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

AND IN THE MATTER OF an Application by Welland Hydro-Electric System Corp. for an Order or Orders approving and fixing just and reasonable rates effective May 1, 2013.

EB-2012-0173

Application to the Ontario Energy Board

by Welland Hydro-Electric System Corp.

for 2013 Electricity Distribution Rates

Filed: August 31, 2012

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WELLAND HYDRO-ELECTRIC SYSTEM CORP.
APPLICATION FOR APPROVAL OF ELECTRICITY DISTRIBUTION RATES
EFFECTIVE MAY 1, 2013

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APPENDIX A

SCHEDULE OF PROPOSED RATES AND CHARGES

RATES SCHEDULE (Part 1)

Schedule of Distribution Rates and Charges

Effective May 1, 2013

Customer Class	Item Description	Unit	Rate ($)
Residential			
	Monthly Service Charge	per month	16.44
	Rider Stranded Meters until 04/30/17	per month	0.45
	Distribution Volumetric Rate	per kWh	0.0140
	Rider Def/Var until 04/30/14	per kWh	(0.0016)
	Rider Global Non-RPP until 04/30/14	per kWh	(0.0003)
	Rider Def/Var until 04/30/15	per kWh	0.0003
	Rider Global Non-RPP until 04/30/15	per kWh	0.0003
GS < 50 kW			
	Monthly Service Charge	per month	29.35
	Rider Stranded Meters until 04/30/17	per month	0.48
	Distribution Volumetric Rate	per kWh	0.0087
	Rider Def/Var until 04/30/14	per kWh	(0.0015)
	Rider Global Non-RPP until 04/30/14	per kWh	(0.0003)
	Rider Def/Var until 04/30/15	per kWh	0.0003
	Rider Global Non-RPP until 04/30/15	per kWh	0.0003
GS >50 to 4999 kW			
	Monthly Service Charge	per month	452.41
	Distribution Volumetric Rate	per kW	1.7547
	Rider Def/Var until 04/30/14	per kW	(0.5226)
	Rider Global Non-RPP until 04/30/14	per kW	(0.0995)
	Rider Def/Var until 04/30/15	per kW	0.1007
	Rider Global Non-RPP until 04/30/15	per kW	0.1004
Large Use			
	Monthly Service Charge	per month	5,868.04
	Distribution Volumetric Rate	per kW	0.7725
	Rider Def/Var until 04/30/14	per kW	(0.5277)
	Rider Global Non-RPP until 04/30/14	per kW	(0.1010)
	Rider Def/Var until 04/30/15	per kW	0.0986
	Rider Global Non-RPP until 04/30/15	per kW	0.0984
Sentinel Lights			
	Monthly Service Charge	per month	2.70
	Distribution Volumetric Rate	per kW	6.0512
	Rider Def/Var until 04/30/14	per kW	(0.5529)
	Rider Global Non-RPP until 04/30/14	per kW	(0.1026)
	Rider Def/Var until 04/30/15	per kW	0.1011
	Rider Global Non-RPP until 04/30/15	per kW	0.1009
Street Lighting			
	Monthly Service Charge	per month	1.94
	Distribution Volumetric Rate	per kW	8.1826
	Rider Def/Var until 04/30/14	per kW	(0.5679)
	Rider Global Non-RPP until 04/30/14	per kW	(0.1043)
	Rider Def/Var until 04/30/15	per kW	0.1001
	Rider Global Non-RPP until 04/30/15	per kW	0.0998
Unmetered and Scattered			
	Monthly Service Charge	per month	11.72
	Distribution Volumetric Rate	per kWh	0.0077
	Rider Def/Var until 04/30/14	per kWh	(0.0016)
	Rider Global Non-RPP until 04/30/14	per kWh	(0.0003)
	Rider Def/Var until 04/30/15	per kWh	0.0003
	Rider Global Non-RPP until 04/30/15	per kWh	0.0003

RATES SCHEDULE (Part 2)

Schedule of Distribution Rates and Charges
Effective May 1, 2013

Item Description (Rate Code)	Calculation Basis	Rate ($)
ALLOWANCES		
Transformer Allowance for Ownership - per kW of billing demand/month	$	(0.70)
Primary Metering Allowance for transformer losses - applied to measured demand and energy	%	(1.00)
CUSTOMER ADMINISTRATION		
Arrears certificate (1)	Standard	15.00
Statement of account (2)	Standard	15.00
Request for other billing information (3)	Standard	15.00
Easement letter (4)	Standard	15.00
Account history (5)	Standard	15.00
Returned cheque charge (plus bank charges) (6)	Standard	15.00
Charge to certify cheque (7)	Standard	15.00
Legal letter charge (8)	Standard	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable) (9)	Standard	30.00
Special meter reads (10)	Standard	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct) (11)	Standard	30.00
NON-PAYMENT OF ACCOUNT		
Late Payment - per month (12)	%	1.50
Late Payment - per annum (13)	%	19.56
Disconnect / Reconnect at meter - during regular hours (14)	$	65.00
Install / Remove load control device - during regular hours (15)	$	65.00
Disconnect/Reconnect at pole - after regular hours (16)	$	185.00
OTHER		
Specific Charge for Access to the Power Poles $/pole/year (17)	$	22.35
Meter upgrade requested by customer plus installation - per month plus installation on a time and material basis. (18)	$	10.00

Loss Factors	
Total Loss Factor - Secondary Metered Customer < 5,000 kW	1.0532
Total Loss Factor - Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor - Primary Metered Customer < 5,000 kW	1.0427
Total Loss Factor - Primary Metered Customer > 5,000 kW	1.0045

PRIMARY CONTACT FOR RATE APPLICATION:

WELLAND HYDRO-ELECTRIC SYSTEM CORPORATION
P.O. Box 280
950 East Main Street
Welland, ON
L3B 5P6

DIRECTOR OF FINANCE:

Mr. Wayne Armstrong
Telephone: 905-732-1381 (Ext. 234)
Facsimile: 905-732-0123
E-mail: warmstrong@wellandhydro.com

STATEMENT OF PUBLICATION:

Welland Hydro-Electric System Corp. ("Welland Hydro") plans to publish the notice of application in the Tribune, an English language newspaper having the largest daily circulation of approximately 15,800. Should the Board provide a French language version, a second publication will appear in Le Regional which is a French weekly newspaper serving Welland and the Niagara Region with a circulation of approximately 7,000.

REQUIRED DATE OF RATE ORDER:

Welland Hydro believes that a Rate Order is required no later than April 30, 2013 in order to achieve an implementation date of May 1, 2013.

DECLARATION OF TRANSMISSION ASSETS IF ANY:

Welland Hydro does not have any transmission assets (>50kV) which have been previously deemed by the Board as distribution assets. Welland Hydro is not requesting any transmission assets be deemed as distribution assets in this rate application.

