(49,581)
Additions to intangible assets	(3,633)	(5,904)
Other deferred costs	(2,246)	(2,952)
Proceeds on disposal of fixed assets	184	314
Increase in regulatory assets	(15,204)	(8,498)
	(60,082)	(66,483)
Increase (decrease) in cash and cash equivalents	18,260	(41,196)
Cash and cash equivalents, beginning of year	11,133	52,329
Cash and cash equivalents, end of year	\$ 29,393	\$ 11,133
Supplemental cash flow information:		
Interest received	\$ 473	\$ 681
Interest paid	18,241	18,241
Income taxes paid	1,410	11,742

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements
(In thousands of dollars)

Year ended December 31, 2010

Enersource Hydro Mississauga Inc. (the "Corporation") is the electric distribution utility for residents of the City of Mississauga (the "City").

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP").

(b) Rate setting:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs not included in the Corporation's smart meter revenue requirement, as directed by the OEB.
- (v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyls ("PCB") regulations.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

The OEB has the power to establish electricity prices to be charged under a regulated price plan ("RPP"), as summarized in the following chart, to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these RPP consumers every six months as required.

Regulated Price Plan:

	November 2010 - December 2010	May 2010 - October 2010	November 2009 - April 2010	May 2009 - October 2009	January 2009 - April 2009
Residential consumption threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh	1,000 kWh
Non-residential consumption threshold	750 kWh	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.064/kWh	\$.065/kWh	\$.058/kWh	\$.057/kWh	\$.056/kWh
Price above threshold	\$.074/kWh	\$.075/kWh	\$.067/kWh	\$.066/kWh	\$.065/kWh

The Corporation submitted an electricity distribution rate re-basing application to the OEB on August 23, 2007 for the rate period May 1, 2008 through April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The final distribution rates and charges for 2008 based upon the settlement were approved on April 18, 2008.

In November 2008, the Corporation submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

On November 27, 2009 the Corporation submitted an application to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net refund of \$12,800 was approved by the OEB on January 29, 2010.

The Corporation submitted a formula based rate application in July 2009 to the OEB which was approved on March 29, 2010. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2010.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(d) Revenue recognition:

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution rates and charges that is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue that represents electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Other revenue is recognized as services are rendered or contract milestones are achieved.

(e) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of fixed assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(f) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as fixed assets.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

(g) Fixed assets:

Fixed assets are recorded at cost and are comprised of labour, materials, contracted services, engineering costs, overheads and an OEB-approved allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution systems, is removed from the accounts at the end of their estimated service lives.

In the event that facts and circumstances indicate that fixed assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Amortization of fixed asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

Buildings and other fixtures	20 - 60 years
Distribution station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Meters	15 - 25 years
Equipment and furniture	10 years
Rolling stock	4 - 8 years
Computer hardware	5 years

Construction in progress is comprised of assets under construction, that are not currently available for use and are not amortized

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of fixed assets where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index as published on the OEB website, updated quarterly. The prescribed interest rate for the construction work in process accounts is as follows:

	<u>Allowance Rate</u>
October 2010 – December 2010	4.01%
July 2010 – September 2010	4.66%
January 2010 – June 2010	4.34%
October 2009 – December 2009	4.66%
July 2009 – September 2009	5.67%
January 2009 – June 2009	6.61%

(h) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use.

Indefinite life intangible assets such as easements are held in perpetuity and are not amortized. The amortization of other intangible asset values are charged to operations on a straight-line basis over their estimated service lives as follows:

Computer software	2 - 10 years
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The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(j) Deposits and prudentials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudentials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

(k) Pension and other post-employment benefits:

The Corporation accounts for its participation in Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the year.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), both as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(m) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

(n) Financial instruments:

Financial assets, financial liabilities and non-financial derivatives are recorded on the consolidated balance sheets at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Corporation designates its cash and cash equivalents and deposits and prudentials as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Effective May 1, 2008, the Corporation was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Corporation may differ from the OEB deemed structure.

(p) Future accounting changes:

Transition to International Financial Reporting Standards:

In October 2010, the Accounting Standards Board ("AcSB") issued an amendment to the Introduction of Part 1 of the CICA Handbook to permit qualifying entities with rate-regulated activities the option to defer their adoption of IFRS to annual periods beginning on or after January 1, 2012. Entities using the deferral are required to disclose that fact.

Prior to this amendment, the AcSB required publicly accountable enterprises to adopt IFRS for interim and annual reporting periods beginning on or after January 1, 2011, including comparative amounts for the prior year.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

1. Significant accounting policies (continued):

The Corporation will continue to prepare its financial statements according to Canadian GAAP for 2011 and has elected to adopt IFRS for interim and annual financial statements relating to annual periods beginning on January 1, 2012.

2. Fixed assets:

2010	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	18,599	6,148	12,451
Distribution station equipment	96,906	38,706	58,200
Overhead and underground distribution system	656,534	339,317	317,217
Meters	57,299	24,027	33,272
Equipment and furniture	8,670	4,024	4,646
Rolling stock	15,016	9,205	5,811
Computer Hardware	7,148	3,540	3,608
Construction in progress	6,596	–	6,596
	<u>\$ 870,839</u>	<u>\$ 424,967</u>	<u>\$ 445,872</u>

2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	17,112	5,743	11,369
Distribution station equipment	92,299	35,473	56,826
Overhead and underground distribution system	631,222	317,747	313,475
Meters	52,227	22,103	30,124
Equipment and furniture	8,629	3,395	5,234
Rolling Stock	15,018	9,143	5,875
Computer Hardware	6,652	2,757	3,895
Construction in progress	4,302	–	4,302
	<u>\$ 831,532</u>	<u>\$ 396,361</u>	<u>\$ 435,171</u>

During the year, \$314 (2009 - \$1,031), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2010 was \$1,011 (2009 - \$1,276). The amount of inventory that was written down due to obsolescence was \$48 (2009 - \$10).

4. Intangible assets:

2010	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,549	\$ 2,806	\$ 13,743
Software in development	1,804	–	1,804
Easements	36	–	36
	\$ 18,389	\$ 2,806	\$ 15,583

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,471	\$ 2,596	\$ 13,875
Software in development	545	–	545
	\$ 17,016	\$ 2,596	\$ 14,420

5. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

	2010	2009
Federal and Ontario statutory income tax rate	31.0%	33.0%
Income before provision for income taxes	\$ 23,456	\$ 24,778
	<u>\$ 23,456</u>	<u>\$ 24,778</u>
Provision for income taxes at statutory rate	\$ 7,271	\$ 8,177
Increase (decrease) resulting from:		
Amortization less than capital cost allowance	(615)	(1,528)
Other timing differences between accounting net income and net income for tax purposes	(252)	(398)
Provision for income taxes	<u>\$ 6,404</u>	<u>\$ 6,251</u>
Effective income tax rate	27.3%	25.2%

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Corporation's future tax assets, liabilities and expense are as follows:

(a) Components of provision for income taxes:

	2010	2009
Current income tax expense	\$ 5,784	\$ 5,942
Future income tax expense	620	309
	<u>\$ 6,404</u>	<u>\$ 6,251</u>

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

- (b) Significant components of future income tax assets and liabilities on the balance sheet are as follows:

	2010	2009
Fixed and intangible assets	\$ 23,496	\$ 24,580
Regulatory liability for future income taxes	8,025	8,236
Regulatory assets and liabilities	(388)	259
Employee retirement and post retirement benefits	1,073	978
Other temporary differences	80	(48)
	<u>\$ 32,286</u>	<u>\$ 34,005</u>

The future tax asset is presented on the balance sheet as follows:

	2010	2009
Future income tax assets, current	\$ —	\$ 514
Future income tax assets, non-current	32,495	33,491
	<u>\$ 32,495</u>	<u>\$ 34,005</u>

The future tax liability is presented on the balance sheet as follows:

	2010	2009
Future income tax liability, current	\$ 209	\$ —
Future income tax liability, non-current	—	—
	<u>\$ 209</u>	<u>\$ —</u>

- (c) Management expects that \$24,619 (2009 - \$25,507) of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of \$8,025 (2009 - \$8,236). Accordingly, \$32,644 (2009 - \$33,743) has been recorded as a regulatory liability for future income taxes.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

5. Income Taxes (continued):

The regulatory liability for future income tax assets is presented on the balance sheet as follows:

	2010	2009
Regulatory liability for future income taxes, current	\$ 149	\$ 252
Regulatory liability for future income taxes, non-current	32,495	33,491
	<u>\$ 32,644</u>	<u>\$ 33,743</u>

6. Deposits and prudentials:

The following outlines the deposits and prudentials of the Corporation, posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	2010		2009	
	Cash and cash equivalents	Letters of credit/ letters of guarantee	Cash and cash equivalents	Letters of credit/ letters of guarantee
Customer deposits	\$ 20,739	\$ –	\$ 20,225	\$ –
Security with IESO	–	10,588	–	9,344
	<u>\$ 20,739</u>	<u>\$ 10,588</u>	<u>\$ 20,225</u>	<u>\$ 9,344</u>

Security deposits:

(a) Customer deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

Contingent obligations:

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

6. Deposits and prudentials (continued):

failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$10,588 (2009 - \$9,344)

7. Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future distribution rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

The Corporation is also required to record a regulatory liability or asset relating to the amount of future tax assets that are expected to be refunded or recovered through distribution rates.

Regulatory balances are comprised principally as follows:

- (i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.
- (ii) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to be deferred until directed by the OEB.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

The following table demonstrates the impact on 2010 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below.

	2010	2009	Estimated remaining settlement period (years)	2010 impact on earnings net of income taxes ((a)(i))
Regulatory assets (liabilities):				
Other regulatory assets ((a)(ii))	\$ 2,590	\$ 1,585	2	\$ (1,005)
Smart meter revenue/expense ((a)(iii))	9,572	6,380	2	(3,192)
Special Purpose Charge ((a)(iv))	1,705	-	1 - 2	(13)
Late Payment Penalty ((a)(v))	1,006	-	1 - 2	(729)
Net regulatory assets approved for recovery ((a)(vi))	5,140	-	1 - 2	(68)
Retail Settlement & Global adjustment variances ((a)(vii))	-	4,273	1 - 2	-
	\$ 20,013	\$ 12,238		\$ (5,007)
Regulatory liabilities (assets):				
Retail Settlement & Global Adjustment variances ((a)(vii))	39,671	-	1 - 2	202
	\$ 39,671	\$ -		\$ 202
Regulatory liability for future income tax assets ((a)(viii))	\$ 32,644	\$ 33,743	-	\$ -

(a) Explanatory notes:

- (i) The 2010 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.
- (ii) The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental costs needed to comply with Environment Canada's new regulations associated with PCBs. The OEB also requires that the Corporation record and defer the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects PILs differences resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

- (iii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Corporation has recognized revenue and costs for smart meter investments to December 31, 2010. The OEB also established guidelines for the accounting treatment for stranded meter costs, which directed distributors to defer stranded meter costs as a regulatory asset. This amount represents the cumulative costs related to stranded conventional meters.
- (iv) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy conservation and renewable energy program costs and that the SPC would be recoverable through distribution rates. The Corporation was assessed \$3,016 for its apportioned share of the total provincial amount of \$53,695. This amount represents the Corporation's remaining SPC assessment to be recovered.
- (v) On March 2, 2010, the Electricity Distributors Association ("EDA") reached a settlement in principle in a class action suit which claimed that Local Distribution Companies ("LDCs") were charging late payment interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The settlement received consent and approval by all LDCs. On July 22, 2010 the Ontario Superior Court of Justice approved the settlement which stipulates that LDCs will collectively pay \$17,000 in damages by June 30, 2011 to the Winter Warmth Fund or similar charities, after deducting legal fees. On February 22, 2011 the OEB approved the recovery of the late payment penalty through distribution rates effective May 1, 2011.
- (vi) On November 27, 2009, the Corporation submitted an application to the OEB to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net recovery of \$12,800 was approved by the OEB on January 29, 2010. During 2010, the Corporation recovered \$7,660 and expects to recover the remaining balance from January 1, 2011 to January 31, 2012.
- (vii) The OEB requires the Corporation to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference for all accounts plus interest at an OEB approved rate since January 1, 2008, excluding energy variance

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

account which reflects this difference from October 1, 2009. The global adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from the Corporation's customers. The global adjustment variance reflects this difference since October 1, 2009 plus interest charged at an OEB approved rate.

(viii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and liabilities, as directed by the OEB. As at December 31, 2010, this net accrued interest amounted to \$104 (2009 - \$105).

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with the Corporation's customers.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the consolidated financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts recorded on the consolidated balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

7. Regulatory assets and liabilities (continued):

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

8. Bonds payable:

	2010	2009
6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ 290,000	\$ 290,000
Deferred debt issue costs (net of accumulated amortization of \$4,147 (2009 - \$3,592))	(189)	(744)
Net bonds payable	\$ 289,811	\$ 289,256

The BPC Energy Corporation ("Borealis")-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. The Borealis-Enersource Series Bonds will mature on May 3, 2011 and are intended to be refinanced at that time. The bonds are classified as a short-term liability. Interest expense for the year ended December 31, 2010 included \$18,241 (2009 - \$18,241) in respect of interest on this debt and amortization of debt issue costs in the amount of \$555 (2009 - \$523).

The Corporation has the following material covenants associated with its long-term debt:

- (a) The consolidated financial statements must be audited, comply with GAAP and be filed directly on the System for Electronic Document Analysis and Retrieval ("SEDAR").
- (b) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

8. Bonds Payable (continued):

- (c) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.
- (d) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:
 - (i) No default or event of default shall have occurred and be continuing, or shall occur; and
 - (ii) The aggregate amount of all such investments made shall not exceed the greater of (a) \$20,000 and (b) 5% of consolidated net worth.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

9. Employee retirement and post-retirement benefits:

- (a) Pensions:

During fiscal 2010, the Corporation expensed contributions made to OMERS of \$1,948 (2009 - \$1,826).

- (b) Other retirement and post-retirement benefits:

The Corporation measures its accrued benefit obligations for accounting purposes at December 31 each year. The latest actuarial valuation was performed as at December 31, 2009.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

9. Employee retirement and post-retirement benefits (continued):

Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits obligation:

	2010	2009
Change in benefit obligations:		
Accrued benefit obligation, beginning of year	\$ 4,213	\$ 3,594
Adjustment to opening balance	(509)	-
Current service cost	145	143
Amortization of transition obligation	134	141
Interest cost	227	259
Benefits paid	(126)	(73)
Transition obligation	(134)	(141)
Amortization of actuarial gain	-	(98)
Net actuarial loss	249	388
Post-employment benefits obligation, end of year	\$ 4,199	\$ 4,213

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

	2010	2009
Accrued benefit, end of year	\$ 4,199	\$ 4,213
Unrecognized transition obligation	(524)	(658)
Unrecognized actuarial gain	108	357
Accrued benefit liability	\$ 3,783	\$ 3,912

(iii) Significant assumptions:

	2010	2009
Discount rate	6.00%	7.25%
Health care cost increases	9.00%	12.00%
Dental cost increases	4.00%	5.00%
Rate of compensation increase	3.00%	2.50%

The total post-employment benefits liability for this plan at December 31, 2010 is \$3,783 (2009 - \$3,912). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

	2010	2009
Amortization of transition obligation	\$ 134	\$ 136
Current service cost	145	143
Interest cost	227	259
Amortization of actuarial gain	-	(98)
	\$ 506	\$ 440

The December 31, 2010 accounting report assumed health care costs would increase by 9% in 2011, then grading down to 5% per annum after 8 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately \$277.

10. Capital stock:

	2010	2009
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	\$ 155,629	\$ 155,629

Dividends may be declared by the Board of Directors through a resolution.

In 2010, a dividend of \$10,538 (2009 - \$10,820) was declared and paid to the shareholder of the Corporation.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

11. Change in non-cash operating working capital:

	2010	2009
Accounts receivable	\$ 2,784	\$ (1,554)
Unbilled revenue	(16,480)	3,248
Income taxes receivable	501	(501)
Inventory	207	(735)
Prepaid expenses and deposits	(46)	738
Accounts payable and accrued liabilities	(5,020)	2,882
Accounts payable and accrued liabilities in assets	(585)	778
Income taxes payable	3,413	(2,741)
Amounts due to/from related parties	(364)	(312)
Deferred revenue	148	-
Advance payments	664	(776)
Regulatory liabilities	39,671	(18,295)
	<u>\$ 24,893</u>	<u>\$ (17,268)</u>

Accrued liabilities relating to additions to fixed assets and intangible assets for the year ended December 31, 2010 of \$5,614 (2009 - \$5,029) have been excluded from the change in non-cash operating working capital and from cash used in investing activities.

12. Contingencies:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence.

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

12. Contingencies (continued):

(b) Environmental matters:

- (i) The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual future environmental expenditures may vary from these estimates. As at December 31, 2010, the Corporation provided \$217 (2009 - \$450) for testing and future remediation.
- (ii) Environment Canada has issued new regulations governing the management of PCB's. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses incurred to comply with the new regulations. As at December 31, 2010, the Corporation deferred \$974 (2009 - \$914) included in regulatory assets, representing costs incurred for compliance with the new regulations.

13. Commitments:

Fixed asset purchase commitments outstanding as at December 31, 2010 total \$7,524 (2009 - \$6,946).

As at December 31, 2010, the future minimum annual lease payments under property operating leases totalled \$121 (2009 - \$116).

14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate their fair values because of the short term to maturity of these financial instruments.

The bonds, having a principal amount of \$290,000 (2009 - \$290,000), have a fair value of \$294,318 (2009 - \$307,168), based on year-end quoted market prices.

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of commodity costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of \$103 as at December 31, 2010 (2009 - \$681).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2010, met the criteria specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.
- (ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 8.7% (2009 – 5.2%) of the total net outstanding balance.

(iv) The Corporation included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2010	2009
Total accounts receivable	\$ 56,558	\$ 57,597
Less allowance for doubtful accounts	(2,468)	(723)
Total accounts receivable, net	\$ 54,090	\$ 56,874
Of which:		
Not yet due	\$ 36,082	\$ 32,889
Past due 1 day but not more than 15	8,506	16,126
Past due 15 days but not more than 45	5,627	4,952
Past due 45 days but not more than 75	1,625	662
Past due 75 days but not more than 105	1,329	966
Past due more than 105 days	3,389	2,002
Less: Allowance for doubtful accounts	(2,468)	(723)
Total accounts receivable, net	\$ 54,090	\$ 56,874

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2010

14. Financial instruments (continued):

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 87,423	\$ -	\$ -
Bond interest and principle payable	299,121	-	-
	\$ 386,544	\$ -	\$ -

The Borealis-Enersource Series Bonds mature in May, 2011 and are expected to be refinanced at that time.

(d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

15. Related party transactions

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2010	2009
Electrical energy	\$ 9,677	\$ 8,250
Streetlighting energy	6,098	5,245

At December 31, 2010, accounts payable and accrued liabilities include \$33 (2009 - \$37) due to the City and accounts receivable include \$1,588 (2009 - \$2,254) due from the City.

At December 31, 2010, the Corporation incurred property taxes which are paid to the City in the amount of \$814 (2009 - \$800).

The Corporation charged Borealis \$9 (2009 - \$9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2010, accounts receivable included \$nil (2009 - \$1) due from Borealis.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

15. Related party transactions (continued)

Amounts due from related parties include \$606 (2009 - \$134) from a company under common control and \$nil (2009 – nil) from the parent company.

Amounts due to related parties include \$127 (2009 - \$80) to a company under common control and \$1,290 (2009 – \$1,229) to the parent company.

16. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2010 is \$63,438 (2009 - \$58,705) owed in respect of electricity purchases through the IESO.

17. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.

Financial Statements of

**ENERSOURCE HYDRO
MISSISSAUGA INC.**

Year ended December 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enersource Hydro Mississauga Inc.

We have audited the accompanying financial statements of Enersource Hydro Mississauga Inc., which comprise the balance sheet as at December 31, 2011, the statement of income and comprehensive income, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enersource Hydro Mississauga Inc. as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that underlines the text.

KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 6, 2012

ENERSOURCE HYDRO MISSISSAUGA INC.