CONDITIONS OF SERVICE

No changes are being made to Welland Hydo's Conditions of Service as a result of this application. The Conditions of Service document can be found at Welland Hydro's website www.wellandhydro.com.

SPECIFIC APPROVALS REQUESTED:

In this proceeding, Welland Hydro is requesting the following approvals:

- Approval to charge rates effective May 1, 2013 to recover a revenue requirement of $9,659,680 which includes a revenue deficiency of $187,802 as set out in Exhibit 6, Tab 1, Schedule 1. The schedule of proposed rates is set out in Exhibit 1, Tab 1, Schedule 2 Appendix A and Exhibit 8, Tab 1, Schedule 9;
- Approval of the proposed loss factor as set out in Exhibit 8, Tab 1, Schedule 5;
- Approval to charge a Retail Transmission-Network Service rate and a Retail Transmission-Connection rate as proposed and described in Exhibit 8, Tab 1, Schedule 4;
- Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the OEB Decision and Order in the matter of Welland Hydro's 2012 Distribution Rates (EB-2011-0202);
- Approval to continue the Specific Service Charges and Transformer Allowance approved in the OEB Decision and Order in the matter of Welland Hydro's 2012 Distribution Rates (EB-2011-0202);
- Approval to establish a rate rider to dispose of Stranded Meter Costs in account 1555 over a four year period;
- Approval to dispose of offsetting balances in account 1565 Conservation & Demand management from Welland Hydro's 2006 Distribution Rates (EB-2005-0248);
- Approval to continue disposal of Account 1595 using rates approved in Welland Hydro's 2012 IRM Rate Application (EB-2011-0202) and found in its Decision and Order, identified as effective May 1, 2012 to April 30, 2014;

- Approval to dispose of the following Deferral and Variance Account Balances as at December 31, 2011 over a two year period using the method of recovery described in Exhibit 9, Tab 1, Schedule 2;

  1508 Other Regulatory Assets – Deferred IFRS Transition Costs
  1580 RSVA - Wholesale Market Service Charges
  1584 RSVA - Transmission Network
  1586 RSVA - Transmission Connection
  1588 RSVA - Power
  1589 RSVA - Power Sub-Account 1588 Global Adjustment
  1595 Disposition and Recovery/Refund Regulatory Interest 2009 (EB-2008-0247)
  1595 Disposition and Recovery/Refund Regulatory PILS 2010 (EB-2009-0252)

- Approval to dispose of the following Deferral and Variance Account Forecasted Balances as at April 30, 2013 over a two year period using the method of recovery described in Exhibit 9, Tab 1, Schedule 2;

  1592 HST Input Tax Credit - 50% Forecasted Balance and Interest as of April 30, 2013

- In Welland Hydro's 2011 IRM Decision (EB-2010-0118) The Board directed Welland Hydro to record in account 1592 the incremental Input Tax Credit (ITC) it receives on distribution revenue requirement items that were previously subject to PST and become subject to HST. Welland Hydro has complied with this directive and has been recording these amounts as of July 1, 2011. The application Welland Hydro is currently submitting is based on the "Simplified Method". As a result, Welland Hydro requests approval to discontinue recording these variances as of May 1, 2013.

- A deferral account to deal with the impact of IFRS resulting from Employee Retiree Future Benefits

- Approval to continue use of Deferral & Variance Account 1508 Sub-Account IFRS

- Approval to change from monthly to 30 day fixed charges

PROPOSED ISSUES LIST:

The Applicant would expect, based on previous regulatory experience and other hearings, that the following matters pertaining to the 2013 Test Year may constitute issues in this Application:

- The amount of Welland Hydro's proposed revenue requirement; and
- The appropriateness of Welland Hydro's proposed cost allocation-related adjustments to class-specific revenue requirements, reflected in the proposed distribution rate; and
- The appropriateness of Welland Hydro's treatment of items related to Modified IFRS

PROCEDURAL ORDERS/MOTIONS/NOTICES:

On January 26, 2012, the Board issued its list of distributors that it anticipates will be filing a Cost of Service Application for 2013. Welland Hydro was included on that list.

ACCOUNTING ORDERS REQUESTED:

Welland Hydro is not requesting Accounting Orders in this proceeding.

COMPLIANCE WITH UNIFORM SYSTEM OF ACCOUNTS:

Welland Hydro has followed the accounting principles and main categories of accounts as stated in the OEB's Accounting Procedures Handbook (the "APH") and the Uniform System of Accounts ("USoA") in the preparation of this Application.

DISTRIBUTION SERVICE TERRITORY AND DISTRIBUTION SYSTEM:

Description of Distributor:

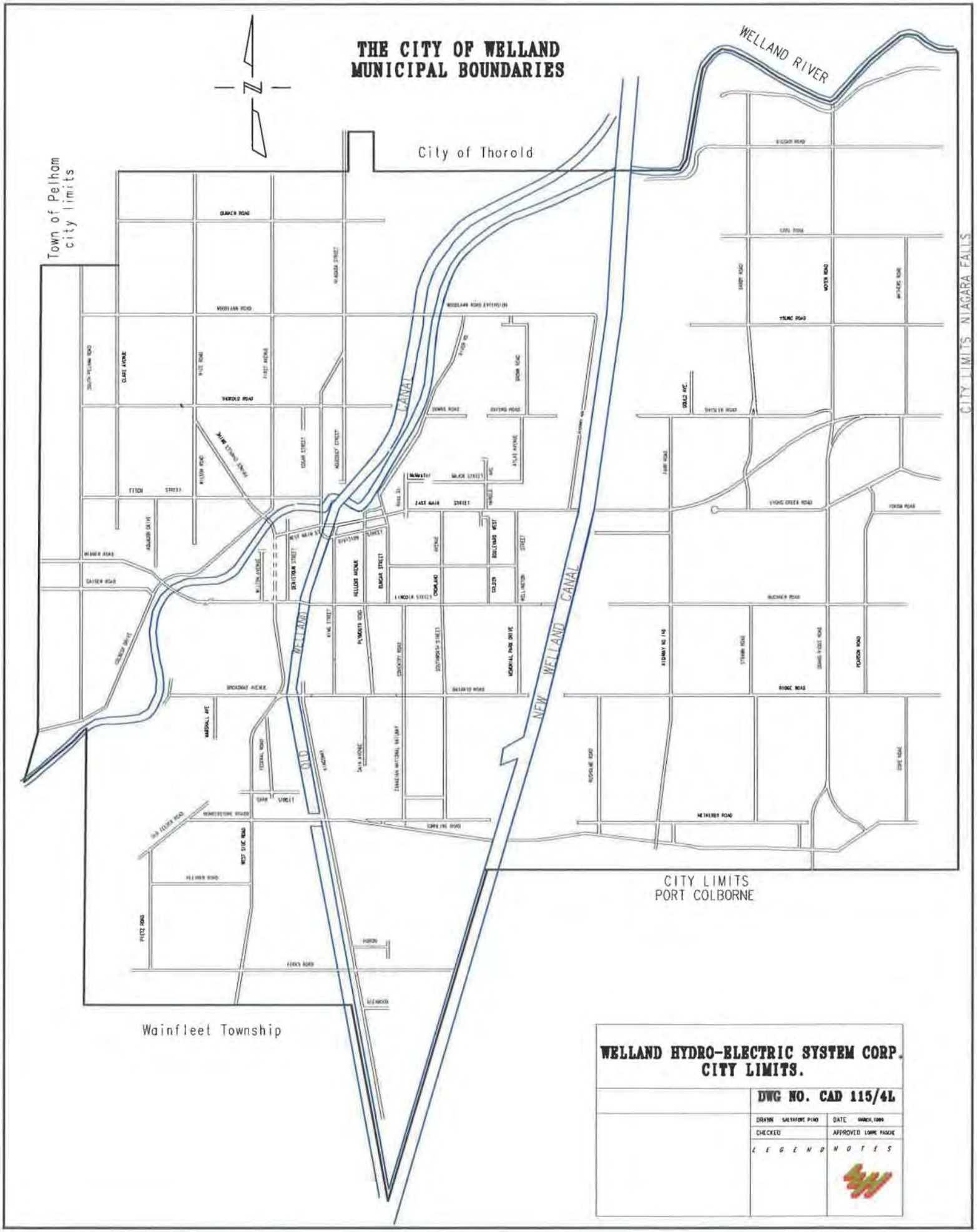
COMMUNITY SERVED:	City of Welland
TOTAL SERVICE AREA:	86 sq km
RURAL SERVICE AREA:	0 sq km
DISTRIBUTION TYPE:	Electricity distribution
SERVICE AREA POPULATION:	50,631 (2011)
MUNICIPAL POPULATION:	50,631 (2011)
BOUNDARIES:	West: Pelham/Wainfleet
	North: Fonthill/Thorold
	East: Niagara Falls
	South: Port Colborne

A map of Welland Hydro's Distribution Service Territory accompanies this Schedule as Appendix B.

A schematic diagram of Welland Hydro's distribution system is attached in Appendix C.

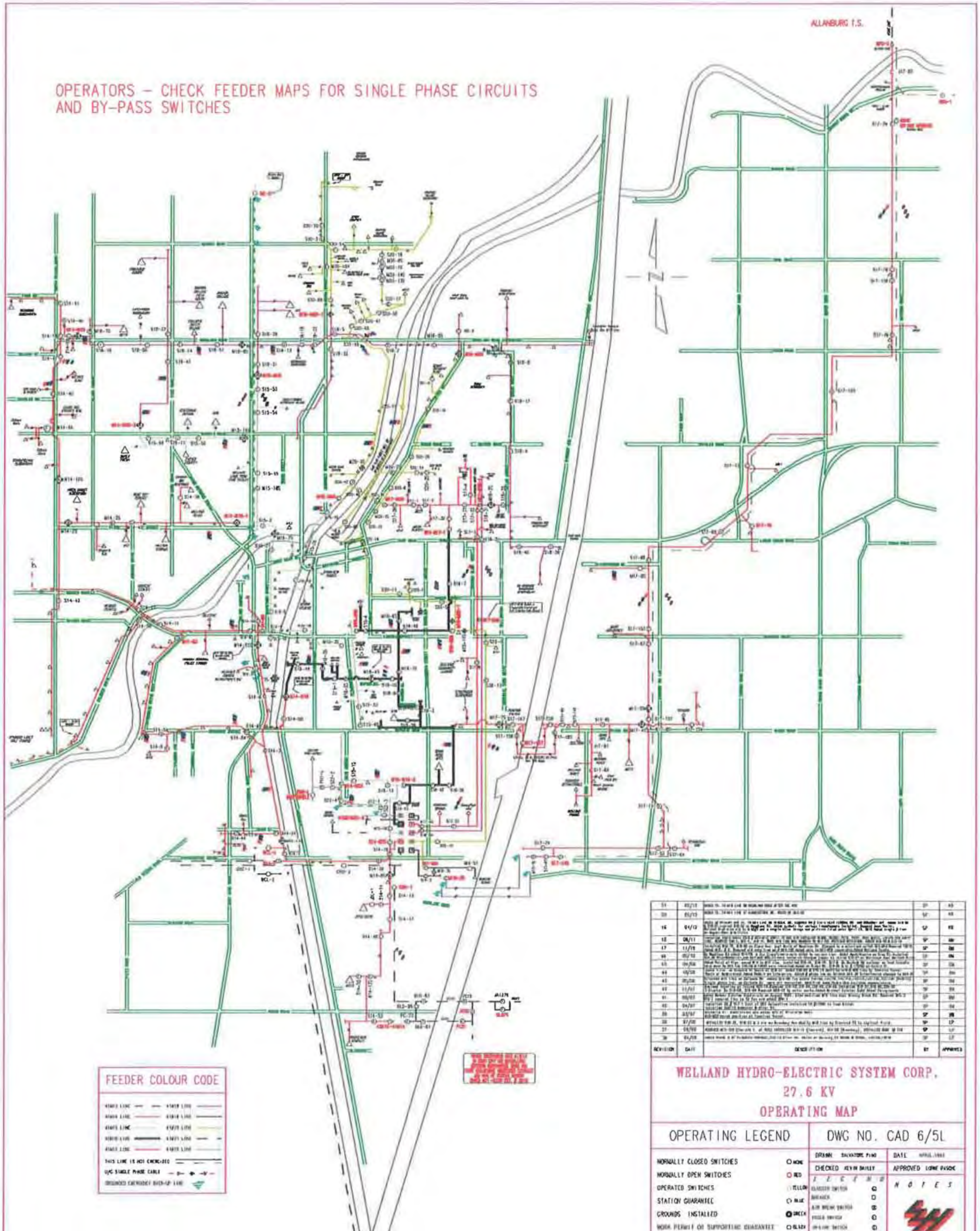
APPENDIX B

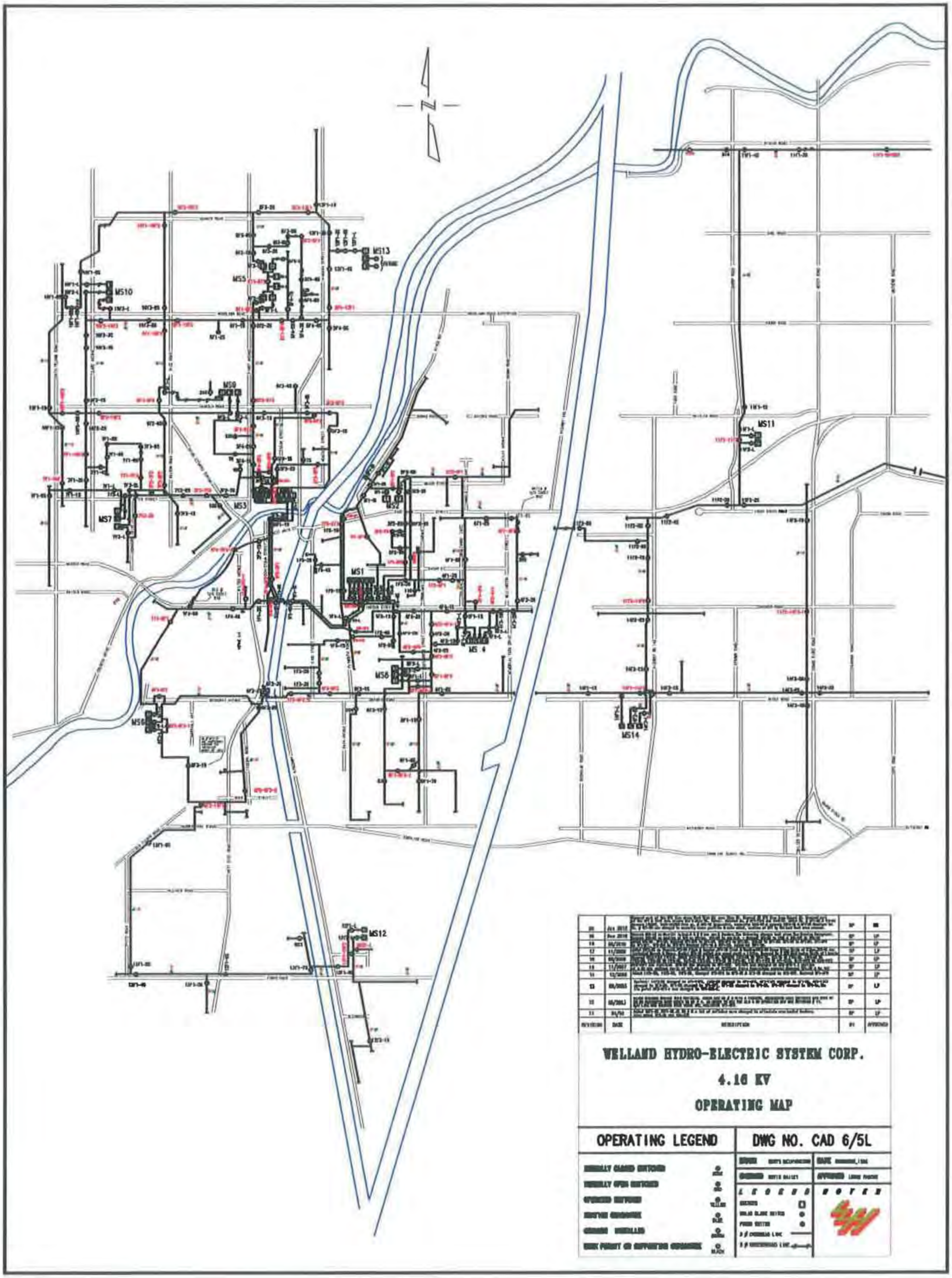
MAP OF DISTRIBUTION SERVICE TERRITORY


THE CITY OF WELLAND
MUNICIPAL BOUNDARIES
N
WELLAND RIVER
City of Thorold
Town of Pelham
city limits
CITY LIMITS NIAGARA FALLS
WELLAND CANAL
NEW WELLAND CANAL
CITY LIMITS
PORT COLBORNE
Wainfleet Township
WELLAND HYDRO-ELECTRIC SYSTEM CORP.
CITY LIMITS.
DWG NO. CAD 115/4L
DRAWN SALVATORE PINO
DATE MARCH, 1999
CHECKED
APPROVED LORNE PASQUE
LEGEND
NOTES

APPENDIX C

MAPS OF DISTRIBUTION SYSTEM


OPERATORS – CHECK FEEDER MAPS FOR SINGLE PHASE CIRCUITS AND BY-PASS SWITCHES
ALLANBURG T.S.
FEEDER COLOUR CODE
THIS LINE IS NOT ENERGIZED
U/G SINGLE PHASE CABLE
WELLAND HYDRO-ELECTRIC SYSTEM CORP.