Balance Sheet
 (In thousands of dollars)
 December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,135	\$ 29,393
Accounts receivable (note 14(b))	57,358	53,665
Unbilled revenue	59,739	67,563
Amounts due from related parties, without interest (note 15)	1,112	606
Inventory (note 3)	7,196	7,540
Prepaid expenses and deposits	1,638	1,046
Future income tax assets (note 5(b))	2,406	—
	210,584	159,813
Property, plant and equipment (note 2)	464,730	445,872
Intangible assets (note 1(h) and 4)	18,694	15,583
Deposits and prudentials (note 6)	22,693	20,739
Regulatory assets (note 7)	7,719	20,013
Future income tax assets (note 5(b))	27,865	32,495
	541,701	534,702
	\$ 752,285	\$ 694,515
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 96,577	\$ 87,423
Income taxes payable	2,900	3,413
Deferred revenue (note 1(g))	11,140	148
Advance payments	2,043	2,718
Amounts due to related parties, without interest (note 15)	1,277	1,417
Future income tax liability (note 5(b))	—	209
Regulatory liability for future income tax assets (note 5(c))	98	149
Regulatory liabilities (note 7)	42,691	39,671
Bonds payable (note 8)	—	289,811
	156,726	424,959
Long-term liabilities:		
Debentures payable (note 8)	317,864	—
Deposits	22,693	20,739
Employee retirement and post-retirement benefits (note 9)	4,190	3,783
Regulatory liability for future income tax assets (note 5(c))	27,865	32,495
	372,612	57,017
Shareholders' equity:		
Capital stock (note 10)	155,629	155,629
Retained earnings	67,318	56,910
	222,947	212,539
Contingencies (note 12)		
Commitments (notes 6 and 13)		
	\$ 752,285	\$ 694,515

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Income and Comprehensive Income
 (In thousands of dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Revenue:		
Energy sales	\$ 683,116	\$ 675,255
Distribution	108,780	120,076
Recovery of regulatory accounts	7,772	7,429
Other	14,291	11,136
	<u>813,959</u>	<u>813,896</u>
Operating expenses:		
Energy purchases	683,116	675,255
Operations, maintenance and administration	57,459	51,124
Amortization of property, plant and equipment	23,729	36,177
Amortization of intangible assets	2,309	1,936
Amortization of regulatory accounts	7,772	7,429
	<u>774,385</u>	<u>771,921</u>
Operating income	39,574	41,975
Non-operating revenue (expense):		
Interest income	1,154	463
Interest expense	(17,958)	(18,982)
	<u>(16,804)</u>	<u>(18,519)</u>
Income before income tax expense	22,770	23,456
Income tax expense (note 5(a))	2,131	6,404
Net income and comprehensive income	<u>\$ 20,639</u>	<u>\$ 17,052</u>

Statement of Retained Earnings
 (In thousands of dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Retained earnings, beginning of year	\$ 56,910	\$ 50,396
Net income and comprehensive income	20,639	17,052
Dividends paid (note 10)	(10,231)	(10,538)
Retained earnings, end of year	<u>\$ 67,318</u>	<u>\$ 56,910</u>

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Statement of Cash Flows
(In thousands of dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net income	\$ 20,639	\$ 17,052
Items not affecting cash:		
Amortization of debt issue costs	245	555
Amortization of property, plant and equipment	23,729	36,177
Amortization of intangible assets	2,309	1,936
Amortization of regulatory accounts	7,772	7,429
Gain on the disposal of property, plant and equipment	(157)	(167)
Employee retirement and post-retirement benefits	407	(129)
Future income tax expense (recovery)	(2,666)	620
	52,278	63,473
Change in non-cash operating working capital (note 11)	23,706	24,893
	75,984	88,366
Financing activities:		
Bonds	(290,000)	-
Debentures	317,808	-
Deposits	1,954	514
Dividends paid	(10,231)	(10,538)
	19,531	(10,024)
Investing activities:		
Deposits and prudentials	(1,954)	(514)
Additions to property, plant and equipment	(37,999)	(38,669)
Additions to intangible assets	(5,575)	(3,633)
Other deferred costs	-	(2,246)
Proceeds on disposal of property, plant and equipment	269	184
Decrease (Increase) in regulatory assets	1,486	(15,204)
	(43,773)	(60,082)
Increase in cash and cash equivalents	51,742	18,260
Cash and cash equivalents, beginning of year	29,393	11,133
Cash and cash equivalents, end of year	\$ 81,135	\$ 29,393
Supplemental cash flow information:		
Interest received	\$ 1,154	\$ 473
Interest paid	17,169	18,241
Income taxes paid	4,094	1,410

See accompanying notes to consolidated financial statements.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements
(In thousands of dollars)

Year ended December 31, 2011

Enersource Hydro Mississauga Inc. (the "Corporation") is the electric distribution utility for residents of the City of Mississauga (the "City").

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP").

(b) Rate setting:

The Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs not included in the Corporation's smart meter revenue requirement, as directed by the OEB.
- (v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyls ("PCB") regulations.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

The OEB has the power to establish electricity prices to be charged under a regulated price plan ("RPP"), as summarized in the following chart, to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these RPP consumers every six months as required.

Regulated Price Plan:

	November 2011 - December 2011	May 2011 - October 2011	November 2010 - April 2011	May 2010 - October 2010	November 2009 - April 2010
Residential consumption threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh	1,000 kWh
Non-residential consumption threshold	750 kWh	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.071/kWh	\$.068/kWh	\$.064/kWh	\$.065/kWh	\$.058/kWh
Price above threshold	\$.083/kWh	\$.079/kWh	\$.074/kWh	\$.075/kWh	\$.067/kWh

Time of Use Rates:

In May 2009, The Ontario government announced the province-wide implementation of time of use rates. These rates will help customers make decisions about when they use electricity, and will encourage people to shift some of their electricity use to off-peak hours where they will benefit by being charged lower prices. The Corporation commenced moving residential and small commercial customers to time of use rates in August 2011, and anticipates that all eligible customers will have migrated to time of use by May 2012. Time of use rates are reviewed every six months by the OEB, with any rate changes occurring on May 1 and November 1. A summary of TOU rates since May 2011 is listed below:

		Summer Weekdays May 2011 - October 2011	Winter Weekdays November 2011 - April 2012
Off-Peak	7:00 p.m. – 7:00 a.m.	\$.059/kWh	\$.062/kWh
Mid-Peak	7:00 a.m. – 11:00 a.m.	\$.089/kWh	
	5:00 p.m. – 7:00 p.m.	\$.089/kWh	
	11:00 a.m. – 5:00 p.m.		\$.092/kWh
On-Peak	11:00 a.m. – 5:00 p.m.	\$.107/kWh	
	7:00 a.m. – 11:00 a.m.		\$.108/kWh
	5:00 p.m. – 7:00 a.m.		\$.108/kWh
Weekends & Holidays	All day	\$.059/kWh	\$.062/kWh

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

In November 2008, the Corporation submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

On November 27, 2009 the Corporation submitted an application to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and Global Adjustment variance account balances as at September 30, 2009. The net recovery of \$12,800 was approved by the OEB on January 29, 2010. The \$12,800 net balance in these accounts will be recovered over a two year period from February 1, 2010 through January 31, 2012.

The Corporation submitted a formula based rate application in July 2009 to the OEB which was approved on March 29, 2010. The Corporation implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2010 to April 30, 2011.

In October 2010, the Corporation submitted a formula based rate application to the OEB to change distribution rates for the rate period May 1, 2011 through April 30, 2012. The application was approved by the OEB on March 17, 2011. The Corporation implemented the distribution rate decision, along with the OEB-approved changes to electricity commodity prices, effective May 1, 2011.

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(d) Revenue recognition:

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution rates and charges that is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue that represents electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Other revenue is recognized as services are rendered or contract milestones are achieved.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(e) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of property, plant, equipment and intangible assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(f) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as property, plant and equipment.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

(g) Property, plant and equipment:

Property, plant and equipment are recorded at cost, which includes labour, materials, contracted services, engineering costs, allocated overhead and an OEB-approved allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution systems, is removed from the accounts at the end of their estimated service lives.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

As of January 1, 2011, the Corporation revised the useful lives of its depreciable assets based on an independent evaluation. The revised estimates were adopted prospectively and extended the lives of many depreciable assets and will reduce current and future amortization expense. Since amortization expense is a component of approved distribution rates, the Corporation has decided to defer distribution revenue equal to the decrease in amortization expense until the change in useful lives is approved by the OEB. The Corporation will be seeking OEB approval for the revised useful lives in its 2013 cost of service application. The change in useful lives has resulted in \$10,734 of distribution revenue being deferred onto the balance sheet, and is included in deferred revenue.

Amortization of property, plant and equipment values is charged to operations on a straight-line basis over their estimated service lives as follows:

Buildings and other fixtures	20 - 60 years
Distribution station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Meters	15 - 25 years
Equipment and furniture	10 years
Rolling stock	4 - 12 years
Computer hardware	3 - 10 years

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of property, plant and equipment where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index as published on the OEB website, updated quarterly.

(h) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

Indefinite life intangible assets such as easements are held in perpetuity and are not amortized. The amortization of other intangible asset values are charged to operations on a straight-line basis over their estimated service lives as follows:

Computer software	2 - 10 years
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The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

An allowance for the cost of funds used during the development stage of internally developed / modified software has been applied and capitalized as a component of cost of intangible assets where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index as published on the OEB website, updated quarterly

(i) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(j) Deposits and prudenials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudenials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

(k) Employee retirement and post-employment benefits:

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the year.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), both as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(m) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

(n) Financial instruments:

Financial assets, financial liabilities and non-financial derivatives are recorded on the consolidated balance sheets at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Corporation designates its cash and cash equivalents and deposits and prudentials as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable and debentures payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(o) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Effective May 1, 2008, the Corporation was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Corporation may differ from the OEB deemed structure.

(p) Future accounting changes:

Transition to International Financial Reporting Standards:

In October 2010, the Accounting Standards Board ("AcSB") issued an amendment to the Introduction of Part 1 of the CICA Handbook to permit qualifying entities with rate-regulated activities the option to defer their adoption of IFRS to annual periods beginning on or after January 1, 2012. Entities using the deferral are required to disclose that fact.

Prior to this amendment, the AcSB required publicly accountable enterprises to adopt IFRS for interim and annual reporting periods beginning on or after January 1, 2011, including comparative amounts for the prior year.

The Corporation will continue to prepare its consolidated financial statements according to Canadian GAAP for 2011 and has elected to adopt IFRS for interim and annual financial statements relating to annual periods beginning on January 1, 2012.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

2. Property, plant and equipment:

	Cost	Accumulated amortization	2011 net book value	2010 net book value
Land	\$ 4,069	\$ –	\$ 4,069	\$ 4,071
Buildings and other fixtures	20,996	6,677	14,319	12,451
Distribution station equipment	104,173	40,844	63,329	58,200
Overhead and underground distribution system	672,866	345,115	327,751	317,217
Meters	45,095	8,270	36,825	33,272
Equipment and furniture	8,605	4,324	4,281	4,646
Rolling stock	14,167	7,937	6,230	5,811
Computer hardware	7,199	3,560	3,639	3,608
Construction in progress	4,287	–	4,287	6,596
	<u>\$ 881,457</u>	<u>\$ 416,727</u>	<u>\$ 464,730</u>	<u>\$ 445,872</u>

During the year, \$286 (2010 - \$271), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2011 was \$1,761 (2010 - \$1,011). The amount of inventory that was written down due to obsolescence was \$18 (2010 - \$48).

4. Intangible assets:

	Cost	Accumulated amortization	2011 net book value	2010 net book value
Computer software	\$ 22,529	\$ 4,721	\$ 17,808	\$ 13,743
Software in development	554	–	554	1,804
Easements	332	–	332	36
	<u>\$ 23,415</u>	<u>\$ 4,721</u>	<u>\$ 18,694</u>	<u>\$ 15,583</u>

During the year, \$114 (2010 - \$43), representing an allowance for the cost of funds used during construction, was capitalized to software in development.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

5. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

	2011	2010
Federal and Ontario statutory income tax rate	28.25%	31.0%
Income before provision for income taxes	\$ 22,770	\$ 23,456
	<u>\$ 22,770</u>	<u>\$ 23,456</u>
Provision for income taxes at statutory rate	\$ 6,433	\$ 7,271
Increase (decrease) resulting from:		
Amortization less than capital cost allowance	(4,202)	(615)
Other timing differences between accounting net income and net income for tax purposes	(100)	(252)
Provision for income taxes	<u>\$ 2,131</u>	<u>\$ 6,404</u>
Effective income tax rate	9.4%	27.3%

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Corporation's future tax assets, liabilities and expense are as follows:

(a) Components of provision for income taxes:

	2011	2010
Current income tax expense	\$ 4,797	\$ 5,784
Future income tax expense	(2,666)	620
	<u>\$ 2,131</u>	<u>\$ 6,404</u>

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

5. Income Taxes (continued):

(b) Significant components of future income tax assets and liabilities on the balance sheet are as follows:

	2011	2010
Property, plant and equipment and intangible assets	\$ 19,764	\$ 23,496
Regulatory liability for future income taxes	7,044	8,025
Regulatory assets and liabilities	(469)	(388)
Employee retirement and post retirement benefits	1,175	1,073
Employee retirement and post retirement benefits	2,777	-
Other temporary differences	(20)	80
	<u>\$ 30,271</u>	<u>\$ 32,286</u>

The future tax asset is presented on the balance sheet as follows:

	2011	2010
Future income tax assets, current	\$ 2,406	\$ -
Future income tax assets, non-current	27,865	32,495
	<u>\$ 30,271</u>	<u>\$ 32,495</u>

The future tax liability is presented on the balance sheet as follows:

	2011	2010
Future income tax liability, current	\$ -	\$ 209
Future income tax liability, non-current	-	-
	<u>\$ -</u>	<u>\$ 209</u>

(c) Management expects that \$20,919 (2010 - \$24,619) of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of \$7,044 (2010 - \$8,025). Accordingly, \$27,963 (2010 - \$32,644) has been recorded as a regulatory liability for future income taxes.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

5. Income Taxes (continued):

The regulatory liability for future income tax assets is presented on the balance sheet as follows:

	2011	2010
Regulatory liability for future income taxes, current	\$ 98	\$ 149
Regulatory liability for future income taxes, non-current	27,865	32,495
	<u>\$ 27,963</u>	<u>\$ 32,644</u>

6. Deposits and prudentials:

The following outlines the deposits and prudentials of the Corporation, posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	2011		2010	
	Cash and cash equivalents	Letters of credit/ letters of guarantee	Cash and cash equivalents	Letters of credit/ letters of guarantee
Customer deposits	\$ 22,693	\$ –	\$ 20,739	\$ –
Security with IESO	–	10,588	–	10,588
	<u>\$ 22,693</u>	<u>\$ 10,588</u>	<u>\$ 20,739</u>	<u>\$ 10,588</u>

Security deposits:

(a) Customer deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

6. Deposits and prudentials (continued):

Contingent obligations:

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$10,588 (2010 - \$10,588).

7. Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future distribution rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

The Corporation is also required to record a regulatory liability or asset relating to the amount of future tax assets that are expected to be refunded or recovered through distribution rates.

Regulatory balances are comprised principally as follows:

- (i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.
- (ii) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to be deferred until directed by the OEB.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

7. Regulatory assets and liabilities (continued):

The following table demonstrates the impact on 2011 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below.

	2011	2010	Estimated remaining settlement period (years)	2011 impact on earnings net of income taxes ((a)(i))
Regulatory assets (liabilities):				
Other regulatory assets ((a)(ii))	\$ 3,495	\$ 2,590	2	\$ (905)
Smart meter revenue/expense ((a)(iii))	6,639	9,572	2	3,119
Special Purpose Charge ((a)(iv))	(140)	1,705	1 – 2	(7)
Late Payment Penalty ((a)(v))	323	1,006	1 – 2	(683)
Net regulatory liabilities/assets approved for refund/recovery ((a)(vi))	(2,598)	5,140	1 – 2	(34)
	\$ 7,719	\$ 20,013		\$ 1,490
Regulatory liabilities (assets):				
Retail Settlement & Global Adjustment variances ((a)(vii))	42,691	39,671	1 - 2	656
	\$ 42,691	\$ 39,671		\$ 656
Regulatory liability for future income tax assets ((a)(viii))	\$ 27,963	\$ 32,644	–	\$ –

(a) Explanatory notes:

- (i) The 2011 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.
- (ii) The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental costs needed to comply with Environment Canada's new regulations associated with PCBs. The OEB also requires that the Corporation record and defer the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects PILs differences resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

7. Regulatory assets and liabilities (continued):

- (iii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Corporation has recognized revenue and costs for smart meter investments to December 31, 2011. The OEB also established guidelines for the accounting treatment for stranded meter costs, which directed distributors to defer stranded meter costs as a regulatory asset. This amount represents the cumulative costs related to stranded conventional meters.
- (iv) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy conservation and renewable energy program costs and that the SPC would be recoverable through distribution rates. The Corporation was assessed \$3,016 for its apportioned share of the total provincial amount of \$53,695. This amount represents the Corporation's remaining assessment to be refunded or recovered.
- (v) On March 2, 2010, the Electricity Distributors Association ("EDA") reached a settlement in principle in a class action suit which claimed that Local Distribution Companies ("LDCs") were charging late payment interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The settlement received consent and approval by all LDCs. On July 22, 2010 the Ontario Superior Court of Justice approved the settlement which stipulates that LDCs will collectively pay \$17,000 in damages by June 30, 2011 to the Winter Warmth Fund or similar charities, after deducting legal fees. On February 22, 2011 the OEB approved the recovery of the late payment penalty through distribution rates effective May 1, 2011.
- (vi) On November 27, 2009, the Corporation submitted an application to the OEB to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net recovery of \$12,800 was approved by the OEB on January 29, 2010 to be recovered from February 1, 2010 to January 31, 2012.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

7. Regulatory assets and liabilities (continued):

(vii) The OEB requires the Corporation to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference for all accounts plus interest at an OEB approved rate since January 1, 2009, excluding energy variance account which reflects this difference from October 1, 2009.

The Global Adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from the Corporation's customers. The global adjustment variance reflects this difference since October 1, 2009 plus interest charged at an OEB approved rate.

(viii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and liabilities, as directed by the OEB. As at December 31, 2011, this net accrued interest amounted to \$532 (2010 - \$104).

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with the Corporation's customers.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the consolidated financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from the Corporation's expectations, the timing and amount of recovery or settlement of amounts recorded on the consolidated balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

7. Regulatory assets and liabilities (continued):

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

8. Debentures and bonds payable:

Bonds	2011	2010
6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ -	\$ 290,000
Deferred debt issue costs	-	(4,336)
Accumulated amortization	-	4,147
Net bonds payable	\$ -	\$ 289,811

Debentures	2011	2010
4.52% Series A Debentures Due April 29, 2021	\$ 110,000	\$ -
Deferred debt issue costs (net of accumulated amortization of \$43 (2010 - \$nil))	(748)	-
5.30% Series B Debentures Due April 29, 2041	\$ 210,000	\$ -
Deferred debt issue costs (net of accumulated amortization of \$13 (2010 - \$nil))	(1,388)	-
Net debentures payable	\$ 317,864	\$ -

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

8. Debentures and bonds payable (continued):

The Borealis-Enersource Series Bonds matured on May 3, 2011. On April 29, 2011, the Corporation completed its private placement debt offering of \$320,000. The placement is comprised of \$110,000 of Series A, 10-year debentures with a fixed coupon rate of 4.521%, and \$210,000 of Series B, 30-year debentures with a fixed coupon rate of 5.297%. The net proceeds of the debentures were used to repay the amount owed by the Corporation to Borealis Infrastructure Trust and the balance will be used for general corporate purposes.

The debentures and bonds payable are considered as financial instruments and measured at amortized cost.

Interest expense for the year ended December 31, 2011 included \$17,091 (2010 - \$18,241) in respect of interest on this debt and amortization of debt issue costs in the amount of \$245 (2010 - \$555).

The Corporation has the following material covenants associated with its long-term debt:

- (a) The Corporation will duly and punctually pay or cause to be paid payments of principal and interest to each holder of the debentures.
- (b) The Corporation will, and will cause each designated subsidiary to maintain its corporate existence (unless all of its assets are or have been conveyed to the Corporation or another designated subsidiary), and will carry on and conduct its business in a proper and efficient manner.
- (c) The Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, consolidated interim financial statements other than with respect to the consolidated interim financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter.
- (d) The Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof.