27.6 KV
OPERATING MAP
OPERATING LEGEND
DWG NO. CAD 6/5L
DRAWN SALVATORE PINO
CHECKED KEVIN BAILEY
DATE
APPROVED
NORMALLY CLOSED SWITCHES
NORMALLY OPEN SWITCHES
OPERATED SWITCHES
STATION GUARANTEE
GROUNDS INSTALLED
WORK PERMIT OR SUPPORTING GUARANTEE
LEGEND
NOTES
REVISION
DATE
DESCRIPTION
BY
APPROVED


MS10
MS13
MS5
MS9
MS11
MS7
MS3
MS2
MS1
MS 4
MS8
MS6
MS14
MS12
WELLAND HYDRO-ELECTRIC SYSTEM CORP.
4.16 KV
OPERATING MAP
OPERATING LEGEND
DWG NO. CAD 6/5L

LIST OF NEIGHBOURING UTILITIES:

Welland Hydro is bounded by :

- Hydro One Networks Inc : North & West (Pelham/Fonthill/Wainfleet/Thorold)
- Niagara Peninsula Energy : North & East
- Canadian Niagara Power : South

EXPLANATION OF HOST AND EMBEDDED UTILITIES:

There are no embedded utilities within Welland Hydro's distribution service territory nor is Welland Hydro a host utility to other distributors.

UTILITY ORGANIZATIONAL STRUCTURE:

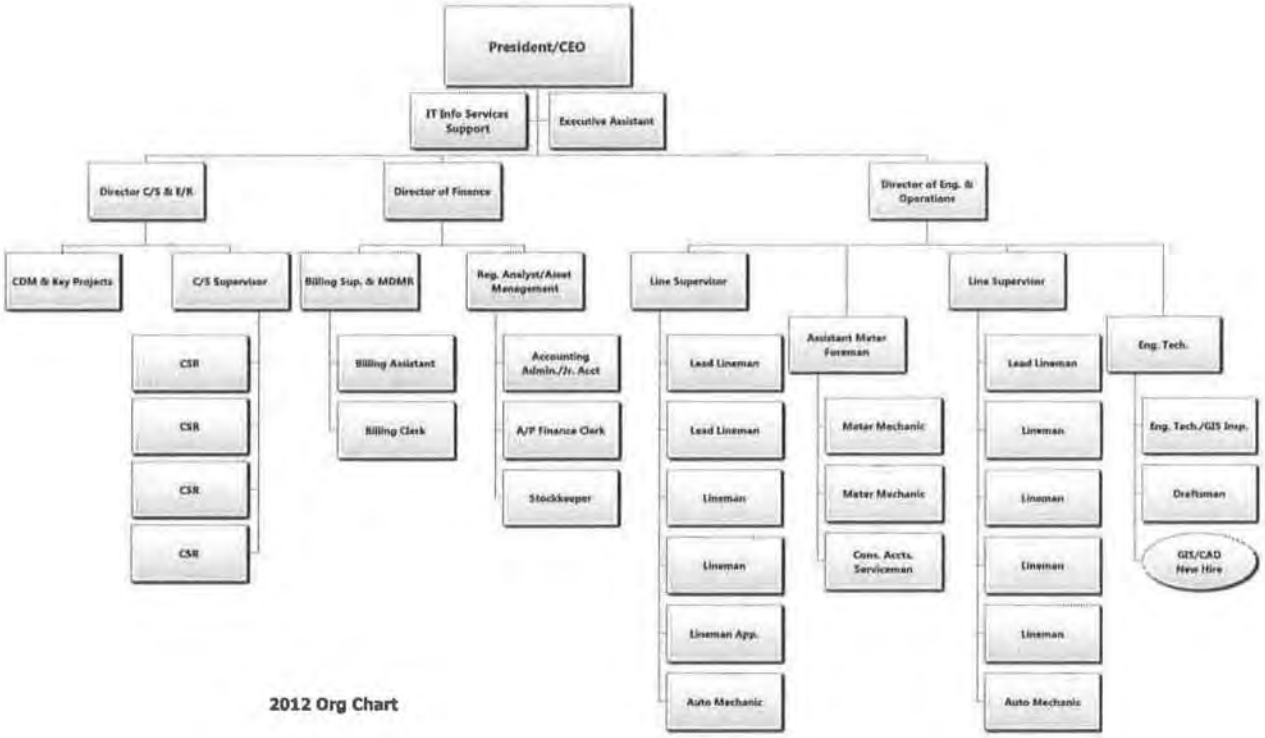
Welland Hydro is a wholly-owned subsidiary of Welland Hydro-Electric Holding Corp. which is 100% owned by the City of Welland. A chart illustrating Welland Hydro's corporate family is provided at Exhibit 1, Tab 1, Schedule 13.

A high level utility organization chart showing the main units and senior management positions within Welland Hydro-Electric Service Corp. is presented on page 2 of this schedule. The GIS/CAD shown as a new hire in 2012 is the replacement of a previous Engineering Clerk/Typist. The duties of the Engineering Clerk/Typist were distributed amongst other employees. Welland Hydro views this as a productivity improvement as it was able to upgrade the Engineering Department without an additional body.

The Board of Directors of Welland Hydro Holding Corp and its subsidiaries are as follows:

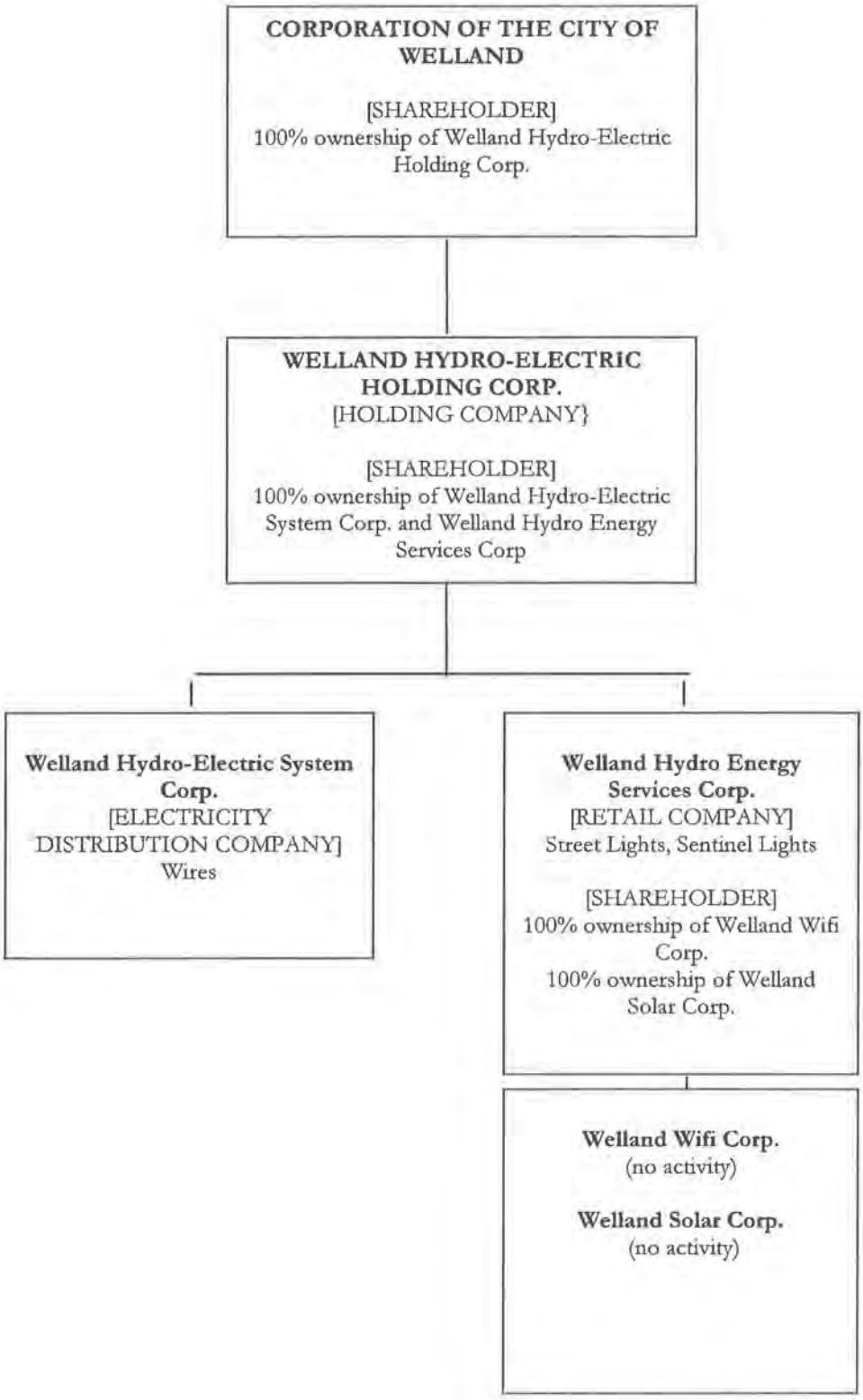
Welland Hydro-Holding Corp	Welland Hydro-Electric Corp	Welland Hydro Energy Services
President & CEO	President & CEO	President & CEO
Mayor City of Welland	Councilor City of Welland	Mayor City of Welland
Board Member 1	Board Member 1	Board Member 1
Board Member 2	Board Member 2	Board Member 2
	Board Member 3 - Independent	
	Baord Member 4 - Independent	

Welland Hydro Energy Services provides both Street and Sentinel Light Maintenance. The services provided by Welland Hydro-Electric Corp to Welland Hydro Energy Services are discussed in Charges to Affiliates - Exhibit 4, Schedule 5. There are no charges from Welland Hydro-Holding Corp. or Welland Hydro Energy Services to Welland Hydro-Electric System Corp.