8. Bonds Payable (continued):

- (e) The Corporation will not, and will not permit any designated subsidiary to, create, assume or suffer to exist any security interest, other than permitted encumbrances, on any of its assets to secure any obligation, unless at the same time it secures equally and rateably therewith all the debentures issued pursuant to the Trust Indenture then outstanding.
- (f) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization.
- (g) The Corporation may not amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets. Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary.
- (h) No default or event of default shall have occurred and be continuing, or shall occur.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

9. Employee retirement and post-retirement benefits:

(a) Pensions:

During fiscal 2011, the Corporation expensed contributions made to OMERS of \$2,314 (2010 - \$1,948).

(b) Other retirement and post-retirement benefits:

The Corporation measures its accrued benefit obligations for accounting purposes at December 31 each year. The latest actuarial valuation was performed as at December 31, 2009.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

9. Employee retirement and post-retirement benefits (continued):

Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits obligation:

	2011	2010
Change in benefit obligations:		
Accrued benefit obligation, beginning of year	\$ 4,199	\$ 4,213
Adjustment to opening balance	-	(509)
Current service cost	169	145
Amortization of transition obligation	136	134
Interest cost	235	227
Benefits paid	(133)	(126)
Transition obligation	(136)	(134)
Amortization of actuarial gain	-	-
Net actuarial loss	-	249
Post-employment benefits obligation, end of year	\$ 4,470	\$ 4,199

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

	2011	2010
Accrued benefit, end of year	\$ 4,470	\$ 4,199
Unrecognized transition obligation	(388)	(524)
Unrecognized actuarial gain	108	108
Accrued benefit liability	\$ 4,190	\$ 3,783

(iii) Significant assumptions:

	2011	2010
Discount rate	5.50%	6.00%
Health care cost increases	9.00%	9.00%
Dental cost increases	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

The total post-employment benefits liability for this plan at December 31, 2011 is \$4,190 (2010 - \$3,783). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

	2011	2010
Amortization of transition obligation	\$ 136	\$ 134
Current service cost	169	145
Interest cost	235	227
Amortization of actuarial gain	-	-
	\$ 540	\$ 506

The December 31, 2011 accounting report assumed health care costs would increase by 9% in 2011, then grading down to 5% per annum after 8 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately \$334.

10. Capital stock:

	2011	2010
Authorized:		
Unlimited common shares		
Issued:		
40 common shares	\$ 155,629	\$ 155,629

Dividends may be declared by the Board of Directors through a resolution.

In 2011, a dividend of \$10,231 (2010 - \$10,538) was declared and paid to the shareholder of the Corporation.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

11. Change in non-cash operating working capital:

	2011	2010
Accounts receivable	\$ (3,693)	\$ 3,299
Unbilled revenue	7,824	(16,995)
Income taxes receivable	-	501
Inventory	344	207
Prepaid expenses and deposits	(592)	(46)
Accounts payable and accrued liabilities	9,154	(5,020)
Accounts payable and accrued liabilities in assets	(1,510)	(585)
Income taxes payable	(513)	3,413
Amounts due to/from related parties	(645)	(364)
Deferred revenue	10,992	148
Advance payments	(675)	664
Regulatory liabilities	3,020	39,671
	\$ 23,706	\$ 24,893

Accrued liabilities relating to additions to property, plant, equipment and intangible assets for the year ended December 31, 2011 of \$7,124 (2010 - \$5,614) have been excluded from the change in non-cash operating working capital and from cash used in investing activities.

12. Contingencies:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

The Corporation has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

12. Contingencies (continued):

(b) Environmental matters:

- (i) The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual future environmental expenditures may vary from these estimates. As at December 31, 2011, the Corporation provided \$160 (2010 - \$217) for testing and future remediation.
- (ii) Environment Canada has issued new regulations governing the management of PCB's. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses incurred to comply with the new regulations. As at December 31, 2011, the Corporation deferred \$1,236 (2010 - \$974) included in regulatory assets, representing costs incurred for compliance with the new regulations.

13. Commitments:

Fixed asset purchase commitments outstanding as at December 31, 2011 total \$12,800 (2010 - \$7,524).

As at December 31, 2011, the future minimum annual lease payments under property operating leases totalled \$127 (2010 - \$121).

14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate their fair values because of the short term to maturity of these financial instruments.

The Borealis-Enersource series bonds with a face value of \$290,000 matured on May 3, 2011. They had a fair value of \$294,318 at December 31, 2010.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

The private placement debt offering, having a principal amount of \$320,000 (2010 - \$nil), have a fair value of \$376,766 (2010 - \$nil), based on year-end quoted market prices.

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

14. Financial instruments (continued):

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of commodity costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of \$4 as at December 31, 2011 (2010 - \$103).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2011, met the criteria specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2011, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

- (ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

14. Financial instruments (continued):

- (iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 8.4% (2010 - 8.8%) of the total net outstanding balance.

- (iv) The Corporation included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2011	2010
Total accounts receivable	\$ 60,983	\$ 56,133
Less allowance for doubtful accounts	(3,625)	(2,468)
Total accounts receivable, net	\$ 57,358	\$ 53,665
Of which:		
Not yet due	\$ 31,919	\$ 35,657
Past due 1 day but not more than 15	17,335	8,506
Past due 15 days but not more than 45	5,093	5,627
Past due 45 days but not more than 75	1,802	1,625
Past due 75 days but not more than 105	1,262	1,329
Past due more than 105 days	3,572	3,389
Less: Allowance for doubtful accounts	(3,625)	(2,468)
Total accounts receivable, net	\$ 57,358	\$ 53,665

- (c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
 (In thousands of dollars)

Year ended December 31, 2011

14. Financial instruments (continued):

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 96,577	\$ –	\$ –
Debenture interest and principle payable	16,097	64,387	614,910
	<u>\$ 112,674</u>	<u>\$ 64,387</u>	<u>\$ 614,910</u>

(d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

15. Related party transactions:

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Other construction services are provided at cost. A summary of amounts charged by the Corporation to the City is as follows:

	2011	2010
Electrical energy	\$ 9,415	\$ 9,677
Streetlighting energy	6,315	6,098

At December 31, 2011, accounts payable and accrued liabilities include \$28 (2010 - \$33) due to the City and accounts receivable include \$1,962 (2010 - \$1,588) due from the City.

At December 31, 2011, the Corporation incurred property taxes which are paid to the City in the amount of \$820 (2010 - \$814).

ENERSOURCE HYDRO MISSISSAUGA INC.

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2011

The Corporation charged Borealis \$9 (2010 - \$9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2011, accounts receivable included \$nil (2010 - \$nil) due from Borealis.

15. Related party transactions (continued):

Amounts due from related parties include \$1,112 (2010 - \$606) from a company under common control and \$nil (2010 - \$nil) from the parent company.

Amounts due to related parties include \$nil (2010 - \$127) to a company under common control and \$1,277 (2010 - \$1,290) to the parent company.

16. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2011 is \$58,893 (2010 - \$63,438) owed in respect of electricity purchases through the IESO.

17. Comparative figures:

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2011.

Post-Employment Benefits for Employees of Enersource Corporation

Accounting Report as at December 31, 2011

Prepared January 2012

Introduction

Enersource Corporation (the "Corporation") has retained the services of Morneau Shepell Ltd. to prepare accounting information pertaining to the Corporation's non-pension post-employment benefits plan for the fiscal year ending December 31, 2011 ("Fiscal 2011") in accordance with International Financial Reporting Standards ("IFRS") IAS 19. We have also provided expense estimates for your Fiscal 2012 and Fiscal 2013 financial statement reporting purposes.

We understand that the Corporation's non-pension post-employment benefits plan (the "Plan") is comprised of health, dental and life insurance benefits.

The most recent actuarial valuation of the Plan was performed as at January 1, 2011, details of which can be found in our report dated April 2011 (the "Actuarial Report"). The accounting information in this report arises from an extrapolation of that valuation.

Results

Income Statement Items

	Estimate Fiscal 2012	Fiscal 2011
Current Service Cost	479,000	367,000
Interest Cost	260,000	262,000
Net Benefit Cost (or the Expense)	\$739,000	\$629,000

Calculation of Accrual

	Estimate December 31, 2012	December 31, 2011
Opening balance	\$5,743,000	\$4,496,000
Expense for the year	739,000	629,000
Estimated benefit payments	(232,000)	(204,000)
Amount recognized in OCI	0	822,000
Closing balance	\$6,251,000	\$5,743,000

A detailed expensing schedule with additional disclosure items can be found in Appendix B.

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Certification

I confirm the following:

With respect to the Corporation's post-employment benefits, I hereby certify that, in my opinion, as at December 31, 2011:

- > The Plan's benefits are defined benefits for purposes of International Financial Reporting Standards ("IFRS") IAS 19.
- > The valuation and extrapolation thereof were made in accordance with the standards of the Canadian Institute of Actuaries. The financial statement items resulting from our valuation and extrapolation thereof were determined in accordance with my understanding of IFRS IAS 19.
- > The valuation and extrapolation thereof was performed using best-estimate assumptions developed by the Corporation as at December 31, 2011 and I do not express any opinion on such assumptions. These assumptions are summarized in Appendix A.
- > I have confirmed with the Corporation that the plan provisions are up to date as at the date of this report. I am not aware of any events that could have a significant effect on our valuation or on the Corporation's financial statements.
- > I am a member in good standing of the Canadian Institute of Actuaries. I understand that this report will be used for audit evidence.
- > I am, and Morneau Shepell Ltd. is, independent with respect to the Corporation.

Furthermore, we hereby declare that in our opinion:

- > The data upon which this valuation is based are sufficient and reliable for the purposes of the valuation; and
- > This report has been prepared, and my opinion given, in accordance with generally accepted actuarial practice.

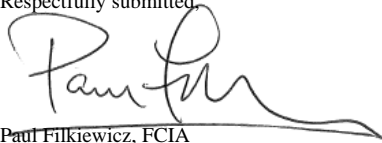
Emerging experience, differing from assumptions will result in gains and losses which will be revealed in future valuations.

Further information regarding the data, claim costs, plan provisions, methods, and accounting policies upon which these figures are based is provided in the appendices to the Actuarial Report.

Page 3

I am available at your convenience to provide you with any additional information that you may require.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul Filkiewicz", with a long horizontal flourish extending to the right.

Paul Filkiewicz, FCIA

MORNEAU SHEPELL LTD.
895 Don Mills Road
One Morneau Shepell Ltd. Centre
Toronto, Ontario
M3C 1W3

January 12, 2012

This report and any enclosures have been peer reviewed by Heitham Hamam, FCIA

Appendix A – Actuarial Assumptions and Methods

Actuarial Assumptions

		Fiscal 2011
Economic Factors		
Discount rate for calculation of Fiscal 2011 Net Expense		5.50%
Discount rate for calculation of December 31, 2011 disclosures and estimate of Fiscal 2012 and Fiscal 2013 Net Expense		4.25%
Salary scale		3.0% per annum
Dental Cost Trend Rates		4.0% per annum
Extended Health Care Trend Rates	9.0% in 2011; decreasing by 0.5% per annum to an ultimate rate of 5.0%	
Demographic Factors		
Retirement age		
> Extended Health and Dental Benefits	Age 60 and 10 years of service or immediate if older than 60 with 10 years of service	
> Life Insurance Benefits	Age 60 or immediate if older than 60	
Mortality	Uninsured Pensioners Mortality Table (UP94) with adjustment Scale AA to 2020, Sex Distinct	
Termination of employment (sample rates)	<u>Age</u>	<u>%</u>
	20	7.5
	25	5.0
	30	3.5
	35	3.5
	40	3.0
	45	1.5
	50	1.0
	55+	0.0
Full eligibility age – EHC and Dental	<u>Hire Age</u>	<u>Eligibility Age</u>
	Less than 45	Age 55 and 15 consecutive years of service
	45-55	10 consecutive years of service
	Above 55	Not eligible
Full eligibility age – Life Insurance	Age 55 and 10 consecutive years of service, but no later than age 60	
Disability	None	

Loadings	
> Administration – Health & Dental	Implicitly included in the historical claims
> Administration - Life	8.00%
> Premium Tax	2.00%
> Sales Tax	8.00%
Age difference between retiree and spouse	Women are 3 years younger than men
Members electing coverage at retirement	
> Retiring with 10 to 14 years of service	85%
> Retiring with 15 or more years of service	100%
Percentage electing family coverage	
> Current retirees	Current elected category
> Future retirees	Current elected category

In the table above, all rates and percentages are annualized unless otherwise noted.

Accounting policy

We understand that the Corporation has elected to recognize experience gains and losses on the balance sheet through Other Comprehensive Income.

Appendix B – Accounting Schedule

	IFRS Estimate 2013	IFRS Estimate 2012	IFRS 2011
Starting values			
Present value of obligation	6,251,000	5,743,000	4,496,000
Discount rate on obligation at BOP	4.25%	4.25%	5.50%
Discount rate on obligation at EOP	4.25%	4.25%	4.25%
Salary increase	3.00%	3.00%	3.00%
Current service cost	499,000	479,000	367,000
Estimated benefit payments	241,000	231,000	204,000
Remaining service life to retirement	14.0	14.0	14.0
Remaining service life to full eligibility	11.0	11.0	11.0
Exhibit I - Interest cost			
Opening balance	6,251,000	5,743,000	4,496,000
Current service cost	499,000	479,000	367,000
Estimated benefit payments (mid-year)	(120,500)	(115,500)	(102,000)
Total	<u>6,629,500</u>	<u>6,106,500</u>	<u>4,761,000</u>
Interest cost	<u>282,000</u>	<u>260,000</u>	<u>262,000</u>
Exhibit II - Actuarial experience on obligation			
Opening balance	6,251,000	5,743,000	4,496,000
Current service cost	499,000	479,000	367,000
Interest cost	282,000	260,000	262,000
Estimated benefit payments	(241,000)	(231,000)	(204,000)
Expected value at EoY	6,791,000	6,251,000	4,921,000
Actual value at EoY	6,791,000	6,251,000	5,743,000
Experience gain/(loss)	<u>0</u>	<u>0</u>	<u>(822,000)</u>
Exhibit III - Amount Recognized in OCI			
Opening balance	(822,000)	(822,000)	0
Gain (loss) for the year on obligation	0	0	(822,000)
Closing balance	<u>(822,000)</u>	<u>(822,000)</u>	<u>(822,000)</u>
Exhibit IV - Expense recognized			
Current service cost	499,000	479,000	367,000
Interest cost	282,000	260,000	262,000
Net expense	<u>781,000</u>	<u>739,000</u>	<u>629,000</u>
Exhibit V - Calculation of accrual			
Opening balance	6,251,000	5,743,000	4,496,000
Expense for the year	781,000	739,000	629,000
Estimated benefit payments	(241,000)	(231,000)	(204,000)
Amount recognized in OCI	0	0	822,000
Closing balance	<u>6,791,000</u>	<u>6,251,000</u>	<u>5,743,000</u>
Exhibit VI - Accrued benefit asset (liability)			
Defined benefit obligation	6,791,000	6,251,000	5,743,000
Unamortized balances of:			
- past service costs	0	0	0
Closing balance	<u>6,791,000</u>	<u>6,251,000</u>	<u>5,743,000</u>
Exhibit VII - History of Plan's Experience			
Present value of defined benefit obligation			5,743,000
Experience adjustments on plan obligation			822,000
A one percentage point change in assumed health and dental cost trend rates would have the following effects in Fiscal 2011:			
		One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost at 5.5%		69,300	(57,500)
Effect on the defined benefit obligation at 4.25%		341,400	(291,400)

1 ***Pro Forma Financial Statements***

2 Pro forma statements of income and balance sheets are found at Exhibit 1 Tab 3
3 Schedule 2 Appendix 1. These include statements for 2011 restated under
4 modified International Financial Reporting Standards ("MIFRS"), and forecasted
5 statements for 2012 to 2014, also under MIFRS.

ENERSOURCE HYDRO MISSISSAUGA - REGULATED
PRO FORMA STATEMENT OF INCOME
(in thousands of dollars, unaudited)



Year ending December 31	2011 MIFRS Restatement	2012 MIFRS Forecast	2013 MIFRS Forecast	2014 MIFRS Forecast
Revenues:				
Energy sales	683,116	704,313	733,280	761,328
Distribution revenue	119,514	115,406	128,422	133,028
Deferred distribution revenue	(6,444)	(6,377)		
Recovery of regulatory accounts	7,772	(17,159)	(10,012)	(1,604)
Other revenue	4,339	4,260	4,235	4,231
Non utility revenue (CDM)	9,952	24,685	22,655	22,450
Total Revenues	818,249	825,128	878,580	919,433
Operating Costs:				
Energy purchases	683,116	704,313	733,280	761,328
Operations, Maintenance and Administration Costs:				
Health, safety & security	676	821	846	867
Customer care	11,720	12,501	12,867	13,005
Metering	1,544	1,721	2,017	2,075
Smart meter costs - fund through rate adder	751	635	-	-
Regulatory costs	1,340	1,473	1,518	1,596
Information solutions & technology services	6,279	7,559	8,227	8,670
Enersource administration	1,665	1,654	1,700	1,360
Facility management	991	1,420	1,377	1,369
New administration building	-	847	1,668	1,720
Engineering & operations	12,229	13,062	13,923	15,025
Accounting IFRS change - overhead burdens	2,525	3,022	2,774	3,026
Asset management	120	287	1,153	1,557
One time costs	-	-	251	251
Other expenses	1,437	1,876	1,904	1,932
Shared services & allocation	9,506	10,131	10,874	10,982
Total Operations, Maintenance and Administration Expenses	50,783	57,009	61,099	63,435

ENERSOURCE HYDRO MISSISSAUGA - REGULATED
PRO FORMA STATEMENT OF INCOME
 (in thousands of dollars, unaudited)



Year ending December 31	2011 MIFRS Restatement	2012 MIFRS Forecast	2013 MIFRS Forecast	2014 MIFRS Forecast
Non utility expenses (CDM)	10,013	24,321	22,655	22,450
Amortization				
Amortization of fixed and intangible assets	27,883	28,212	29,005	30,622
Amortization of regulatory accounts	7,772	(16,344)	(9,606)	(1,604)
Amortization of customer contributions	(51)	(150)	(232)	(317)
Total Amortization	<u>35,604</u>	<u>11,718</u>	<u>19,167</u>	<u>28,701</u>
Total Operating Expenses	<u>779,516</u>	<u>797,361</u>	<u>836,201</u>	<u>875,914</u>
Operating Income	<u>38,733</u>	<u>27,767</u>	<u>42,379</u>	<u>43,519</u>
Financial income	1,154	623	362	558
Financial expense	(17,958)	(16,609)	(16,453)	(16,751)
Net Financial Expense	<u>(16,804)</u>	<u>(15,986)</u>	<u>(16,091)</u>	<u>(16,193)</u>
Income Before Taxes	21,929	11,781	26,288	27,326
Income taxes (PILs)	(2,197)	1,361	(5,174)	(3,824)
Total Net Income	<u>19,732</u>	<u>13,142</u>	<u>21,114</u>	<u>23,502</u>
Other Comprehensive Income				
Defined benefit plan actuarial gains (losses)	(769)			
Income tax on other comprehensive income	121			
Other Comprehensive Income, Net of Income Tax	<u>(648)</u>			
Total Comprehensive Income	<u><u>19,084</u></u>	<u><u>13,142</u></u>	<u><u>21,114</u></u>	<u><u>23,502</u></u>

ENERSOURCE HYDRO MISSISSAUGA - REGULATED
PRO FORMA BALANCE SHEETS
(in thousands of dollars, unaudited)