2012 Org Chart

CORPORATE ENTITIES RELATIONSHIP CHART



PLANNED CHANGES IN CORPORATE AND OPERATIONAL STRUCTURE:

No changes to Welland Hydro's corporate and operational structures are planned at the present time.

STATUS OF BOARD DIRECTIVES FROM PREVIOUS BOARD DECISIONS:

Directive from 2009 Cost of Service Application (EB-2008-0247)

The Board prescribed a phase-in period to adjust its revenue-to-cost rates, moving the GS 50 to 4,999kW, Sentinel Lighting, and Street Lighting from their 2009 positions to the bottom of the Board's target ranges in 2010. Welland Hydro has complied with this directive and as of its 2010 IRM application, all three of the above customer classes have been moved to within the Board's target ranges. The final adjustment to the deemed capital structure of 40% Equity, 4% Short Term Debt, and 56% Long Term Debt was also made in 2010.

Directive from 2010 IRM Application (EB-2009-0252)

In the 2010 IRM Rate Application Welland Hydro was ordered to record a tax sharing refund amount of $32,927 in variance account 1595. Welland Hydro has complied with the directive and is requesting disposition of principal and interest relating to this directive in this application.

Directive from 2011 IRM Application (EB-2010-0118)

Nothing to report.

Directive from 2012 IRM Application (EB-2011-0202)

In the 2012 IRM Rate Application the Board approved for disposition the principal and interest relating to 1562 PILS account. Smart Meter Funding Adders were removed from rates in this application.

Directive from 2012 Smart Meter Rate Application (EB-2011-0415)

Smart Meter Revenue Requirement Riders and Disposition Riders were approved in the application. As a result, balances in accounts 1555 and 1556 were cleared. Stranded meters in 1860 were then transferred to account 1555. No further smart meter entries were recorded in 1555 or 1556 effective January 1, 2012. Depreciation of stranded meters will continue in 2012. Welland is requesting the disposition of the balance of stranded meters in this application.

PRELIMINARY LIST OF WITNESSES:

While Welland Hydro requests that this Application be disposed of by way of a written hearing, should a technical conference or an oral hearing be necessary Welland Hydro will provide a list of potential witnesses as required.

SUMMARY OF THE APPLICATION:

Preamble

Welland Hydro has submitted this Application in order to meet its Corporate Mission and Corporate Goals as outlined below. Current rates will result in actual Return on Equity in 2012 well below levels currently approved by the OEB when the effect of MIFRS on depreciation and OM&A are excluded. The increased rates are required to:

1) Maintain current capital investment levels in infrastructure to ensure a safe, reliable distribution system. MIFRS will result in capital expenditures much higher than depreciation which will impact future cash balances and borrowings.

2) Continue with training programs for lineman needed to meet future staffing requirements.

3) Manage staffing levels and skills to ensure regulatory compliance, promote conservation programs, and implement reporting changes resulting from the adoption of International Financial Reporting Standards.

4) To provide a reasonable rate of return to the Shareholder.

Welland Hydro's Mission Statement is:

Welland Hydro-Electric System Corp. is our community's proud distributor of safe, reliable electricity to our valued customers.

Welland Hydro's priorities are defined in its Corporate Goals:

To incorporate into day to day business, Health and Safety measures that safeguards the public and our employees.

To enhance the quality, safety, and reliability of our electrical distribution system while meeting or exceeding all statutory, environmental and regulatory requirements.

To sustain the viability of Welland Hydro-Electric System Corp. through prudent and responsible management of assets and resources, while enhancing the overall value of the organization to the Shareholder, at reasonable electrical distribution rates.

To protect and enhance the environment through energy conservation, demand management and other environmental friendly initiatives.

Purpose and Need

Welland Hydro's requested revenue requirement for 2013 in the amount of $9,659,680 includes the recovery of its costs to provide distribution services, its permitted Return on Equity ["ROE"] and the funds necessary to service its debt.

When forecasted energy and demand levels for 2013 are considered, Welland Hydro estimates that its present rates will produce a deficiency in gross distribution revenue of $187,802 (adjusted for the effects of MIFRS) for the 2013 Test Year. Should this revenue deficiency continue, Welland Hydro will not be able to sustain the current capital investment and lineperson training programs required to ensure a safe and reliable distribution system.

Therefore, Welland Hydro seeks the OEB's approval to revise its electricity distribution rates. The rates proposed to recover its projected revenue requirement and other relief sought are set out in Exhibit 1, Tab 1, Schedule 2, Appendix A and Exhibit 8, Tab 1, Schedule 9 to this Application.

The information presented in this Application is Welland Hydro's forecasted results for its 2013 Test Year. Welland Hydro is also presenting the forecasted results for 2012 Bridge Year and audited financial information for fiscal 2010 and 2011.

Timing

The financial information supporting the Test Year for this Application will be Welland Hydro's fiscal year ending December 31, 2013 (the "2013 Test Year"). However, this information will be used to set rates for the period May 1, 2013 to April 30, 2014.

Customer Impact

In preparing this application, Welland Hydro has considered the impacts on its customers, with a goal of minimizing those impacts. With respect to cost allocation, Welland Hydro notes that for each of its customer classes, the current revenue to cost ratio of each rate class falls within the applicable threshold defined by the OEB in the November 28, 2008, Report on Application of Cost Allocation for Electricity Distributors.

Customer Bill Impacts by customer class include total dollar and percentage impact comparisons. For 2012, Smart Meter Revenue Requirement Rate riders have been added to Monthly Service Charge and the Rate Rider for Tax Change has been added to the Distribution Volumetric Rate for better comparison to 2013 rates as these two riders impact distribution revenue in 2012 as opposed to adjustments in 1595 variance accounts. Although the Smart Meter Disposition Rate Riders also impact 2012 Distribution Revenue they have been left as a rate rider for comparison purposes as they are a correction to the amount of smart meter funding adders previously collected and will be removed from rates effective April 30, 2013. The 2013 rates reflect revised distribution rates (monthly service charge and volumetric rates), revised retail transmission rates, the addition of a Stranded Meter Recovery Rate Rider, revised loss factors, and Regulatory Asset Rate Riders to dispose of the balances in the Deferral and Variance accounts requested in this rate application and riders carried forward from the 2012 IRM Rate Application.

Bill Impacts for typical Residential (800 kWh per month) and GS<50 Commercial (2,000 kWh per month) are presented on page 4 and 5 of this schedule. A complete listing of bill impacts for all customer classes at various levels of consumption is provided in Exhibit 8, Schedule 6.

Appendix 2-W
Bill Impacts

Customer Class: **Residential**

Consumption 800 kWh ◉ May 1 - October 31 ○ November 1 - April 30 (Select this radio button for applications filed after Oct 31)

		Current Board-Approved			Proposed			Impact	
	Charge Unit	Rate ($)	Volume	Charge ($)	Rate ($)	Volume	Charge ($)	$ Change	% Change
Monthly Service Charge	Monthly	$ 16.5500	1	$ 16.55	$ 16.4400	1	$ 16.44	-$ 0.11	-0.66%
Smart Meter Rate Adder			1	$ -		1	$ -	$ -	
Smart Meter Residual	Monthly	-$ 0.2400	1	-$ 0.24	$ -	1	$ -	$ 0.24	-100.00%
Stranded Meter Rate Rider	Monthly		1	$ -	$ 0.4500	1	$ 0.45	$ 0.45	
			1	$ -		1	$ -	$ -	
			1	$ -		1	$ -	$ -	
Distribution Volumetric Rate	per kWh	$ 0.0141	800	$ 11.28	$ 0.0140	800	$ 11.20	-$ 0.08	-0.71%
Smart Meter Disposition Rider			800	$ -		800	$ -	$ -	
LRAM & SSM Rate Rider			800	$ -		800	$ -	$ -	
Disposition-Residual Smart			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
Sub-Total A				$ 27.59			$ 28.09	**$ 0.50**	**1.81%**
Deferral/Variance Account Disposition Rate Rider 2012	per kWh	-$ 0.0016	800	-$ 1.28	-$ 0.0016	800	-$ 1.28	$ -	0.00%
Deferral/Variance Account Disposition Rate Rider 2013	per kWh		800	$ -	$ 0.0003	800	$ 0.24	$ 0.24	
			800	$ -		800	$ -	$ -	
			800	$ -		800	$ -	$ -	
Low Voltage Service Charge			800	$ -		800	$ -	$ -	
Smart Meter Entity Charge						800	$ -	$ -	
Sub-Total B - Distribution (includes Sub-Total A)				**$ 26.31**			**$ 27.05**	**$ 0.74**	**2.81%**
RTSR - Network	per kWh	$ 0.0080	843	$ 6.74	$ 0.0081	843	$ 6.82	$ 0.08	1.25%
RTSR - Line and Transformation Connection	per kWh	$ 0.0056	843	$ 4.72	$ 0.0056	843	$ 4.72	$ -	0.00%
Sub-Total C - Delivery (including Sub-Total B)				**$ 37.77**			**$ 38.59**	**$ 0.82**	**2.18%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	843	$ 4.38	$ 0.0052	843	$ 4.38	$ -	0.00%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	843	$ 0.93	$ 0.0011	843	$ 0.93	$ -	0.00%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	843	$ 5.90	$ 0.0070	843	$ 5.90	$ -	0.00%
Energy - RPP - Tier 1		$ 0.0750	600	$ 45.00	$ 0.0750	600	$ 45.00	$ -	0.00%
Energy - RPP - Tier 2		$ 0.0880	243	$ 21.35	$ 0.0880	243	$ 21.35	$ -	0.00%
TOU - Off Peak		$ 0.0650	539	$ 35.05	$ 0.0650	539	$ 35.05	$ -	0.00%
TOU - Mid Peak		$ 0.1000	152	$ 15.17	$ 0.1000	152	$ 15.17	$ -	0.00%
TOU - On Peak		$ 0.1170	152	$ 17.74	$ 0.1170	152	$ 17.74	$ -	0.00%
Total Bill on RPP (before Taxes)				**$ 115.57**			**$ 116.39**	**$ 0.82**	**0.71%**
HST		13%		$ 15.02	13%		$ 15.13	$ 0.11	0.71%
Total Bill (including HST)				$ 130.59			$ 131.53	$ 0.93	0.71%
Ontario Clean Energy Benefit [1]				-$ 13.06			-$ 13.15	-$ 0.09	0.69%
Total Bill on RPP (including OCEB)				**$ 117.53**			**$ 118.38**	**$ 0.84**	**0.72%**
Total Bill on TOU (before Taxes)				**$ 117.19**			**$ 118.01**	**$ 0.82**	**0.70%**
HST		13%		$ 15.23	13%		$ 15.34	$ 0.11	0.70%
Total Bill (including HST)				$ 132.42			$ 133.35	$ 0.93	0.70%
Ontario Clean Energy Benefit [1]				-$ 13.24			-$ 13.34	-$ 0.10	0.76%
Total Bill on TOU (including OCEB)				**$ 119.18**			**$ 120.01**	**$ 0.83**	**0.70%**
Loss Factor (%)		5.3200%			5.3200%				

[1] Applicable to eligible customers only. Refer to the *Ontario Clean Energy Benefit Act, 2010*.

Appendix 2-W
Bill Impacts

Customer Class: GS<50 kW

Consumption 2000 kWh ◉ May 1 - October 31 ○ November 1 - April 30 (Select this radio button for applications filed after Oct 31)