As at December 31	2011	2012	2013	2014
	MIFRS	MIFRS	MIFRS	MIFRS
	Restatement	BUDGET	FORECAST	FORECAST
Cash and cash equivalents	81,137	33,613	1,924	
Accounts receivable	57,358	56,204	57,890	59,627
Unbilled revenue	59,739	69,525	71,611	73,759
Inventory	7,196	5,800	5,900	6,000
Prepaid expenses	1,638	1,297	1,336	1,376
Consumer deposits	22,693	21,200	21,800	22,000
Deferred tax assets	1,335	2,929	626	608
Total Current Assets	231,096	190,568	161,087	163,370
Property, plant & equipment	465,193	502,569	520,764	538,686
Customer contributions	(4,447)	(7,204)	(9,905)	(12,548)
Intangible assets	18,389	19,965	22,144	22,184
Regulatory assets	7,719	5,132	784	1,163
Deferred tax assets	29,345	24,513	23,003	19,290
Total Assets	747,295	735,543	717,877	732,145
Bank overdraft		-	-	3,488
Accounts payable and accrued liabilities	93,897	96,087	100,403	105,920
Income taxes payable	2,900	860	2,574	1,534
Advance payments	2,043	2,616	2,694	2,775
Interest payable on bonds	2,845	2,822	2,822	2,822
Regulatory liability for future income tax assets	98	130	125	123
Deferred revenue	6,851	13,537	32	32
Consumer deposits	22,693	21,200	21,800	22,000
Regulatory liabilities	42,691	28,590	5,476	3,822
Total Current Liabilities	174,018	165,842	135,926	142,516
Debentures	317,864	317,948	318,039	318,134
Employee retirement benefits	4,694	5,108	5,548	6,010
Regulatory liability for future income tax assets	29,345	24,513	23,003	19,290
Total Liabilities	525,921	513,411	482,516	485,950
Capital stock	155,629	155,629	155,629	155,629
Retained earning	65,745	66,503	79,732	90,566
Total Equity	221,374	222,132	235,361	246,195
Total Liabilities and Equity	747,295	735,543	717,877	732,145

ENERSOURCE HYDRO MISSISSAUGA
PRO FORMA STATEMENT OF CASH FLOWS
 (in thousands of dollars, unaudited)



Year ending December 31	2011 MIFRS Restatement	2012 MIFRS BUDGET	2013 MIFRS FORECAST	2014 MIFRS FORECAST
Total net income	19,084	13,142	21,114	23,502
Amortization of fixed and intangible assets	27,883	28,212	29,005	30,622
Amortization of customer contributions	(51)	(150)	(232)	(317)
Amortization of regulatory accounts	7,772	(16,344)	(9,606)	(1,604)
Borrowing costs	(403)	(544)	(274)	(273)
Capital expenditures	(46,657)	(66,849)	(49,106)	(48,311)
Customer contributions	4,498	2,907	2,933	2,960
Other working capital changes	(1,617)	1,140	2,678	419
Accounts receivable	(3,178)	1,154	(1,686)	(1,737)
Unbilled receivable	7,309	(9,786)	(2,086)	(2,148)
Regulatory assets	1,486	19,159	13,954	1,225
Accounts payable & accrued liabilities	8,586	2,190	4,316	5,517
Income taxes payable	(513)	(2,040)	1,714	(1,040)
Regulatory liabilities	3,020	(14,101)	(23,114)	(1,654)
Deferred revenue	6,703	6,686	(13,505)	-
Long-term debt	28,053	84	91	95
Dividends paid	(10,231)	(12,384)	(7,885)	(12,668)
Increase/(Decrease) in Cash Position	51,744	(47,524)	(31,689)	(5,412)

1 ***Reconciliation between Audited Financial Statements and***
2 ***Regulatory Financial Statements***

3 Refer to [Exhibit 1 Tab 3 Schedule 3 Appendix 1](#) for reconciliations between
4 Enersource's audited financial statements and regulatory financial statements
5 from 2008 to 2011.

Enersource Hydro Mississauga
Reconciliation of Financial Statements I/S to RRR I/S OEB Filing

		<u>FinStats</u> <u>2011</u>	<u>RRR</u>	<u>RRR Presentation</u>	<u>Variance</u>	<u>Notes</u>
REVENUE						
Energy		683,116	650,455	650,455	32,661	See (Note 1) below
Distribution		108,780	114,665		(5,885)	See (Note 2) below
Regulatory (refund) of regulatory assets (liabilities)		7,772	-		7,772	Reclass to Energy Revenue
Distribution (RCVA Revenues)			-	114,665	-	See (Note 5) below
Other Operating revenues			3,530		(3,530)	See (Note 4) below
Interest (Investment) income			2,323		(2,323)	See (Note 7) below
Other		14,291	3,133		11,158	See (Note 5) below
		813,959	774,106	774,106	39,854	
Operating Expenses						
Energy Purchases		683,116	650,455	650,455	32,661	See (Note 1) below
Operations, Maintenance and administration		57,459	46,470	46,470	10,989	See (Note 6) below
Amortization						
Amortization of capital assets		23,729	32,081	32,081	(8,352)	See (Note 3) below
Amortization of intangible assets		2,309	2,309		-	
Amortization of Deferred charges			-		-	Amortization of Deferred charges
Amortization of regulatory assets		7,772	-		7,772	Reclass to Energy Revenue
		774,385	731,315	731,315	43,070	
Operating Income		39,574	42,792	42,792	(3,218)	
Non-operating revenue (expense):						
Interest income		1,154	-		1,154	See (Note 7) below
Interest expense		(17,958)	(18,456)		498	
Other interest expense			-	(18,456)	-	
Foreign exchange loss			-		-	
		(16,804)	(18,456)	(18,456)	1,652	
Income before payments in lieu of corporate income taxes		22,770	24,336	24,336	(1,566)	
Payments in lieu of corporate income taxes		(2,131)	(4,052)		1,921	See (Note 8) below
Capital Taxes			(140)	(4,192)	140	Capital taxes reclass from OM&A (See Note 6 below)
Net income and comprehensive income		20,639	20,144	20,144	495	

Net income and comprehensive income per Financial Statements		20,639
Add:		
SPC Recovered in Account 1521	1,852	
Smart Meter Interest Income	1,169	
Smart Meter Interest Expense	(498)	
Smart Meter OM&A Recognized in 2011	751	
Smart Meter Amortization Recognized in 2011	2,382	
Smart Meter PILs Recognized in 2011	(1,059)	4,598
Less:		
Smart Meter Revenue Recognized in 2011	\$ (5,093)	
SPC Charge deferred in Account 1521	-	(5,093)
RRR Net Income		20,144
USoA Net Income		18,453
SPC Net Adjustment in 2011		1,691
		20,144
		-

<u>Energy Revenues Reconciliation (Note 1)</u>	<u>2011 OEB</u>
Energy Revenues per Financial Statements	\$ 683,116
Energy Revenue Restatement	\$ (23,034)
GA Revenue Restatement	\$ (9,626)
Total Energy Revenues per OEB Statement	\$ 650,455

<u>Distribution Revenues per Financial Statements (Note 2)</u>	\$ 108,780
Regulatory Liabilities Refunded	\$ 244
Add: IFRS Change in Useful Lives	\$ 10,734
Less: Smart Meter Revenue Recognized in 2011	\$ (5,093)

Net Change			\$	5,885
RRR Distribution Revenue			\$	114,665

Amortization per Financial Statements (Note 3)			\$	23,729
Add: IFRS Change in Useful Lives			\$	10,734
Less: Smart Meter Amortization Recognized in 2011			\$	(2,382)
Net Change			\$	8,352
RRR Amortization Expense			\$	32,081

OEB Other Operating Revenues (Note 4)				
	4082/4084	(Reclass from)/to		
Pole Rental	4210	(Other income)	\$	541
LPC	4225	(Other income)	\$	2,068
Miscellaneous Income	4235	(Other income)	\$	922
			\$	3,530

OEB Other Income Deductions (Note 5)				
	USoA Codes	(Reclass from)/to		
Other Income per Financial Statements			\$	14,291
RCVA Revenues	4082/4084	Revenues from Services	\$	(244)
Pole Rental	4210	Other Op Revenues	\$	(541)
LPC	4225	Other Op Revenues	\$	(2,068)
Miscellaneous Income	4235	Other Op Revenues	\$	(922)
Special Purpose Charge Recovery	4324		\$	1,852
Revenue from merchandise, Jobbing etc	4325	(from OM&A)	\$	(29)
OPA Costs	4380	(from OM&A)	\$	(10,017)
Collection Charges	5330	To OM&A	\$	(148)
SRED credits	4390		\$	958
			\$	3,133

OEB OM&A (Note 6)				
		(Reclass from)/to		
OM&A per Financial Statements			\$	57,459
Less: Smart Meter Expense Recognized in 2011			\$	(751)
SRED Credits	4390	(Other income)	\$	958
SPC Charge (FAQ Dec 2010)	5681		\$	-
Revenue from merchandise, Jobbing etc	4325		\$	(29)
Donations	6205		\$	(140)
Property Taxes	6105	Other income	\$	(862)
OPA Costs	4380	Other income	\$	(10,017)
Collection Charges	5330	Other income	\$	(148)
			\$	46,470

Interest Income (Note 7)				
Interest Income Per Financial Statements			\$	1,154
Interest Income Smart Meter			\$	1,169
			\$	2,323

Payments in lieu of corporate income taxes (Note 8)				
Payments in lieu of corporate income taxes per Financial Statements			\$	(2,131)
SM PILs			\$	(1,059)
Property Taxes			\$	(862)
			\$	(4,052)

Enersource Hydro Mississauga
Reconciliation of Financial Statements Balance Sheet to RRR Balance Sheet OEB Filing

	RRR				Notes
	FinStats 2011	RRR	Presentation	Variance	
ASSETS					
Cash and cash equivalents	81,135	81,135		-	
Accounts receivable	57,358	58,159		(801)	Security Deposit and LPP Balance included in RRR Accounts Receivable
Unbilled revenue	59,739	59,739		-	
Amounts due from related parties, without interest	1,112	1,112		-	
Income taxes receivable	-	-		-	
Prepays and deposits	1,638	1,108	201,253	530	Excludes Security deposits and Substation security deposit
Inventory	7,196	7,196	7,196	-	
Future income tax asset	2,406	-	-	2,406	Reclass to Regulatory liability for future income tax assets
	210,584	208,449	208,449	2,134	
Capital assets	464,730	453,237		11,493	Reclass of CIP, IFRS Change in Useful Lives and Smart Meter Assets included in Capital Assets vs Variance Account for RRR
Intangible Assets	18,694	-	453,237	18,694	CIP Intangibles Reclass to Fixed Assets
Smart Meters					
Other assets:					
Cash and cash equivalents held for consumer deposits	22,693	22,745		(52)	Includes substation security deposits for USoA
Regulatory assets	7,719	20,956		(13,237)	Due to Account 1555 & 1556, non-recognition as per OEB GL
Regulatory assets (Smart Meter Capital)	-	-		-	Smart Meter Capital (Reg Assets on RRR)
Regulatory assets/Liabilities Reclassed	-	-		-	Reg Assets/Liabilities Reclassed to Regulatory Liabilities
Regulatory liabilities reclassified	-	(42,691)	(21,735)	42,691	Regulatory Liabilities reclass
Deferred debt issue costs	-	2,136	24,881	(2,136)	Bonds payable on Financials
Other deferred costs	-	-		-	
Future income tax assets	27,865	-	-	27,865	Contra-offset in OEB
	58,277	3,145	3,145	55,132	
	752,285	664,831	664,832	87,454	
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	96,577	96,579		(2)	Provision for Rate Refunds reclass
Payments in lieu of corporate income taxes payable	2,900	2,900		-	
Deferred revenue	11,140			11,140	IFRS Change in Useful Lives
Advance payments	2,043	2,450		(407)	Includes Other Deferred Revenue for USoA
Amounts due to related parties, without interest	1,277	1,277		-	
Future income tax liabilities	-	-		-	
Regulatory liability for future income tax assets	98	(2,308)	100,898	2,406	Future Income Tax Asset reclass
Regulatory liabilities	42,691	-	-	42,691	Reclass of Regulatory Liabilities to Asset as Offset
	156,726	100,898	100,898	55,827	
Long-term liabilities:					
Bonds payable	317,864	320,000	320,000	(2,136)	Bonds payable on Financials
Consumer deposits	22,693	22,693		-	
Employee retirement and post-retirement benefits	4,190	4,190		-	
Provision for Rate Refunds		(4)	26,880	4	Reclass from Accounts payable and accrued liabilities
Regulatory liability for future income tax assets	27,865	-	-	27,865	Contra-offset in OEB
	372,612	346,880	346,880	25,733	
Shareholders's equity:					
Capital stock	155,629	155,629	155,629	-	
Retained earnings	67,318	61,425	61,425	5,893	Exclusion of SM Net Income, PILs and Interest not yet approved by OEB
	222,947	217,054	217,054	5,893	
	752,285	664,832	664,832	87,454	



Enersource Hydro Mississauga

Reconciliation of Financial Statements Balance Sheet to RRR Balance Sheet OEB Filing (\$000s)

	FinStats 2010	RRR	RRR		Notes
			Presentation	Variance	
ASSETS					
Cash and cash equivalents	29,393	29,393		-	
Accounts receivable	54,090	54,113		(23)	Other deferred costs included in AR
Unbilled revenue	67,048	67,048		-	
Amounts due from related parties, without interest	606	606		-	
Income taxes receivable	-	-		-	
Prepays and deposits	1,046	925	152,085	121	Excludes Security deposits and Substation security deposit
Inventory	7,540	7,540	7,540	-	
Future income tax asset	-	-	-	-	Reclass to Regulatory liability for future income tax assets
	159,723	159,625	159,625	98	
Capital assets	445,872	429,725		16,147	See Tab 6 Schedule 2
Intangible Assets	15,583	13,111	442,836	2,472	CIP Intangibles Reclass
Cash and cash equivalents held for consumer deposits	20,739	20,843		(104)	Includes substation security deposits for USoA
Regulatory assets	20,013	35,064		(15,051)	See Tab 6 Schedule 2
Regulatory liabilities reclassified	-	(39,671)	(4,607)	39,671	
Deferred debt issue costs	-	273	21,116	(273)	Bonds payable on Financials
Other deferred costs	90			90	
Future income tax assets	32,495			32,495	Contra-offset in OEB
	73,337	16,509	16,509	56,828	
	694,515	618,971	618,971	75,545	
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	87,423	87,941		(518)	Includes OTB Payment Plan
Payments in lieu of corporate income taxes payable	3,413	3,413		-	
Deferred revenue	148			148	Deferred Revenue for USoA included in Advance Payments
Advance payments	2,718	2,846		(128)	Includes Deferred Revenue for USoA
Amounts due to related parties, without interest	1,417	1,417		-	
Future income tax liabilities	209	209		-	
Regulatory liability for future income tax assets	149	149	95,975	-	
Regulatory liabilities	39,671	-	-	39,671	Reclassified in OEB RRR
	135,148	95,975	95,975	39,172	
Long-term liabilities:					
Bonds payable	289,811	290,000	290,000	(189)	Bonds payable on Financials
Consumer deposits	20,739	20,739		-	
Employee retirement and post-retirement benefits	3,783	3,783		-	
Provision for Rate Refunds	-	-	24,522	-	Reclass from Accounts payable and accrued liabilities
Regulatory liability for future income tax assets	32,495	-	-	32,495	Contra-offset in OEB
	346,828	314,522	314,522	32,306	
Shareholders's equity:					
Capital stock	155,629	155,629	155,629	-	
Retained earnings	56,910	52,844	52,844	4,066	See Tab 6 Schedule 2
	212,539	208,473	208,473	4,066	
	694,515	618,971	618,971	75,545	



Enersource Hydro Mississauga
 Audited Financial Statements Reconciliation to USoA

	(\$000s)
Financial Statements	\$ 445,872
Less: Smart Capital Recognized 2009 & 2010	-\$ 21,715
Add: Smart Accumulated Dep'n Recognized 2009 & 2010	\$ 4,016
Add: CIP included in RRR	\$ 1,552
RRR Capital Assets	\$ 429,725
Regulatory Assets	
Financial Statements	\$ 20,013
<u>Account 1555</u>	
Less: Revenue Recognized 2009 & 2010	-\$ 8,762
Add: Smart Capital Recognized 2009 & 2010	\$ 21,715
Add: Smart Accumulated Dep'n Recognized 2009 & 2010	-\$ 4,016
Less: Stranded Meter recovery reclass to Account 1555	-\$ 138
Add: Adjustment for difference in Financial & Regulatory Interest	\$ 44
Net Impact of Account 1555	\$ 8,844
<u>Account 1556</u>	
Add: OM&A Recognized 2009 & 2010	\$ 5,216
Add: Stranded Meter recovery reclass to Account 1555	\$ 138
Add: Interest Reclass to USoA 4405	\$ 479
Add: Adjustment for difference in Financial & Regulatory Interest	\$ 26
Less: PILs Deferral	\$ (1,004)
Less: Interest Adjustment due from PILs removal	\$ (65)
Net Impact of Account 1556	\$ 4,789
CIP in Regulatory Assets for RRR reporting	919
<u>Account 1588</u>	
GL Balance	\$ (19,661)
Retailer True-up LDC Billing	\$ (3,306)
Rebates Payable Adjustment	\$ 155
Energy True-up	\$ 1,943
GA True-up Adjustment	\$ 1,708
	\$ 499
Net Postings	\$ (19,162)
Revised 1588 Balance	\$ (19,162)
RRR Regulatory Assets	\$ 35,064



Retained Earnings
Financial Statements

		Enersource Hydro Mississauga Audited Financial Statements Reconciliation to USoA	
	\$		56,910
Less: Revenue Recognized 2009 & 2010	-\$ 8,762		
Add: OM&A Recognized 2009 & 2010	<u>\$ 5,216</u>		
	-\$		3,547
Add: Adjustment for difference in Financial & Regulatory Interest	\$ 44		
Add: Interest Reclass to USoA 4405	\$ 479		
Add: Adjustment for difference in Financial & Regulatory Interest	\$ 26		
Less: Adjustment for difference from PILs removal	<u>-\$ 65</u>		
	\$		484
Less: PILs removal	<u>-\$ 1,004</u>		
Net Reduction in Retained Earnings	<u>-\$ 4,066</u>		
RRR Retained Earnings	<u><u>\$ 52,844</u></u>		
Accounts Payable & Accrued Liabilities	<u><u>\$ 87,442</u></u>		
Energy True-up Adjustment	\$ 499		
	<u><u>\$ 87,941</u></u>		



Enersource Hydro Mississauga
 Reconciliation of Financial Statements Income Statement to RRR Income Statement OEB Filing (\$000s)

		<u>FinStats</u> <u>2010</u>	<u>RRR</u>	<u>Variance</u>	<u>Notes</u>
REVENUE					
Energy		509,505	601,566	(92,061)	See (Note 1) below
Distribution		120,076	115,738	4,337	See (Note 2) below
Regulatory (refund) of regulatory assets (liabilities)		7,429	-	7,429	Reclass to Distribution/Energy Revenue
Other Operating revenues			3,060	(3,060)	See (Note 4) below
Interest (Investment) income			612	(612)	See (Note 7) below
Other		11,136	3,959	7,177	See (Note 5) below
		648,146	724,935	(76,790)	
Operating Expenses					
Energy Purchases		509,505	601,566	(92,061)	See (Note 1) below
Operations, Maintenance and administration		51,124	46,817	4,307	See (Note 6) below
<u>Amortization</u>					
Amortization of capital assets		36,177	34,318	1,859	See (Note 3) below
Amortization of intangible assets		1,936	1,936	-	
Amortization of regulatory assets		7,429	-	7,429	Reclass to Distribution/Energy Revenue
		606,171	684,636	(78,465)	
Operating Income		41,975	40,299	1,676	
Non-operating revenue (expense):					
Interest income		485	-	485	See (Note 7) below
Interest expense		(18,982)	(18,982)	-	
Other interest expense			(65)	65	SM Interest adjustment
Foreign exchange loss		(22)		(22)	Foreign exchange losses separately reported
		(18,519)	(19,047)	528	
Income before payments in lieu of corporate income taxes		23,456	21,252	2,204	
Payments in lieu of corporate income taxes		(6,404)	(8,412)	2,008	See (Note 8) below
Other Deductions			(50)	50	Donations
Net income and comprehensive income		17,052	12,789	4,262	

Net income and comprehensive income per Financial Statements		17,052
Add:		
SPC Recovered in Account 1521	1,324	
Interest Income in Account 1556	84	
Smart Meter OM&A Recognized in 2010	918	
Smart Meter Amortization Recognized in 2010	1,860	
Smart Meter PILs Recognized in 2010	<u>201</u>	4,387
Less:		
Smart Meter Revenue Recognized in 2010	\$ (4,630)	
SPC Charge deferred in Account 1521	<u>(3,016)</u>	(7,645)
RRR Net Income		13,793
Less: SM PILs Deferral Adjustment		<u>(1,004)</u>
		12,789

Energy Revenues Reconciliation (Note 1)	2010 OEB
Energy Revenues per Financial Statements	\$ 509,505
GA Revenue	\$ 165,751
GA Energy Recovery	\$ -
Billed LV Charges - OEB (4750)	\$ 1,201
Energy Revenue Restatement	\$ (25,502)
GA Revenue Restatement	\$ (49,389)
Total Energy Revenues per OEB Statement	\$ 601,566

Distribution Revenues per Financial Statements (Note 2)	\$ 120,076
Distribution (RCVA Revenues)	292
Less: Smart Meter Revenue Recognized in 2010	<u>\$ (4,630)</u>
RRR Distribution Revenue	\$ 115,738

Amortization per Financial Statements (Note 3)	\$ 36,178
Less: Smart Meter Amortization Recognized in 2010	<u>\$ (1,860)</u>
RRR Amortization Expense	\$ 34,318

OEB Other Operating Revenues (Note 4)			
	4082/4084	(Reclass from)/to	
Pole Rental	4210	(Other income)	\$ 537
LPC	4225	(Other income)	\$ 1,379
Miscellaneous Income	4235	(Other income)	\$ 1,144
			\$ 3,060

OEB Other Income Deductions (Note 5)			
	USoA Codes	(Reclass from)/to	
Other Income per Financial Statements			\$ 11,136
RCVA Revenues	4082/4084	Revenues from Services	\$ (292)
Pole Rental	4210	Other Op Revenues	\$ (537)
LPC	4225	Other Op Revenues	\$ (1,379)
Miscellaneous Income	4235	Other Op Revenues	\$ (1,144)
Special Purpose Charge Recovery	4324		\$ 1,324
Revenue from merchandise, Jobbing etc	4325		\$ (3)
OPA Costs	4380	(from OM&A)	\$ (6,018)
Collection Charges	5330	(from OM&A)	\$ (86)
Shred credits	4390	To OM&A	\$ 959
			\$ 3,959

OEB OM&A (Note 6)			
	USoA Codes	(Reclass from)/to	
OM&A per Financials Statements			\$ 51,124
Less: Smart Meter Expense Recognized in 2010			\$ (918)
SRED Credits	4390	(Other income)	\$ 959
SPC Charge (FAQ Dec 2010)	5681		\$ 3,016
Revenue from merchandise, Jobbing etc	4325		\$ (3)
Donations	6205		\$ (50)
Capital Taxes	6105		\$ (1,206)
OPA Costs	4380	Other income	\$ (6,018)
Collection Charges	5330	Other income	\$ (86)
			\$ 46,817

Interest Income (Note 7)			
	USoA Codes		
Interest Income per Financials Statements			485
Reclass of Interest on 1556 to 4405	1556		\$ 149
Less* Exchange Gains/Losses	4405		\$ (22)
			\$ 612

Payments in lieu of corporate income taxes (Note 8)			
	USoA Codes		
Payments in lieu of corporate income taxes per Financial Statements			\$ (6,404)
Smart Meter PILs recognized in 2010	1556		\$ 201
Smart Meter PILs Deferral	1556		\$ (1,004)
Capital Taxes	6105		\$ (1,206)
			\$ (8,412)



Enersource Hydro Mississauga
Reconciliation of Financial Statements Balance Sheet to RRR Balance Sheet OEB Filing

	<u>RRR</u>				<u>Notes</u>
	<u>FinStats</u>	<u>RRR</u>	<u>Presentation</u>	<u>Variance</u>	
	2009				
ASSETS					
Cash and cash equivalents	11,133	11,133		-	
Accounts receivable	56,874	61,886		(5,012)	Other deferred costs included in AR; includes \$62k security deposits
Unbilled revenue	50,568	50,568		-	
Amounts due from related parties, without interest	134	134		-	
Income taxes receivable	501	-		501	Reclass from Payment in lieu of corporate income taxes payable
Prepays and deposits	1,000	849	124,571	151	Excludes Security deposits of \$62k, and Substation security deposit of \$89k
Inventory	7,747	7,747	7,747	-	
Future income tax asset	514	-		514	Reclass to Regulatory liability for future income tax assets
	128,471	132,318	132,318	(3,846)	
Capital assets	435,171	435,704		(533)	CIP Intangibles Reclass
Intangible Assets	14,420	13,887	449,591	533	CIP Intangibles Reclass
Cash and cash equivalents held for consumer deposits	20,225	20,314		(89)	Includes substation security deposits for USoA of \$89k
Regulatory assets	12,238	7,660		4,578	Regulatory Liabilities Asset balance reclassified to Regulatory Assets per FINSTATS
Regulatory assets reclassified	-	4,578	12,238	(4,578)	Reclass from Regulatory Liabilities
Deferred debt issue costs	-	744	21,058	(744)	Bonds payable on Financials
Other deferred costs	4,951	-		4,951	Reclass of Offer to Connect Costs included in AR in USoA
Future income tax assets	33,491	-		33,491	Contra-offset in OEB
	70,905	33,295	33,295	37,610	
	648,967	615,204	615,204	33,763	
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	92,443	91,864		579	Reclass to provision rate refunds
Payments in lieu of corporate income taxes payable	-	(501)		501	Reclass to Income tax receivable
Advance payments	2,054	2,049		5	
Amounts due to related parties, without interest	1,309	1,309		-	
Regulatory liability for future income tax assets	252	(262)	94,459	514	Reclass from Future income tax assets
Regulatory liabilities	-	-		-	Reclass to Regulatory assets
	96,058	94,459	94,459	1,599	
Long-term liabilities:					
Bonds payable	289,256	290,000	290,000	(744)	Bonds payable on Financials
Consumer deposits	20,225	20,225		-	
Employee retirement and post-retirement benefits	3,912	3,912		-	
Provision for Rate Refunds	-	583	24,720	(583)	Reclass from Accounts payable and accrued liabilities
Regulatory liability for future income tax assets	33,491	-		33,491	Contra-offset in OEB
	346,884	314,720	314,720	32,164	
Shareholders's equity:					
Capital stock	155,629	155,629	155,629	-	
Retained earnings	50,396	50,396	50,396	-	
	206,025	206,025	206,025	-	
	648,967	615,204	615,204	33,763	



Enersource Hydro Mississauga
 Reconciliation of Financial Statements VS to RRR VS OEB Filing

	FinStats 2009	RRR	RRR Presentation	Variance	Notes
REVENUE					
Energy	444,166	578,089	578,089	(133,923)	See reconciliation below
Distribution	115,488	115,488		-	
Distribution (RCVA Revenues)		303	115,791	(303)	Reclass from other operating revenues
Other Operating revenues		1,849	1,849	(1,849)	See reconciliation below
Interest income		221	221	(221)	Reclass from interest income
Other	8,801	10,628	10,628	(1,827)	See reconciliation below
	568,455	706,577	706,577	(138,123)	
Operating Expenses					
Energy Purchases	444,166	578,089	578,089	(133,923)	See reconciliation below
Operations, Maintenance and administration	47,267	50,021	50,021	(2,754)	See reconciliation below
<u>Amortization</u>					
Amortization of capital assets	35,020	35,020		-	
Amortization of intangible assets	1,224	1,224		-	
Amortization of Deferred charges	(2,278)	523		-	
Amortization of regulatory assets			34,489	(523)	Amortization of Deferred charges
	525,399	662,600	662,600	(137,201)	
Operating Income	43,056	43,978	43,978	(922)	
Non-operating revenue (expense):					
Interest income	604	-	-	604	Reclass to Investment Income
Interest expense	(18,499)	(18,499)		-	
Other interest expense		523	(17,976)	(523)	Other interest costs
Foreign exchange loss	(383)			(383)	Foreign exchange losses separately reported
	(18,278)	(17,976)	(17,976)	(302)	
Income before payments in lieu of corporate income taxes	24,778	26,002	26,002	(1,224)	
Payments in lieu of corporate income taxes	(6,251)	(6,251)		-	
Capital Taxes		(1,224)	(7,475)	1,224	Capital taxes reclass from OM&A
Net income and comprehensive income	18,527	18,527	18,527	-	

Energy Revenues Reconciliation		2009 OEB
Energy Revenues per Financial Statements		\$ 444,166
Billed LV Charges - OEB (4750)		\$ 1,201
Energy Revenue Restatement		\$ (2,688)
GA Revenue Restatement		\$ 135,409
Total Energy Revenues per OEB Statement		\$ 578,089

OEB Other Operating Revenues		(Reclass from)/to	
Pole Rental	(Other income)	\$	524
LPC	(Other income)	\$	413
Miscellaneous Income	(Other income)	\$	912
		\$	1,849

OEB Other Income Deductions		(Reclass from)/to	
Other Income per Financial Statements		\$	8,801
RCVA Revenues	Revenues from Services	\$	(303)
Pole Rental	Other Op Revenues	\$	(524)
LPC	Other Op Revenues	\$	(413)
Miscellaneous Income	Other Op Revenues	\$	(912)
OPA Revenues	(from OM&A)	\$	8,456
OPA Costs	(from OM&A)	\$	(5,117)
Collection Charges	(from OM&A)	\$	(143)
Shred credits	To OM&A	\$	782
		\$	10,628

OEB OM&A		(Reclass from)/to	
OM&A per Financials Statements		\$	47,267
Shred Credits	(Other income)	\$	782
Miscellaneous amortization	Taxes	\$	(1,224)
OPA Revenues	Other income	\$	8,456
OPA Costs	Other income	\$	(5,117)
Collection Charges	Other income	\$	(143)
		\$	50,021



Enersource Hydro Mississauga
Reconciliation of Financial Statements Balance Sheet to RRR Balance Sheet OEB Filing

	FinStats	RRR	Variance	Notes
	2008			
ASSETS				
Cash and cash equivalents	52,329	52,329	0	
Accounts receivable	55,320	58,411	(3,091)	Other deferred costs included in AR; includes \$20k security deposits
Unbilled revenue	53,816	53,816	0	
Amounts due from related parties, without interest	81	81	(0)	
Inventory	7,012	7,012	(0)	
Prepays and deposits	1,738	1,335	403	Only prepaid in USoA, deposits included in Other assets
	170,296	172,984	(2,688)	
Capital assets	418,948	418,948	-	
Intangible Assets	10,336	10,336	-	
Smart Meters		(5,220)	5,220	Smart Meters as Capital Assets on Financials but Reg Assets for USoA
Other assets:				
Cash and cash equivalents held for consumer deposits	20,363	20,747	(384)	Includes deposits for USoA, excl. (Security Deposits of \$20k in AR), reported as prepaids and deposits
Regulatory assets	2,371	2,371	(0)	See above (Includes SM for USoA), other reg Assets reclassified to Regulatory Liabilities
Regulatory assets (Smart Meter Capital)	-	5,220	(5,220)	Smart Meter Capital (Reg Assets on RRR)
Regulatory assets/Liabilities Reclassed		(3,103)	3,103	Reg Assets/Liabilities Reclassed to Regulatory Liabilities
Deferred debt issue costs	-	1,267	(1,267)	Bonds payable on Financials
Other deferred costs	3,071	-	3,071	Reclassified of Offer to Connect Costs included in AR in USoA
	25,805	26,502	(697)	
	625,385	623,549	1,835	
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	89,561	90,865	(1,304)	
Payments in lieu of corporate income taxes payable	2,741	2,741	0	
Advance payments	2,830	1,529	1,301	
Amounts due to related parties, without interest	1,568	1,568	0	
Regulatory liabilities	18,295	15,192	3,103	Reclass of other Reg Assets/Liabilities
	114,995	111,894	3,101	
Long-term liabilities:				
Bonds payable	288,735	290,000	(1,266)	Bonds payable on Financials
Consumer deposits	20,363	20,363	(0)	
Employee retirement and post-retirement benefits	3,545	3,545	(0)	
	312,643	313,908	(1,266)	
Shareholders's equity:				
Capital stock	155,629	155,629	-	
Retained earnings	42,118	42,118	0	
	197,747	197,747	0	
	625,385	623,549	1,835	



**Enersource Hydro Mississauga
Reconciliation of Financial Statements I/S to RRR I/S OEB Filing**

	<u>FinStats</u> <u>2008</u>	<u>RRR</u>	<u>Variance</u>	<u>Notes</u>
REVENUE				
Energy	548,255	549,393	(1,138)	Billed LV Revenue (USoA 4075) per June 13, 2006 OEB Guidelines (Deferred as USoA 1550)
Distribution	109,979	109,979	-	
Other	5,723	5,945	(222)	SR&ED Credits
	663,957	665,318	(1,360)	
Operating Expenses				
Energy Purchases	548,255	549,393	(1,138)	Billed LV Charges (USoA 4750) per June 13, 2006 OEB Guidelines (Deferred as USoA 1550)
Operations, Maintenance and administration	39,642	40,063	(421)	SR&D Credits & Intangible Assets Amortization reclassification
Amortization of capital assets	33,310	33,110	200	Miscellaneous Amortization (Intangible Assets)
Amortization of regulatory assets	(2,514)	(2,514)	(0)	
	618,693	620,053	(1,360)	
Operating Income	45,264	45,265	(0)	
Non-operating revenue (expense):				
Interest income	2,604	3,510	(907)	Includes foreign exchange losses
Interest expense	(19,229)	(19,229)	-	
Foreign exchange loss	907		907	Foreign exchange losses separately reported
	(15,719)	(15,719)	0	
Income before payments in lieu of corporate income taxes	29,546	29,546	0	
Payments in lieu of corporate income taxes	(11,512)	(11,512)	0	-
		-	-	
Net income and comprehensive income	18,034	18,034	0	

1 ***Annual Report***

- 2 The 2010 Annual Report for Enersource Corporation is filed at Exhibit 1 Tab 3
3 Schedule 4 Appendix 1. The 2011 Annual Report will be provided when
4 available at Exhibit 1 Tab 3 Schedule 4 Appendix 2.



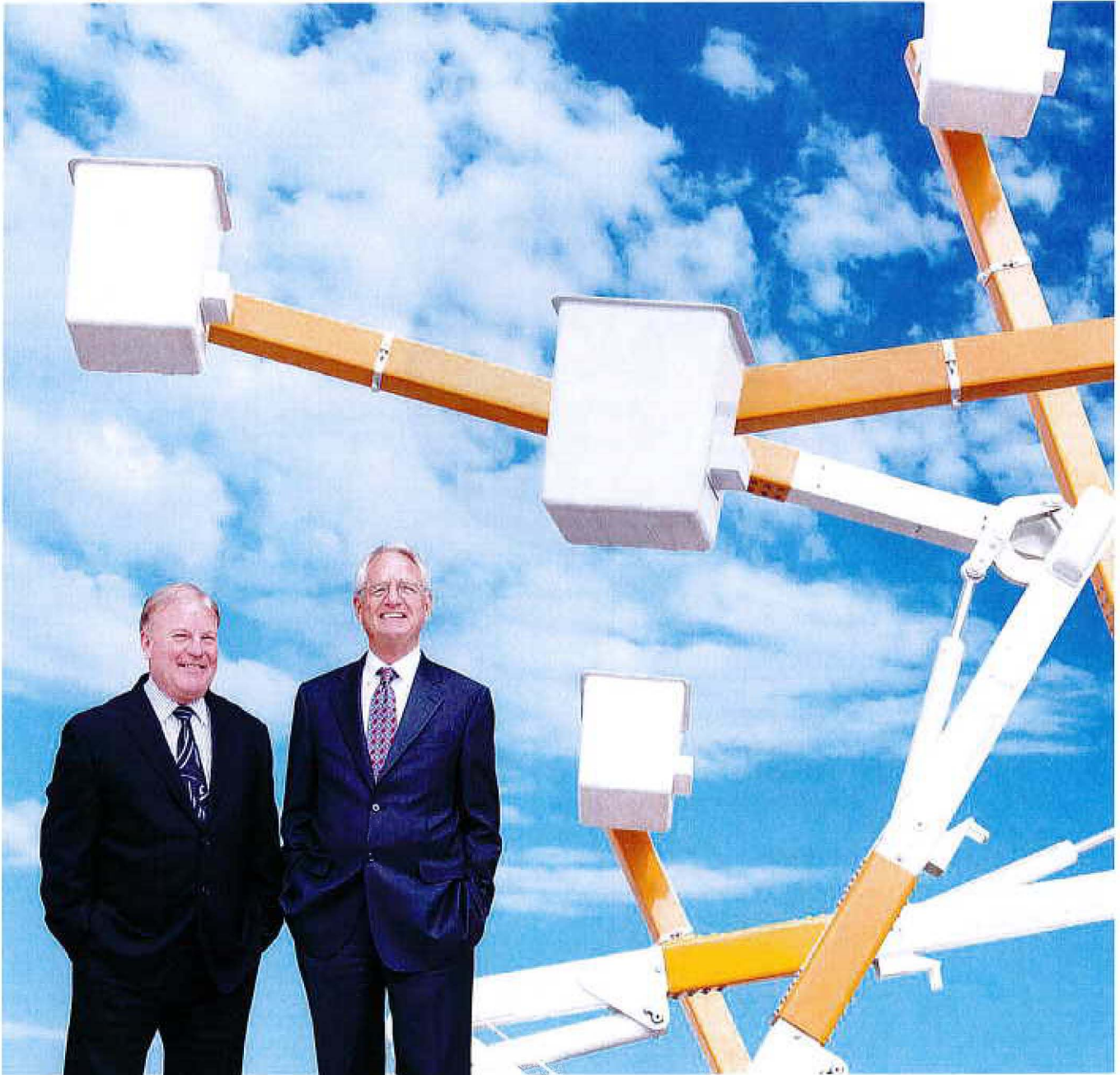
enersource
2010 annual report



enersource
more than energy™



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Enersource's achievements were due to the dedication and talent of its employees working with our customers throughout the communities we serve.



In 2010, the economy was emerging from the global recession, Ontario's families and businesses were still feeling the effects of the financial and economic crisis. Our focus remained constant: deliver value to our customers and provide more than energy each day. Enersource is steadfast in anchoring its operations with fundamental business principles and ethics.

Enersource's achievements in 2010 were due to the dedication and talent of its employees working with our customers throughout the communities we serve guided by our Corporate Strategic Plan.

95%

Customer Service
Satisfaction Rating

We are proud of the successes and milestones achieved in key areas of our business in which we have strategic focus.

Customer Engagement

- 95% customer service satisfaction rating;
- Best reliability of Ontario's largest utilities;
- 100% penetration of the multi-residential customer market;
- Successful launch of phase two of a critical smart grid solution - the integrated operating model; and
- Solid performance for our non-regulated service company.

Community Engagement

- Enhanced community and stakeholder relations; and
- Enhanced partnership with the City of Mississauga Economic Development Office to facilitate green economy business opportunities.

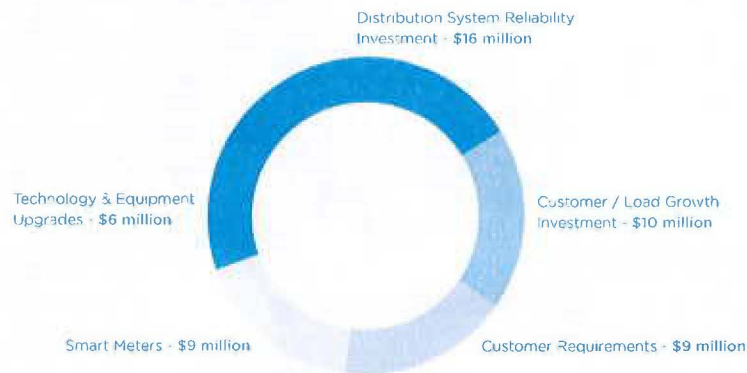
Organizational Engagement

- Attained ISO 14001 environmental management certification;
- Highly engaged workforce with commitment to the company's success; and
- Successfully secured a four-year collective agreement with IBEW local 636.

Financial performance remained strong in 2010 with consolidated net earnings of \$17.7 million.

Capital investment for the year of \$50 million was driven by:

- Distribution system reliability investment - \$16 million
- Customer / load growth investment - \$10 million
- Technology & equipment upgrades - \$6 million
- Customer requirements - \$9 million
- Smart meters - \$9 million



Capital investment for the year of \$50 million was driven by these factors.

Over the course of 2010, Enersource continued its commitment to community outreach partnerships with valued organizations and programs to enrich community care such as the Trillium Health Centre Foundation and the Credit Valley Hospital Foundation. Enersource also invested in kids with the City of Mississauga's Got Skates Program and in partnership with the St. Michael's Majors through the Adopt-A-School program.

These valued partnerships enabled our team to engage with customers beyond traditional business boundaries while contributing to important community initiatives.

We anticipate significant management challenges in both our regulated and non-regulated businesses in the coming year and will meet those challenges strategically and with enthusiasm.

We would like to thank Councillors Carolyn Parrish and Eve Adams for their service to the Board of Directors, and welcome new Board Members Pat Saito and Ron Starr for what we anticipate will be a rewarding experience.

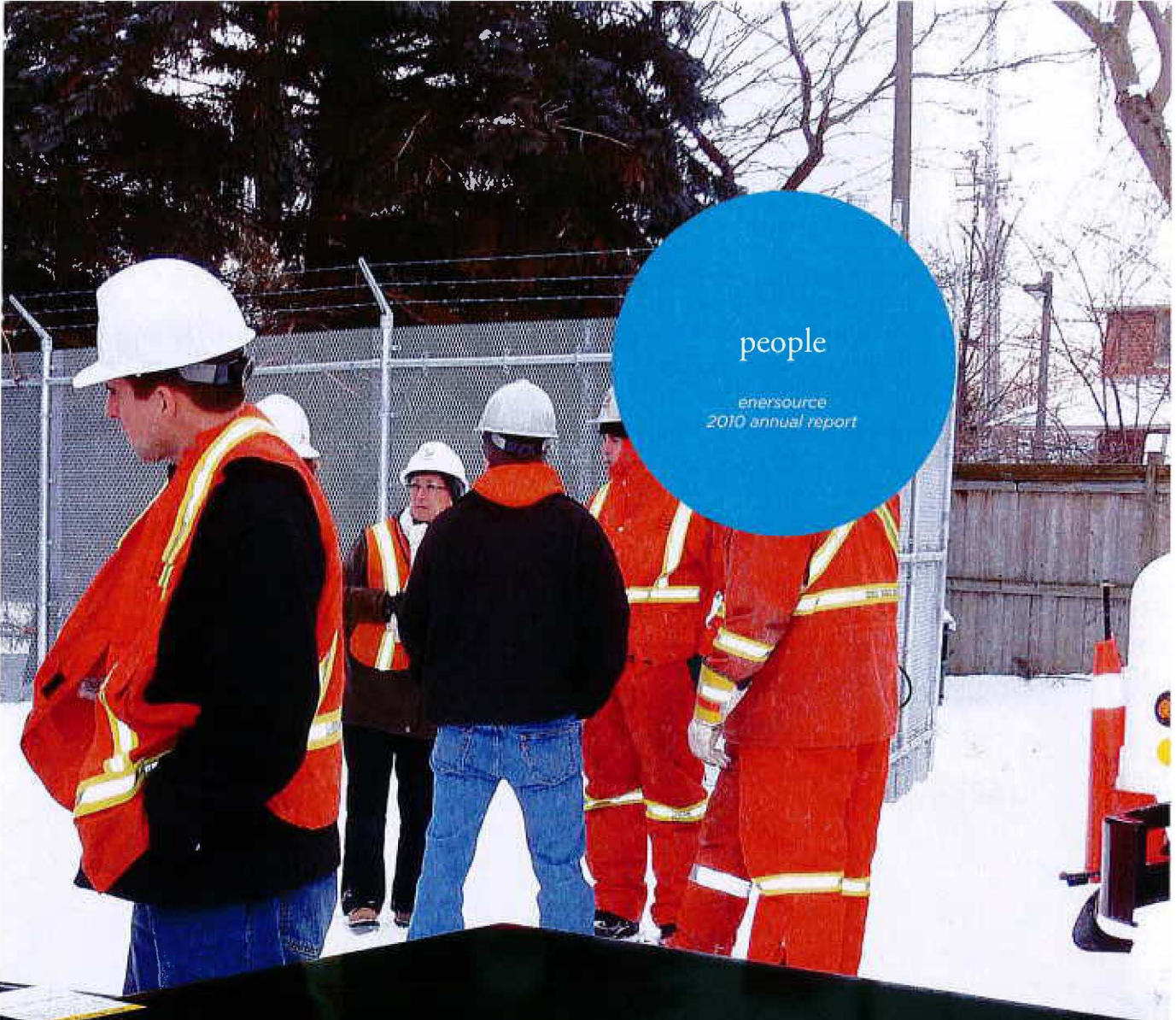
On behalf of the Board of Directors and the Executive Management Team, we take this opportunity to offer sincere thanks to the talented and dedicated employees who serve our valued customers.

Signed,

Norman B. Loberg, Chair

Greg Fleming, President & Chief Executive Officer





people
enersource
2010 annual report

Our industry has come a long way over the past century, and so has Enersource. Since 1917, our company has served the people of Mississauga, delivering safe, reliable electricity and energy solutions. One thing that hasn't changed is our focus on service: people are at the centre of everything we do.





Raising the Bar for our Customers

The Ontario Energy Board (OEB) establishes customer service target levels for Ontario's utility sector. Enersource strives to exceed the OEB target level of 65% by setting its own internal goal of 80%. In 2010, Enersource achieved an 84% overall customer service performance level.

Listening to our Customers

In 2010, Enersource participated in a province-wide UtilityPulse Customer Survey.

Valuable information was gathered from our customers in terms of planning for continuous improvement. We heard that customers want Enersource to continue to expand on providing information and knowledge that clarifies energy issues and that assists them in managing their power consumption and costs.

Overall, Enersource received a customer satisfaction rating of 95% compared to an Ontario utility average of 80%. Enersource received an "A" in areas such as customer care, company image and management operations.

2010

Time for a new business sector
e-newsletter

More for Businesses

Every strong community has a foundation of successful industrial and commercial businesses. Enersource understands that our industrial and commercial customers demand a reliable electricity supply, and depend on our technical expertise and support to enhance their power quality and energy efficiency.

Enersource's annual Power Up Breakfast series offers many of our larger customers the opportunity to share best practices and success stories, while gaining more knowledge and a better understanding of Ontario's complex and ever-changing energy landscape. The series also provides these businesses with information on how to take advantage of provincial conservation and demand management programs to reduce their energy costs and improve the environment.

In 2010, Enersource launched a new business sector e-newsletter. Now, business customers receive updates on conservation initiatives, regulatory changes and local community events, all in a user-friendly electronic format.





Enersource is now using state-of-the-art social media tools

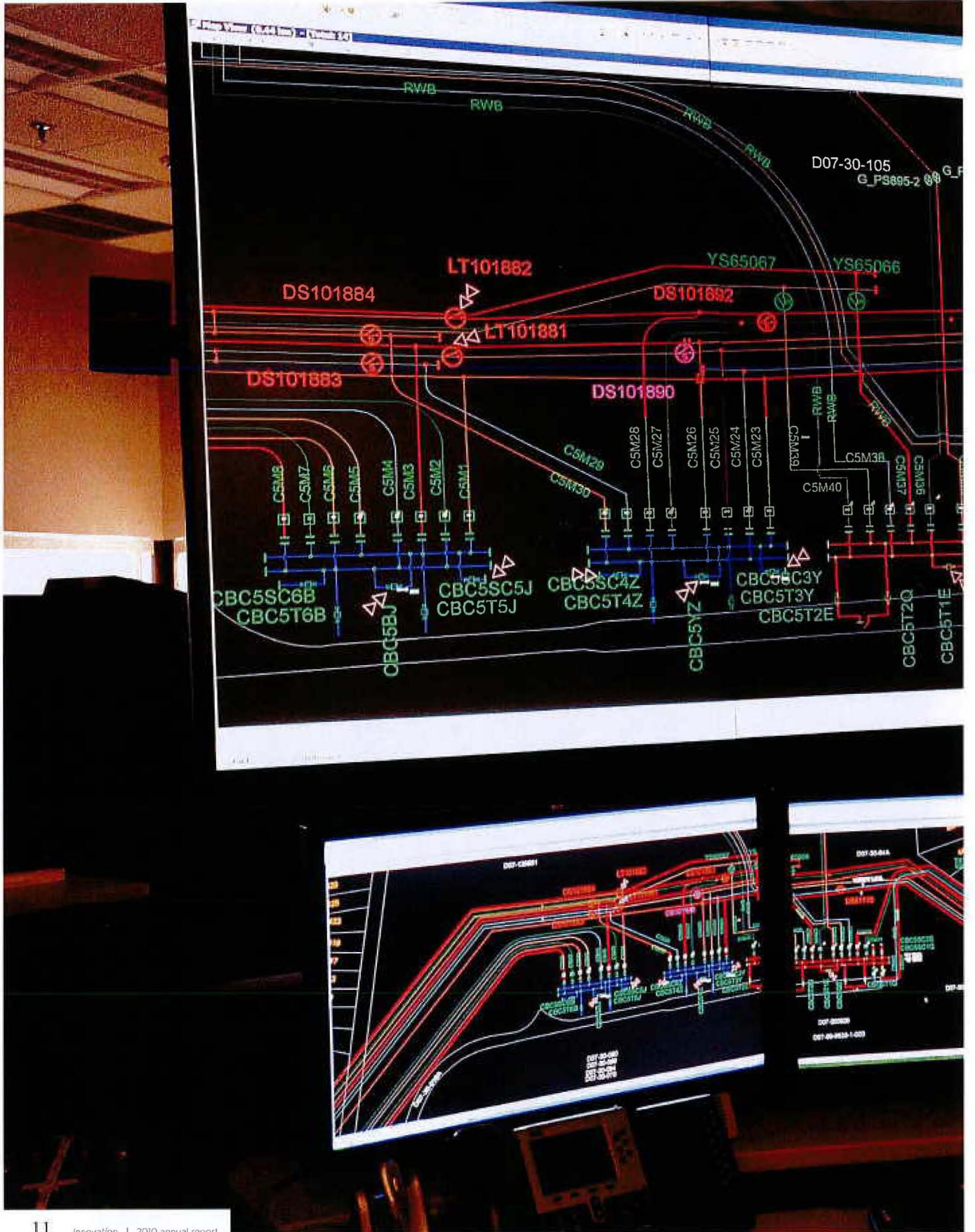
Plugging into Social Media

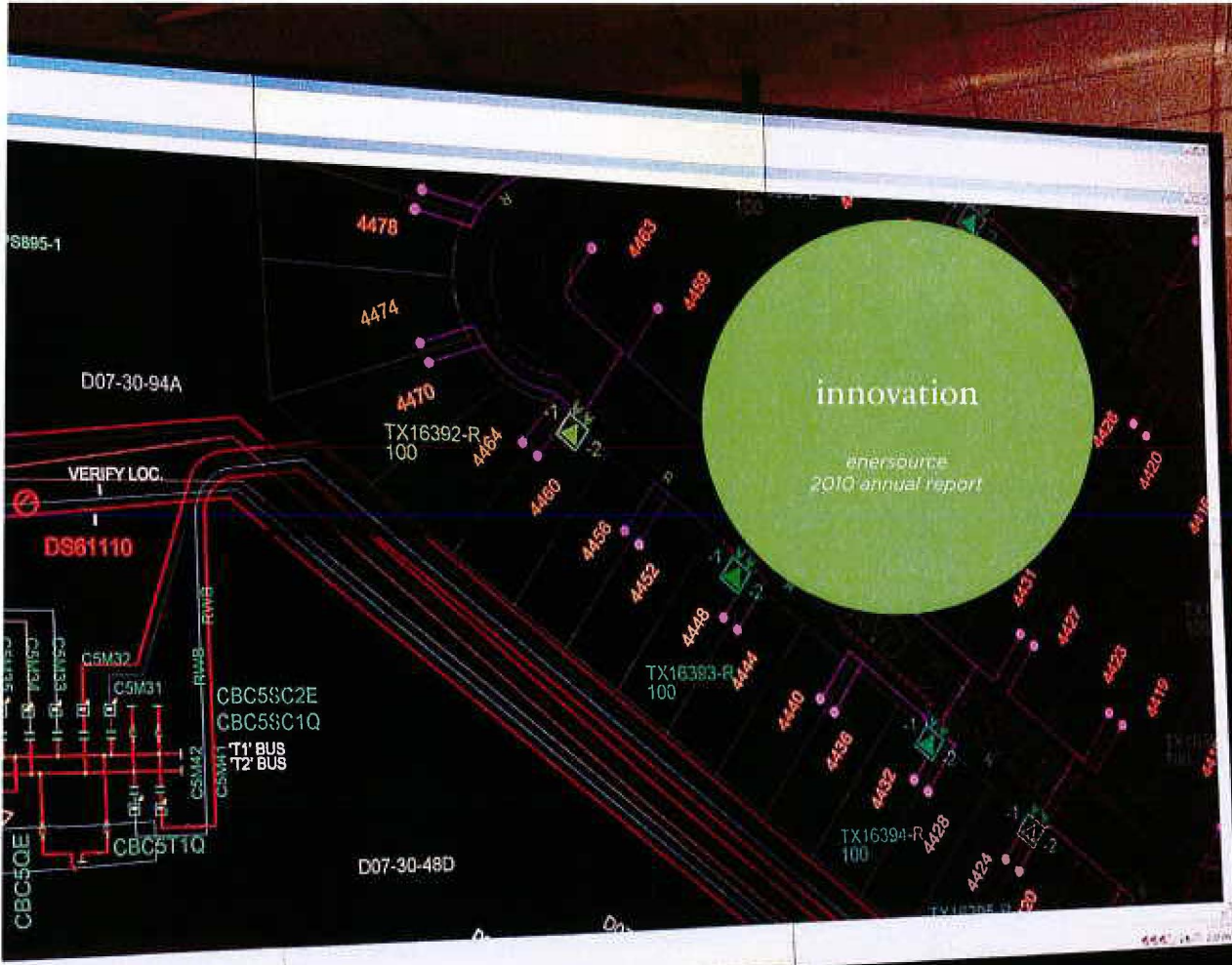
Enersource is adapting to meet customers' evolving information needs - online!

Utilizing state-of-the-art social media tools and applications such as Twitter, Enersource customers and local media services can now receive real-time outage reports, news, and photos from community events.

Enhanced social media tools will soon contain features to enable customers to interact directly with the organization electronically.







Successful companies are innovative companies. Innovation is what drives improvement. It increases service levels. It makes our solutions better – and more reliable. Innovation is a guiding principle and corporate pillar at Enersource, and we continue to apply it through enhancements to service and infrastructure across Mississauga.

\$50M

of capital investment in 2010

Electricity is a vital service and – as the projects listed below indicate – Enersource continues to make improvements that help ensure its reliability.

Focusing on Reliability

Enersource takes this responsibility very seriously and the desire to maintain our high standard of reliability drives the need to make efficient and effective investments in our electricity distribution infrastructure.

In 2010, Enersource completed a major replacement of equipment at our Orchard Heights and Mineola Municipal Substations that included the addition of automated electricity supply restoration functionality. In addition, we invested in major reliability enhancements to our distribution network, completing 15 overhead and underground system rebuilds consisting of:

- Installation of 255,356 metres of new overhead wire and underground cable;
- 369 transformers added or replaced;
- Installation of 453 new wood and concrete poles; and
- 4,958 new insulators.

Our capital investment strategy yields world-class system performance and reliability for our customers. (See Figure 1).

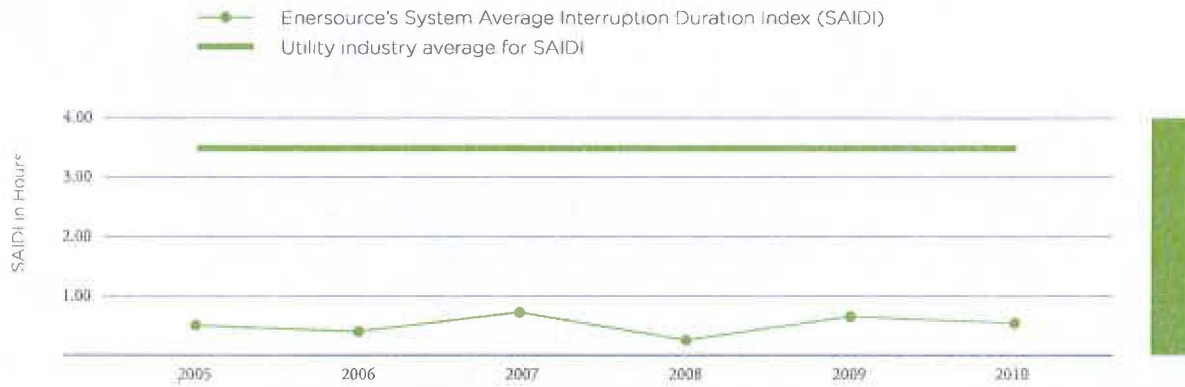


Figure 1: Annual Average SAIDI per Customer

Breaking New Ground with Innovative Technology Solutions

Now in its third year of operation, the Integrated Operating Model (IOM) has become the nerve centre of Enersource's electricity distribution network. The IOM is a leading-edge innovative software solution that enhances distribution network intelligence, operating performance, reliability tracking, customer outage responsiveness and public safety.

The IOM continues to evolve with the recent addition of the I/Tracker feature in which Enersource fleet vehicles are tracked by the Distribution System Control Centre by way of GPS technology. This enables more efficient dispatch of service vehicles which respond to system outages and other emergencies.

In 2010, Enersource, in collaboration with Systemgroup Consulting Inc., was awarded the Microsoft Canadian Partner of the Year award for Data Management for our Smart Meter Time of Use billing solution.



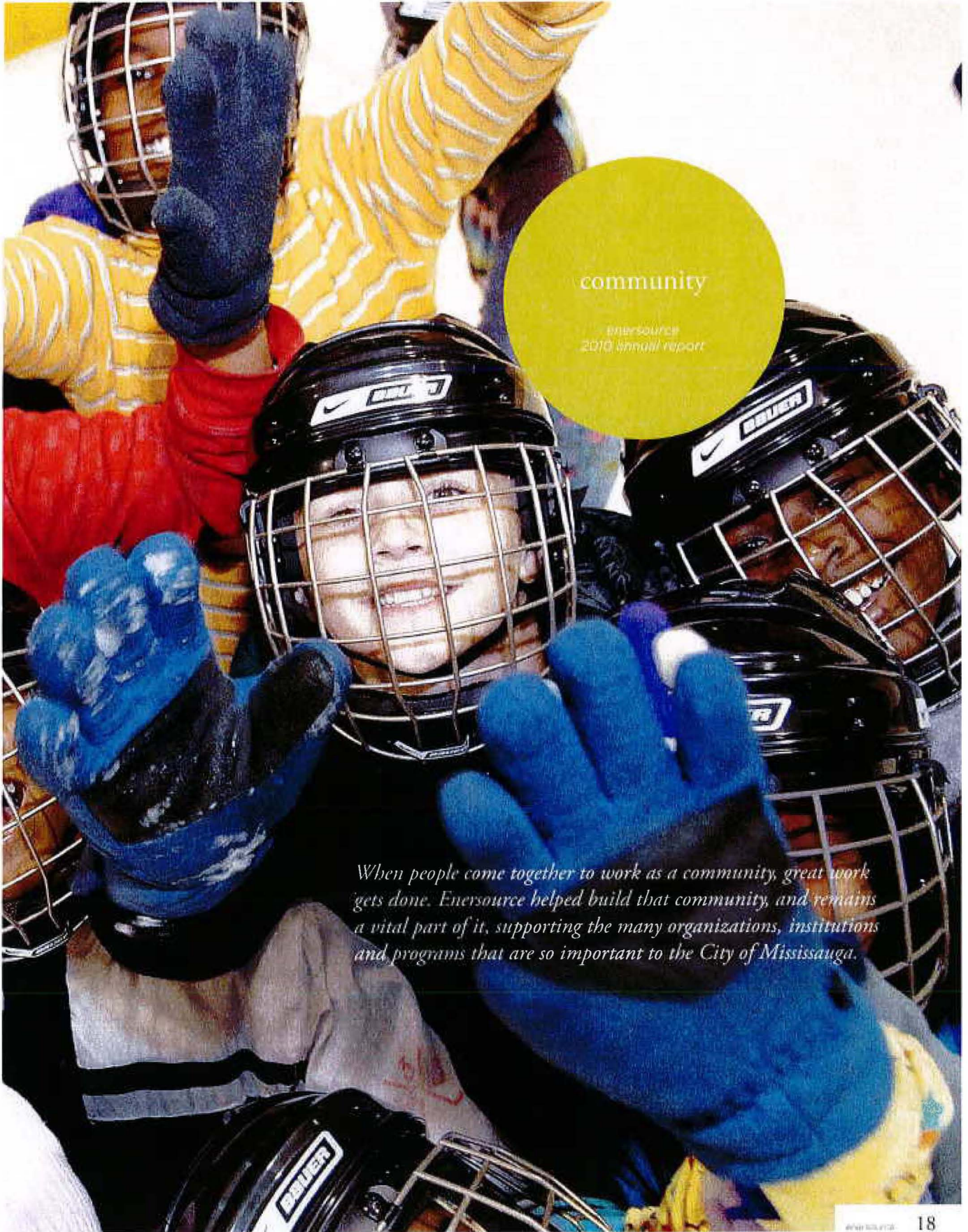


Looking to the Renewable Energy Future

In 2010, as a key member of the Partners in Project Green (PPG) initiative, Enersource teamed up with the Region of Peel, Toronto and Region Conservation Authority, and the Toronto Pearson International Airport to produce a comprehensive study of the common barriers to accelerating the widespread adoption of rooftop solar generation facilities in the commercial and industrial business sectors.

Formed in 2008, PPG consists of a number of organizations and businesses like Enersource, working together to help local businesses 'green' their bottom line through the creation of an internationally-recognized Pearson Eco-Business Zone.





community

enersource
2010 annual report

When people come together to work as a community, great work gets done. Enersource helped build that community, and remains a vital part of it, supporting the many organizations, institutions and programs that are so important to the City of Mississauga.

6,000

Mississauga's Got Skates? program has already helped over 6,000 children learn how to skate

From laying the first cables to helping thousands of kids lace up and hit the ice, Enersource has a long history of investing in our community.

Investing in Mississauga Kids

Got Skates? Program

The results are in! Enersource is delighted to report that through the City of Mississauga's inaugural Got Skates? program, more than 6,000 local children learned how to skate.

Now in the second year of a three-year collaboration with Enersource, the city-wide program is expected to reach approximately 40,000 local youth.



40,000

An estimated 40,000 children and local youth will benefit from Got Skates? during the three-year program

Adopt-A-School Partnership

It's always a challenge to find partnerships that allow you to connect with schools in a unique way. Through a partnership with the Mississauga St. Michael's Majors, Enersource has found a way to give back to students.

The Adopt-a-School program is a chance for local businesses like Enersource to partner up with local schools by purchasing Majors season tickets and donating them. The schools then create a program to reward students who excel in academics, athletics, extra-curricular endeavours, and other facets of school life. Students earn the tickets by exhibiting school spirit, leadership, citizenship, and academic success.

For many students receiving the tickets, it is their first experience seeing a live hockey game.

Conservation and Safety Awareness Program

Enersource has developed a program on Energy Conservation and Electrical Safety which is offered to schools at the Grades 5 & 6 level. The program provides insights on how to help the environment, as well as being an effective way to increase awareness of electrical hazards, and is recognized by the Electrical Safety Authority.

Investing in Community Care

We all know how important it is to have quality health care services where you live and work. Enersource is pleased to partner with key organizations on the front line and leading edge of health care delivery in Mississauga.

Over the last three years, Enersource has been involved with the Credit Valley Hospital Foundation. As part of their new expansion project, Enersource funded a Family Lounge that will provide a comfortable and welcoming rest area for family members who are visiting loved ones in the hospital. Health care professionals often speak of the importance that family members play in the healing process. We hope the Family Lounge can help fill that need by providing a calming and restful atmosphere. The lounge was also outfitted with energy efficient lighting in addition to the donation of a computer so families can stay connected.

Last year marked the second year of a three-year partnership with the Trillium Hospital Foundation. The Enersource donation is an important contribution in support of the fundraising campaign for the new Hazel McCallion Centre for Heart Health. The funds are being used to purchase essential medical equipment, build a more robust technological infrastructure, and initiate new programs and research to improve patient treatments. To date, \$12 million of the \$15 million goal has been raised.

A new affiliation was formed this year when Enersource donated to the Heart House Hospice which provides valuable services to help local families cope during trying times. Founded in 1985 and serving Peel Region, Heart House Hospice is one of the oldest hospice organizations in Canada and among the largest in Ontario. It is a non-profit organization, focused on providing compassionate, high-quality, in-home support to families in the Region of Peel who are living with a terminal or life-threatening illness.







From team events to individual contributions, Enersource and its employees are proud to do their part in the community.

\$39,000

Enersource raised more than \$39,000 for the United Way of Peel Region in 2010

Volunteering in our Community

From team events to individual contributions, Enersource and its employees are proud to do their part in the community.

Giving more than just our financial support, the Enersource team participated in a number of charitable and community events in 2010 including:

- Canoe The Credit in support of Credit Valley Conservation
- Streetsville Santa Claus Parade
- Trillium Health Care's Bike For Betty
- LitterNot Community Cleanup

Employees giving to our Community

Surpassing our original fundraising goal, Enersource employees raised more than \$39,000 for the United Way of Peel Region in 2010 in support of social assistance agencies and families in need.





From funding for electrical retrofits to the installation of smart meters, Enersource continues to work with an array of industry partners to provide services and programs that offer more smart choices around responsible environmental management.



environment

enersource
2010 annual report

1,893

appliances were retired through the Great Refrigerator Roundup program

Safeguarding our Environment

At Enersource, we believe that environmental stewardship is a vital aspect of delivering on our commitment to sustainability and excellence.

Demonstrating this belief, Enersource achieved a world-class environmental management standard in attaining ISO 14001:2004 certification. Enersource is one of a very few Ontario utilities to pursue and successfully attain this certification.

Focus on Energy Conservation

There is no shortage of opportunities when it comes to participating in the many business and residential conservation programs available to Enersource customers.

From controlling your residential air conditioner through the **peaksaver**[®] program to improving your company's energy efficiency through the Electricity Retrofit Incentive Program (ERIP) or simply shutting off the lights when you leave a room, there are many ways to conserve energy.

In 2010, Enersource customers achieved the tangible results listed here:

- 1,893 appliances were retired through the Great Refrigerator Roundup program where an old fridge or freezer is picked up free of charge and recycled

- 4,082 kW of electricity consumption were eliminated through programs initiated with the innovative head-office Conservation & Demand Management model and channel partners
- 3,181 peaksaver programmable thermostats were installed in homes to enable customers to reduce electricity consumption during peak demand periods
- 1,353 electricity efficiency retrofits of small commercial buildings and units were completed through the second year of the Energy Savings Blitz program

As mandatory province-wide conservation targets come into effect, programs will be enhanced and expanded, providing residential, commercial and industrial customers with more opportunities to participate in energy-saving initiatives.

4,082

kW of electricity consumption
were eliminated through programs

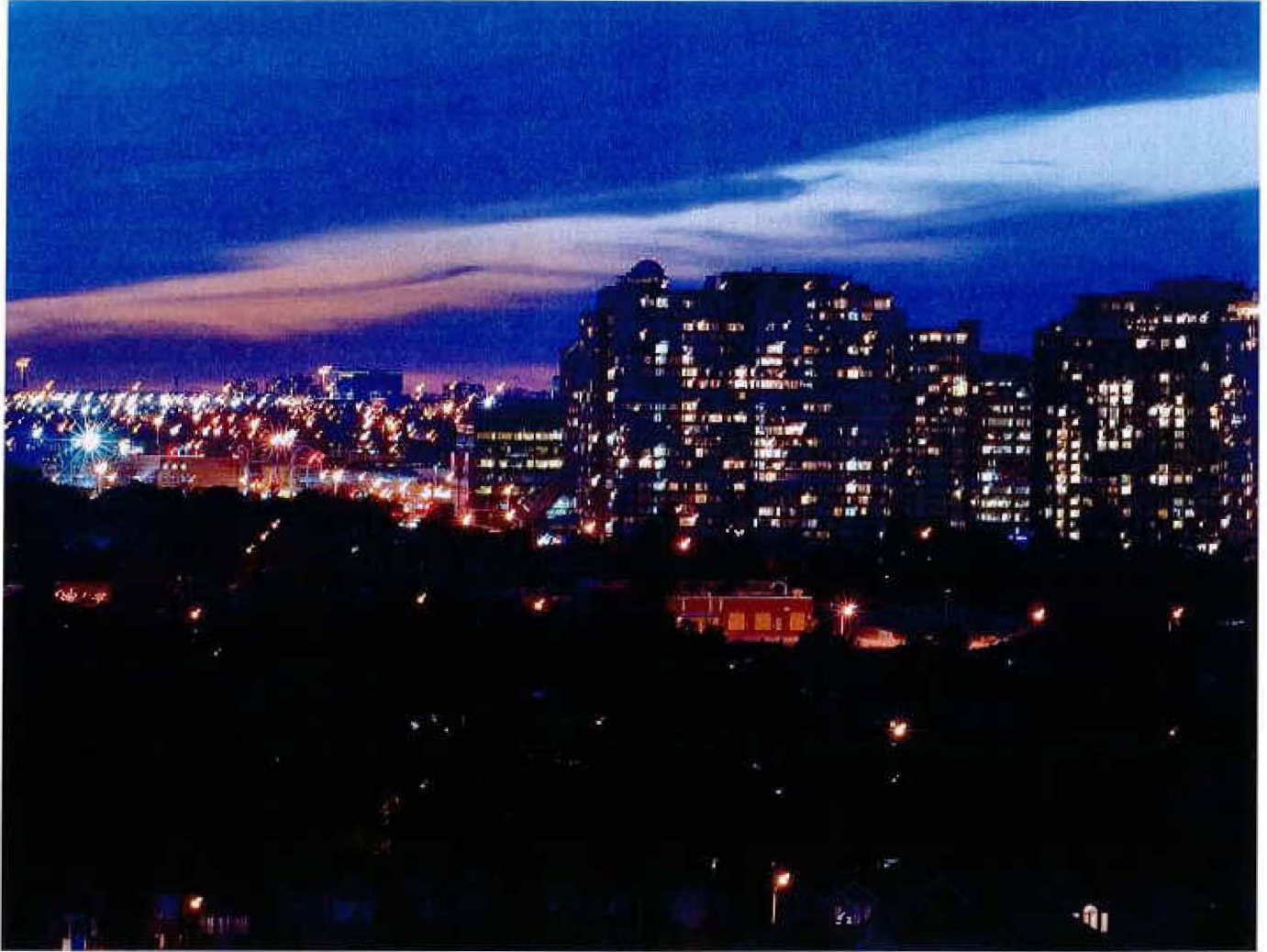
Reaching our Community

In 2010, we strived to go beyond by ensuring that our customers and community had the information and tools they needed to manage their energy costs and protect the environment. These included:

- Information about phantom power and energy-saving tips,
- Shared information on energy conservation programs at many community events such as Canada Day, the Waterfront Festival, and the Bread and Honey Festival.

Saving energy and looking after the environment is important to all of us — and it's everyone's responsibility.





85,000

We maintain and operate more than 85,000 street lights in Mississauga and Brampton



Lighting More Than Mississauga

Enersource Hydro Mississauga Services (EHMS) is the non-regulated commercial affiliate of Enersource. It carries out the management, maintenance and operation of more than 85,000 street lights in Mississauga and Brampton, as well as the design, construction, maintenance and operation of customer-owned electrical distribution systems.

As a result of EHMS' technical expertise, experience and customer relationship philosophies, its reputation is very strong within the electrical services industry. For years, EHMS has operated and maintained the high voltage system at Toronto Pearson Airport through an ongoing partnership with the Greater Toronto Airports Authority.

The electricity system needs for an international airport of this scale continually evolve to allow for expansion and to enable preparations for the Pan Am Games in 2015.

Moving forward, we will continue to grow, enhance and foster this positive relationship. Other EHMS partners include the University of Toronto's Mississauga campus, and Region of Peel water treatment facilities.



Financial Summary

(In thousands of dollars)

Consolidated net income for the year ended December 31, 2010 was \$17,704 compared to net income of \$17,564 in 2009. The increase in net income of \$140 was primarily the result of higher distribution revenue due to the warmer weather experienced during the summer of 2010, partially offset by higher amortization costs.

The consolidated cash position of Enersource at December 31, 2010 was \$53,568, representing an increase of \$19,807 over the 2009 year-end position. Enersource's balance sheet remains strong with a year-end working capital ratio of 1.36. This ratio excludes the Borealis-Enersource series bonds which will mature on May 3, 2011 and are classified accordingly as a short-term liability.

Consolidated financial statements are available at www.enersource.com

Consolidated Balance Sheets

(In thousands of dollars)

December 31, 2010 and 2009

		2010	2009
Assets	Current assets		
	Cash and cash equivalents	\$ 53,568	\$ 33,761
	Accounts receivable	56,441	59,405
	Unbilled revenue	670,466	50,568
	Income taxes receivable	-	535
	Inventory	7,872	8,071
	Prepaid expenses and deposits	1,787	1,931
	Future income tax assets	-	522
		186,716	154,793
	Fixed assets	446,494	435,895
	Intangible assets	16,583	14,420
	Deposits and prudentials	20,759	20,225
	Regulatory assets	20,013	12,238
	Other deferred costs	90	4,951
	Future income tax assets	32,540	33,539
		535,459	521,268
		\$ 722,175	\$ 676,061
Liabilities & Shareholders' Equity	Current liabilities		
	Accounts payable and accrued liabilities	\$ 90,888	\$ 96,449
	Income taxes payable	3,478	-
	Deferred revenue	150	46
	Advance payments	2,759	2,071
	Future income tax liabilities	189	-
	Regulatory liability for future income tax assets	149	252
	Regulatory liabilities	39,671	-
	Bonds payable	289,811	-
		427,035	98,818
	Long-term liabilities		
	Bonds payable	-	289,256
	Deposits	20,759	20,225
	Employee retirement and post-retirement benefits	4,656	4,187
	Regulatory liability for future income tax assets	32,495	33,491
		57,890	347,159
	Shareholders' equity		
	Capital stock	175,691	175,691
	Retained earnings	61,559	54,593
		237,250	230,284
	Contingencies		
	Commitments		
		\$ 722,175	\$ 676,061

On behalf of the Board of Directors


 Gerald Beasley, Director


 Norman Loberg, Director

Consolidated Statements of Income & Other Comprehensive Income

(In thousands of dollars)

December 31, 2010 and 2009

		2010	2009
Revenue:	Energy sales	\$ 509,505	\$ 444,166
	Distribution	120,076	117,766
	Recovery (refund) of regulatory accounts	7,429	(2,278)
	Services	2,849	8,141
	Other	11,267	9,213
			656,126
Operating expenses:	Energy purchases	509,505	444,166
	Operations, maintenance and administration	51,767	49,090
	Services	6,669	7,290
	Amortization of fixed assets	36,311	35,101
	Amortization of intangible assets	1,936	1,224
	Amortization of regulatory accounts	7,429	(2,278)
		613,617	554,593
	Operating income	42,509	42,415
Non-operating revenue (expense):	Interest income	648	815
	Interest expense	(18,999)	(38,550)
	Foreign exchange (loss) gain	(22)	(383)
		(18,373)	(18,118)
	Income before the undernoted	24,136	24,297
	Income tax expense	6,432	6,682
	Income before non-controlling interest	17,704	17,615
	Non-controlling interest	-	(51)
	Net income and other comprehensive income	\$ 17,704	\$ 17,564

Consolidated Statements of Retained Earnings

(In thousands of dollars)

Years ended December 31, 2010 and 2009

		2010	2009
	Retained earnings, beginning of year	\$ 54,393	\$ 48,382
	Net income and other comprehensive income	17,704	17,564
	Dividends paid	(10,538)	(11,533)
	Retained earnings, end of year	\$ 61,559	\$ 54,393

Corporate Structure

Enersource Corporation is a private company owned 90% by the City of Mississauga and 10% by BPC Energy Corporation, a subsidiary of the Ontario Municipal Employees Retirement System. Enersource recognizes the role of good governance in a successful business enterprise and provides full disclosure of its corporate governance practices.

Board of Directors

The Board of Directors has ultimate accountability for the overall direction and results of the Corporation. The principal role of the Board of Directors is the stewardship of the Corporation on behalf of the shareholders. The Board oversees the conduct of the business and the performance of management who are responsible for the day-to-day operation of the business.

Any responsibility not delegated to a committee of the Board or to management remains with the Board.

The Board has 10 Directors: eight Directors, including the Mayor, are appointed by the City of Mississauga, and two Directors are appointed by BPC Energy Corporation. All Directors are independent, as defined within securities regulation.

Board Committees

Four Board Committees report to the Board.

Audit Committee

The Audit Committee is accountable to the Board for providing oversight of the reliability and integrity of the Corporation's accounting principles and practices, business planning, financial reporting, system of internal control, management information and risk management processes.

The internal auditor and external auditor are invited to attend all meetings of the Audit Committee and receive all agendas and associated material. As part of all meetings, the Audit Committee meets with the internal and external auditors independent of management.

The Chair of the Board is elected by the Board from among the citizen Directors appointed by the City of Mississauga, and is a separate role from the President and Chief Executive Officer.



Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee is accountable to the Board for oversight of the Corporation's human resources and compensation policies and practices. The committee is also responsible for ensuring that effective corporate governance processes are in place, and for making recommendations to the Board with respect to the development, implementation and modification of those processes and the approach to corporate social responsibility.

Development Committee

The Development Committee is accountable to the Board for providing oversight of the Corporation's business development plans and activities, and for making recommendations to the Board with respect to their potential applicability, risks and rewards.

Health, Safety, Security and Environment Committee

The Health, Safety, Security and Environment Committee is accountable to the Board for oversight of the management of the Corporation's health, safety, security and environmental risks, and making recommendations to the Board with respect to development, implementation, communication and related management processes.

Enersource Executive Members



Craig Fleming
President & Chief
Executive Officer



Norman Wolff
Executive Vice President
& Chief Financial Officer



Dan Pastoric
Executive Vice President
& Chief Operating Officer



Raymond Rauber
Vice President,
Engineering & Operations



Jo Ann Morello
Vice President,
Human Resources



Sonja Potocnik
Vice President,
Customer Care and
Billing Operations

Board and Committee Mandates

Mandates are in place for the Board, individual Directors, the Chair, the President and Chief Executive Officer, and the four Committees of the Board.

Board Effectiveness

The Board carried out a review of its effectiveness through a comprehensive Board and Self Evaluation Process by way of individual Director meetings with the Chair.

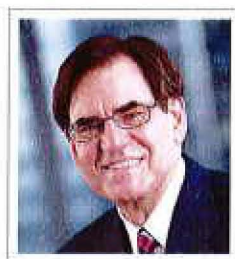
Enersource Board Members



Norman Loberg
Chair
Chair, Quadra Bay Inc
Past Chair, Credit
Valley Hospital



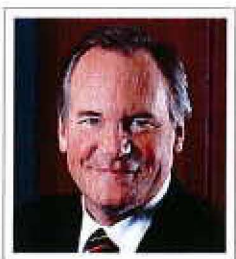
Mayor Hazel McCallion
Director
Mayor, City of Mississauga



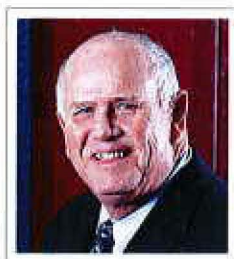
Michael Nobrega
Director
President & Chief
Executive Officer, OMERS



Gerald Beasley
Director
Past Chair,
Trillium Health Centre
Foundation



John McManus
Director
Executive Vice President,
Borealis Infrastructure



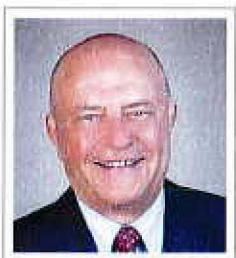
Robert MacCallum
Director



Hasan Imam
Director



Katie Mahoney
Director
Councillor, Ward 8
City of Mississauga



Ron Starr
Director
Councillor, Ward 6
City of Mississauga



Pat Saito
Director
Councillor, Ward 9
City of Mississauga



Eve Adams
Director
Councillor, Ward 5
City of Mississauga
(Term ended 2010)



Carolyn Parrish
Director
Councillor, Ward 6
City of Mississauga
(Term ended 2010)



enersource
2010 annual report

1 ***2011 Annual Report***

2 Exhibit 1 Tab 3 Schedule 4 Appendix 2 will be filed in June 2012.

1 **Credit and Bond Rating Agency Reports**

2 Provided at Exhibit 1 Tab 3 Schedule 5 Appendix 1 and Appendix 2, respectively,
3 are the most recent Dominion Bond Rating Agency and Standard and Poor's
4 reports on Enersource Corporation, Enersource's corporate parent. Please note
5 that Enersource is not separately rated.

Rating Report

Report Date:
April 14, 2011

Previous Report:
April 15, 2010

Enersource Hydro Mississauga Inc.
EB-2012-0033
Filed: April 27, 2012
Exhibit 1, Tab 3
Schedule 5, Appendix 1
Page 1 of 7



Insight beyond the rating.

Enersource Corporation

Analysts

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rfilippazzo@dbrs.com

Michael Caranci
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mcaranci@dbrs.com

The Company

Enersource Corporation is a holding company that owns Enersource Hydro Mississauga (EHM), a regulated electricity distribution company, and Enersource Services Inc., a non-regulated holding company. Enersource Corporation is 90% owned by the City of Mississauga, and 10% owned by BPC Energy Corporation, a subsidiary of Ontario Municipal Employees Retirement System.

Recent Actions

April 15, 2010
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures	A	New Rating – Provisional	Stable

Rating Rationale

DBRS has confirmed the Issuer Rating of Enersource Corporation (Enersource or the Company) at “A” with a Stable trend, and has assigned a provisional rating of “A” with a Stable trend to Enersource’s expected \$320 million private placement senior unsecured debentures offering. The proceeds from the new issuance will be used to refinance the maturing \$290 million debt with Borealis Infrastructure Trust and for general corporate purposes.

Enersource continues to benefit from a low level of business risk stemming from its regulated electricity distribution operations, its solid financial profile and a strong franchise area with a favourable customer mix. The confirmation is also supported by the relatively stable regulatory environment in Ontario. On March 17, 2011, the Ontario Energy Board (OEB) announced electricity distribution rates for Enersource Hydro Mississauga Inc (EHM). The net impact of the new distribution rates, which were set using incentive regulation, will be an increase of 0.18% for residential customers using 800 kWh per month.

In December 2009, the OEB changed its methodology for calculating return on equity (ROE), which resulted in an increase in ROE to the mid- to high 9.00% range. However, Enersource will continue to utilize 8.57% for rate-setting until it rebases rates in 2013; at that time it will adopt the then-current allowed ROE (currently 9.58%).

Enersource’s financial metrics have remained stable over time, attributable to generally consistent earnings, cash flows and debt levels. For the year ending December 31, 2010, the Company witnessed an improvement in both financial and operating performance, with cash flow-to-debt of 22.4%, debt-to-capital of 55% and EBIT interest of 2.24 times.

DBRS believes that the Company will be able to fund capital expenditures and dividends with internally generated funds and cash balances on hand, and that Enersource’s financial profile will continue to support the current rating.

Rating Considerations

Strengths

- (1) Low business risk owing to Enersource’s predominantly regulated electricity distribution operations
- (2) Solid balance sheet and reasonable credit metrics
- (3) Strong franchise area and favourable customer mix

Challenges

- (1) Approved ROE sensitive to long-term interest rates
- (2) Earnings sensitive to volume of electricity sold
- (3) Inability to access equity capital markets

Financial Information

	For the 12 months ending				
	Dec. 31/10	Dec. 31/09	Dec. 31/08	Dec. 31/07	Dec. 31/06
EBIT interest coverage (times)	2.24	2.29	2.35	2.05	2.04
Total debt-to-capital	55.0%	55.7%	56.3%	57.5%	58.0%
Cash flow/total debt (times)	22.4%	18.5%	17.6%	18.0%	17.6%
Cash flow/capital expenditures (times)	1.54	0.95	1.08	1.11	1.42
Reported net income (\$ millions)	17.7	17.6	19.1	13.9	17.2
Cash flow from operations (\$ millions)	65.0	53.4	51.0	51.8	50.9
Return on average equity	7.6%	7.7%	8.8%	6.6%	8.4%
Electricity throughputs (millions kWh)	7,709	7,499	7,820	7,963	7,833



Enersource Corporation

Report Date:
April 14, 2011

Rating Considerations Details

Strengths

(1) Almost 100% of Enersource's earnings and cash flows are generated from its low-risk, regulated distribution subsidiary, EHM. The Company's already limited exposure to non-regulated businesses was further reduced following the divestiture of its non-regulated electric water-heater rental assets and certain specific telecom assets. Management has indicated that exposure to higher-risk, non-regulated businesses will remain limited.

(2) The Company's balance sheet remains solid, with leverage at 55%, EBIT interest coverage at just over 2.24 times and cash flow-to-debt at 22.4%. These ratios are acceptable for the current rating category given the low business risk for the Company stemming from its regulated electricity distribution operations.

(3) Enersource's franchise area, the City of Mississauga, is the sixth-largest municipality in Canada. It has a population of 729,000, with anticipated favourable annual population growth in the coming years. Approximately 60% of Enersource's revenues are derived from commercial customers. Furthermore, EHM's exposure to large customers, which typically operate in cyclical industries, is limited to less than 10% of total revenues. The Company's favourable customer mix, coupled with a strong, growth-oriented service area, has provided Enersource with a relatively stable and predictable demand load year-over-year.

Challenges

(1) The approved ROE of 8.57% for 2011 as set in EHM's 2008 cost of service application, is low and has been in decline in recent years, primarily due to the low interest rate environment. Lower ROEs have a negative impact on earnings, but the impact has been largely offset by a larger rate base and a stable amount of debt. However, in December 2009, the OEB changed its methodology for calculating the ROE, which resulted in an increase to the mid - to high 9.00% range. However, despite this change, the local distribution companies (LDCs) will only get the higher ROE when they rebase their rates. The OEB recently announced updated cost of capital parameters for rates effective May 1, 2011, which resulted in a ROE of 9.58%.

(2) Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold and, hence, revenue earned from electricity sales. Seasonality, economic cyclicality and year-over-year changes in weather patterns directly affect the volume of electricity sold and revenue earned from electricity sales. In addition, economic growth impacts customer and load growth. However, Enersource's favourable customer mix and growing customer base help mitigate these risks.

(3) Enersource is unable to directly access the equity capital markets because it is owned by a municipality. This limits the Company's financial flexibility, with free cash flow deficits being financed primarily with cash on hand and through its revolving credit facility.

Regulation

Regulatory Update

Enersource's electricity distribution operations are regulated by the OEB under the *Electricity Act, 1998* (the Electricity Act). Currently, EHM operates on a cost-of-service/rate-of-return basis. For 2011, ROE is set at 8.57% as per its most recent cost of service application.

On March 29, 2010, EHM received approval for the formula-based rate application that was submitted to the OEB in July 2009. The approved rates are for the rate period May 1, 2010 to April 30, 2011. As a result of the net impact of the new distribution rates combined with an increase in electricity pricing and reduced consumption thresholds effective May 1, 2010, the average residential customer consuming 800kWh of electricity per month increased the total bill by 11.3%.

On March 17, 2011, the OEB announced electricity distribution rates for EHM. The net impact of the new distribution rates, which were set using incentive regulation guidelines, resulted in an overall increase on consumer bills by 0.18% for residential customers using 800 kWh per month.



Enersource Corporation

Report Date:
 April 14, 2011

In December 2009, the OEB released a cost of capital decision that will begin to affect Ontario-based regulated utilities in the 2010 rate year. The decision maintains a formulaic approach to setting ROE levels; however, the existing formula was reset to address the relatively low ROE levels over the past several years, and refined to reduce its sensitivity to changes in government bond yields. As such, the government bond adjustment factor is being reduced to 0.50 from the current 0.75, and a corporate bond yield variable is being introduced into the formula. Thus, ROE levels will be adjusted annually by 50% of the change in the applicable forecast government bond yield, and 50% of the change in the spread of an A-rated bond index over the 30-year Canada bond yield. The reset ROE level will be calculated and incorporated in cost of service applications at the time of filing. The OEB recently announced updated cost of capital parameters for rates effective May 1, 2011, which resulted in a ROE of 9.58%. Enersource, however, plans to submit a cost of service application in 2012 for rates effective in 2013.

Based upon the OEB's Rate Order decision in 2008 applicable to Enersource, a rate base for determining rates effective May 1, 2008, was set at \$496,562,000. As mentioned above, the rate of return applied to the equity portion of the rate base is 8.57%.

Earnings and Outlook

(\$ millions)	For the year ended December 31				
	2010	2009	2008	2007	2006
Net operating revenues	139.2	135.1	124.9	120.9	122.4
Operating costs	96.7	92.7	79.7	81.4	84.4
EBITDA	80.8	78.7	78.5	71.3	75.5
EBIT	42.5	42.4	45.2	39.5	38.0
Net interest expense	18.4	17.7	15.6	15.7	15.4
Net income (before discount operations)	17.7	18.0	18.7	13.5	12.6
Minority interest/Discount ops./Other	(0.0)	(0.4)	(0.7)	0.1	3.9
Reported net income	17.7	17.6	19.1	13.9	17.2

Summary

For the 12 months ending December 31, 2010, Enersource witnessed an increase in revenues due primarily to an increase of 4.5% in energy consumption for residential and small commercial customers, offset modestly by a decrease in energy demand by large customers. The increase is also attributable to year-over-year customer growth, and an increase in the recognition of revenue relating to Enersource Hydro's smart meter investments.

Enersource has witnessed a modest increase in EBIT and earnings since F2006, primarily due to distribution rate increases and a rise in electricity consumption. For the year ending December 2010, the Company witnessed a 14.7% increase in electricity pass-through revenue due to and increase in energy consumption of 2.7% combined with increase in electricity prices of 11.7%. The increase in energy consumption is directly tied to warmer weather conditions.

Enersource witnessed an increase in amortization of fixed assets and intangible assets due to its capital investment in its electricity distribution infrastructure, as well as increased investment in computer software. Interest expense increased in 2010 as a result of changes the OEB made to prescribed interest rates and tax reassessments.

Reported net income for the year ending December 31, 2010, was modestly higher on account of higher distribution revenue due to the warmer weather experienced during the summer of 2010, partially offset by higher amortization costs.

Outlook

EHM should continue to witness continued stable financial performance as a result of distribution rate increases and the positive effects of smart meter revenues. Enersource should benefit modestly from changes to the OEB's recent cost of capital methodology, which will likely result in an increase in ROE when Enersource files its cost of service application in 2012.



Enersource Corporation

Report Date:
 April 14, 2011

Earnings growth as a result of service area expansion is likely to continue as a result of improving economic conditions and territory growth. The Company's regulated electricity distribution operations at EHM, together with its strong franchise area, are expected to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

Regulated distribution operations are expected to comprise over 95% of consolidated EBIT going forward. Future earnings contributions from its non-regulated subsidiary, Enersource Services Inc., are less certain than contributions from regulated distribution at EHM. However, it is expected that contributions from non-regulated operations to earnings will continue to be minimal.

Financial Profile

Statement of Changes in Cash Flow (CAD millions)	For the year ended December 31				
	2010	2009	2008	2007	2006
Net income (before discount ops.)	17.7	18.0	18.7	13.5	12.6
Depreciation	46.2	34.6	31.0	37.8	37.9
Other non-cash items	1.1	0.8	1.2	0.5	0.5
Cash Flow From Operations	65.0	53.4	51.0	51.8	50.9
Common dividends	(10.5)	(11.5)	(9.0)	(10.3)	(8.9)
Capital expenditures (net of contrib.)	(42.3)	(56.0)	(47.2)	(46.7)	(35.9)
Free Cash Flow Bef. Work. Cap. Changes	12.2	(14.2)	(5.2)	(5.2)	6.1
Changes in working capital	25.1	(15.5)	17.2	5.2	(35.9)
Net Free Cash Flow	37.3	(29.6)	12.0	0.0	(29.7)
Acquisitions/divestitures	0.2	0.3	0.3	(0.3)	25.1
Additions to regulatory assets	(15.2)	(8.5)	7.6	0.0	1.7
Deposits and prudentials	(0.5)	0.3	1.4	(0.2)	0.6
Cash flow before financing	21.7	(37.5)	21.3	(0.5)	(2.3)
Customer deposits	-	-	-	0.0	(0.6)
Net debt financing	-	-	-	-	-
Net equity financing	-	-	-	-	-
Net Change in Cash Bef. Discont. Ops.	21.7	(37.5)	21.3	(0.5)	(2.9)
Other	(1.9)	(4.9)	(1.8)	0.6	(0.9)
Net Change in Cash	19.8	(42.3)	19.5	0.2	(3.8)

Key Financial Ratios

Total debt-to-capital	55.0%	55.7%	56.3%	57.5%	58.0%
EBITDA interest coverage (times)	4.25	4.24	4.08	3.70	4.06
EBIT interest coverage (times)	2.24	2.29	2.35	2.05	2.04
Cash flow/total debt	22.4%	18.5%	17.6%	18.0%	17.6%
Dividend payout	59.5%	65.7%	47.0%	74.5%	51.8%

Summary

The financial profile of Enersource remains strong, with stable cash flows largely tracking net income.

Enersource has witnessed modest free cash flow deficits before working capital, due mainly to elevated capital expenditures. However, during the year ending December 31, 2010, the Company witnessed positive free cash flow due to higher depreciation during the period. Capital expenditures have been elevated over the years as Enersource made investments in updating its infrastructure to keep up with rising demand and reliability requirements, as well as investments in smart meters.

Key financial credit metrics have improved modestly over the years, as cash flow from operations has been fairly consistent and debt levels remain constant.



Enersource Corporation

Report Date:

April 14, 2011

Outlook

Cash flow from operations should, along with earnings, increase moderately over the coming years as a result of the re-basing of rates, increased consumption and changes to the cost of capital methodology.

DBRS notes that the \$320 million private placement senior unsecured debenture offering should not have a material impact on the Company's credit metrics due to the fact that Enersource will be issuing at a more favourable interest rate than on the existing \$290 million debt.

Enersource's capital expenditures are projected to be approximately \$55.9 million in 2011, \$48.6 million in 2012 and \$35.5 million in 2013. Higher planned capital expenditures include infrastructure investments required to construct and maintain electricity distribution assets. Additional capital and intangible asset investments are for smart meters, facility improvements and information technology upgrades. Current cash balances and future cash flows from operations will be sufficient to fund all capital requirements.

DBRS expects key financial metrics to remain at levels appropriate for the current rating category.

Long-Term Debt Maturities and Bank Lines

Summary

Enersource's long-term debt currently consists of 6.29% \$290 million debt with Borealis Infrastructure Trust, maturing May 2011. In the event of default, Borealis Infrastructure Trust has a first-ranking security interest on Enersource's equity interest in EHM.

Enersource will refinance the existing \$290 million debt with a \$320 million private placement senior unsecured debenture offering.

Enersource currently has access to the following unsecured bank credit facilities:

- \$50 million revolving demand facility.
- \$20 million non-revolving demand facility by way of letters of guarantee.
- \$5 million revolving lease line of credit.

The \$50 million revolving demand facility and the \$5 million revolving lease line of credit were fully available as at December 31, 2010. Of the \$20 million non-revolving demand facility, \$10.6 million was used for prudential postings with the Independent Electricity System Operator. Liquidity has been supported by the healthy cash balances Enersource has maintained.

Outlook

The Company's liquidity position is strong, reflecting the unutilized revolving demand facility, stable cash flow from operations, zero short-term obligations and a significant cash position. No new long-term debt requirements are expected over the medium term. Working capital requirements would be funded with the Company's operating line.



Enersource Corporation

Report Date:
April 14, 2011

		Enersource Corporation					
Balance Sheet (\$ millions)		As at			As at		
		Dec. 31/10	Dec. 31/09	Dec. 31/08	Dec. 31/10	Dec. 31/09	Dec. 31/08
Assets					Liabilities & Equity		
Cash		53.6	33.8	76.1	Short-term debt	290	-
A/R + unbilled revenue		123.5	110.0	112.4	A/P + accrued	133.8	98.8
Inventories		7.9	8.1	7.2	Taxes payable	3.4	0.0
Other		1.8	3.0	2.6	Current Liabilities	427.0	98.8
Current Assets		186.7	154.8	198.3	Customer deposits	20.7	20.2
Net fixed assets		446.5	435.9	419.2	Long-term debt	0.0	289.3
Regulatory assets		20.0	12.2	2.4	Other	37.2	37.7
Deferred charges		48.2	52.9	13.4	Minority interest	0.0	0.0
Customer deposits		20.7	20.2	20.6	Shareholders' equity	237.3	230.1
Total		722.2	676.1	653.9	Total	722.2	676.1
Ratio Analysis		For the 12 months ending					
Liquidity Ratios		Dec. 31/10	Dec. 31/09	Dec. 31/08	Dec. 31/07	Dec. 31/06	
Current ratio		0.44	1.57	1.70	1.82	1.97	
Accumulated depreciation/fixed assets		48.8%	47.7%	54.6%	44.9%	44.9%	
Total debt-to-capital		55.0%	55.7%	56.3%	57.5%	58.0%	
Net debt-to-capital		49.9%	52.6%	48.6%	52.0%	52.6%	
Cash flow/total debt		0.22	0.18	0.18	0.18	0.18	
Cash flow/net debt		0.28	0.21	0.24	0.22	0.22	
Cash flow/capital expenditures (1)		1.54	0.95	1.08	1.11	1.42	
Average coupon on long-term debt		6.29%	6.29%	6.29%	6.29%	6.29%	
Common dividend payout		59.5%	65.7%	47.0%	74.5%	51.8%	
Deemed equity in the capital structure		40.0%	40.0%	40.0%	40.0%	40.0%	
Coverage Ratios							
EBIT interest coverage		2.24	2.29	2.35	2.05	2.04	
EBITDA interest coverage		4.25	4.24	4.08	3.70	4.06	
Profitability/Operating Efficiency							
Operating margin		30.5%	31.4%	36.2%	32.7%	31.1%	
Net margin (before extras.)		12.7%	13.0%	15.3%	11.5%	14.0%	
Return on avg. common equity		7.6%	7.7%	8.8%	6.6%	8.4%	
GWh sold/employee		20.3	20.0	22.8	23.1	22.8	
Customers/employee		508	506	545	534	529	
OM&A/avg. customer		305.4	299.4	250.1	271.4	260.8	
Rate base		496.6	496.6	496.6	474.9	474.9	
Electricity Throughputs							
Residential		1,586.4	1,500.9	1,531.7	1,565.0	1,539.2	
Commercial		5,010.3	4,949.2	5,193.5	5,342.3	5,289.6	
Large users		1,072.3	1,009.5	1,055.9	1,016.9	966.1	
Street lighting		39.6	39.2	39.2	38.6	38.4	
Total (millions kWh)		7,708.6	7,498.8	7,820.3	7,962.8	7,833.3	
Growth in electricity throughputs		2.8%	-4.1%	-1.8%	1.7%	-2.0%	
Number of Customers							
Residential		171,247	168,288	165,882	162,775	161,165	
Commercial		21,703	21,440	21,037	20,931	20,699	
Large users		10	10	10	9	9	
Street lighting		1	1	1	1	1	
Total		192,961	189,739	186,930	183,716	181,874	
Growth in customer base		1.7%	1.5%	1.7%	1.0%	2.1%	

(1) Net of customer contributions.



Enersource Corporation

Report Date:
 April 14, 2011

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures	A	New Rating – Provisional	Stable

Rating History

	Current	2010	2009	2008	2007	2006
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures	A	NR	NR	NR	NR	NR

Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policies on www.dbrs.com.

Issuer ratings apply to all general senior unsecured obligations of the issuer in question.

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