		Current Board-Approved			Proposed			Impact	
	Charge Unit	Rate ($)	Volume	Charge ($)	Rate ($)	Volume	Charge ($)	$ Change	% Change
Monthly Service Charge	Monthly	$ 28.7500	1	$ 28.75	$ 29.3500	1	$ 29.35	$ 0.60	2.09%
Smart Meter Rate Adder			1	$ -		1	$ -	$ -	
Smart Meter Residual	Monthly	-$ 0.3000	1	-$ 0.30	$ -	1	$ -	$ 0.30	-100.00%
Stranded Meter Rate Rider	Monthly		1	$ -	$ 0.4800	1	$ 0.48	$ 0.48	
			1	$ -		1	$ -	$ -	
			1	$ -		1	$ -	$ -	
Distribution Volumetric Rate	per kWh	$ 0.0085	2000	$ 17.00	$ 0.0087	2000	$ 17.40	$ 0.40	2.35%
Smart Meter Disposition Rider			2000	$ -		2000	$ -	$ -	
LRAM & SSM Rate Rider			2000	$ -		2000	$ -	$ -	
Disposition-Residual Smart			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
Sub-Total A				$ 45.45			$ 47.23	$ 1.78	3.92%
Deferral/Variance Account Disposition Rate Rider 2012	per kWh	-$ 0.0015	2000	-$ 3.00	-$ 0.0015	2000	-$ 3.00	$ -	0.00%
Deferral/Variance Account Disposition Rate Rider 2013	per kWh		2000	$ -	$ 0.0003	2000	$ 0.60	$ 0.60	
			2000	$ -		2000	$ -	$ -	
			2000	$ -		2000	$ -	$ -	
Low Voltage Service Charge			2000	$ -		2000	$ -	$ -	
Smart Meter Entity Charge						2000	$ -	$ -	
Sub-Total B - Distribution (includes Sub-Total A)				$ 42.45			$ 44.83	$ 2.38	5.61%
RTSR - Network	per kWh	$ 0.0071	2106	$ 14.96	$ 0.0072	2106	$ 15.17	$ 0.21	1.41%
RTSR - Line and Transformation Connection	per kWh	$ 0.0049	2106	$ 10.32	$ 0.0049	2106	$ 10.32	$ -	0.00%
Sub-Total C - Delivery (including Sub-Total B)				$ 67.73			$ 70.32	$ 2.59	3.83%
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	2106	$ 10.95	$ 0.0052	2106	$ 10.95	$ -	0.00%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	2106	$ 2.32	$ 0.0011	2106	$ 2.32	$ -	0.00%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	2106	$ 14.74	$ 0.0070	2106	$ 14.74	$ -	0.00%
Energy - RPP - Tier 1		$ 0.0750	600	$ 45.00	$ 0.0750	600	$ 45.00	$ -	0.00%
Energy - RPP - Tier 2		$ 0.0880	1506	$ 132.56	$ 0.0880	1506	$ 132.56	$ -	0.00%
TOU - Off Peak		$ 0.0650	1348	$ 87.63	$ 0.0650	1348	$ 87.63	$ -	0.00%
TOU - Mid Peak		$ 0.1000	379	$ 37.92	$ 0.1000	379	$ 37.92	$ -	0.00%
TOU - On Peak		$ 0.1170	379	$ 44.36	$ 0.1170	379	$ 44.36	$ -	0.00%
Total Bill on RPP (before Taxes)				$ 273.56			$ 276.15	$ 2.59	0.95%
HST		13%		$ 35.56	13%		$ 35.90	$ 0.34	0.95%
Total Bill (including HST)				$ 309.12			$ 312.04	$ 2.93	0.95%
Ontario Clean Energy Benefit [1]				-$ 30.91			-$ 31.20	-$ 0.29	0.94%
Total Bill on RPP (including OCEB)				$ 278.21			$ 280.84	$ 2.64	0.95%
Total Bill on TOU (before Taxes)				$ 265.89			$ 268.48	$ 2.59	0.97%
HST		13%		$ 34.57	13%		$ 34.90	$ 0.34	0.97%
Total Bill (including HST)				$ 300.46			$ 303.39	$ 2.93	0.97%
Ontario Clean Energy Benefit [1]				-$ 30.05			-$ 30.34	-$ 0.29	0.97%
Total Bill on TOU (including OCEB)				$ 270.41			$ 273.05	$ 2.64	0.98%
Loss Factor (%)		5.3200%			5.3200%				

[1] Applicable to eligible customers only. Refer to the *Ontario Clean Energy Benefit Act, 2010*.

Capital Structure

Welland Hydro is requesting the continuation of its current deemed capital structure of 40% Equity, 4% Short Term Debt, 56% Long Term Debt.

Return on Equity

Welland Hydro has assumed a return on equity of 9.12% consistent with the Cost of Capital Parameter Updates for 2012 Cost of Service Applications issued by the OEB on March 2, 2012. Welland Hydro understands the OEB will be finalizing the return on equity for 2013 rates based on January 2013 market interest rate information, and that adjustments to the Application may be required as a result.

Capital Expenditures

Welland Hydro continues to expand and reinforce its distribution system in order to meet the demand of new and existing customers in its service territory. Expenditures are also being made to meet regulations set out by both the OEB and IESO. Welland Hydro has previously spent capital to eliminate load transfers from other LDC's and provide primary metering points as required by the IESO.

Operating and Maintenance Costs

Table 1.1 – Cohort Comparison below is based on the OEB's *Comparison of Ontario Electricity Distributors Costs [EB-2006-0268],* as updated with 2010 Data issued on August 29, 2011. Welland Hydro's OM&A costs per customer compare favorably with its "Mid Size Southern Medium-High Undergrounding" cohort. In 2010, the average OM&A cost per customer for the cohort was $222.72 while Welland Hydro's cost was $221.07.

Table 1.1 – Cohort Comparison

Cohort Groupings	Totals	
By Distribution Company	**# Customers**	**OM&A/ Customer**
E.L.K. Energy Inc.	11,205	$ 185.93
Wasaga Distribution Inc.	12,046	$ 180.81
Chatam-Kent Hydro Inc.	32,033	$ 201.96
Peterborough Distribution Incorporated	35,012	$ 181.82
Festival Hydro Inc.	19,579	$ 203.78
Welland Hydro-Electric System Corp.	**21,411**	**$ 221.07**
Kingston Electricity Distribution Limited	26,944	$ 222.78
Westario Power Inc.	22,007	$ 195.13
COLLUS Power Corp.	15,533	$ 257.15
St. Thomas Energy Inc.	16,419	$ 203.23
Essex Powerlines Corporation	28,183	$ 194.46
Woodstock Hydro Services Inc.	15,074	$ 234.68
Niagara Falls Hydro Inc.	51,048	$ 262.02
Bluewater Power Distribution Company	35,688	$ 287.35
Erie Thames Powerline Corporation	14,373	$ 308.70
Simple Average for Cohort Group	**23,770**	**$ 222.72**

SOURCE:

2010 Yearbook of Electricity Distributors – August 29, 2011

BUDGET DIRECTIVES:

Welland Hydro compiles budget information for the three major components of the budgeting process: revenue forecasts, operating and maintenance expense forecast and capital budget forecast. This budget information is compiled for both the 2012 Bridge Year and the 2013 Test Year.

Revenue Forecast

Welland Hydro's energy sales and revenue forecast model was updated to reflect more recent information. This model was then used to prepare the revenues sales and throughput volume and revenue forecast at existing rates for fiscal 2012 and 2013. The forecast is weather normalized as outlined in Exhibit 3, Tab 2, and Schedule 1 and considers such factors as average weather conditions and economic conditions in the area serviced by Welland Hydro.

Operating Maintenance and Administration ("OM&A") Expense Forecast

The OM&A expenses for the 2012 Bridge Year and the 2013 Test Year have been based on an in-depth review of operating priorities and requirements and is strongly influenced by prior year experience and expected changes for the forecast period. These changes consist of three significant items which include MIFRS, inclusion of Smart Meter/TOU Billing expenses, and a new CIS/Financial Software System. Each item is reviewed account by account for each of the forecast years with indirect costs allocated to direct costs for budget presentation.

Capital Budget

The capital budget forecast 2012 and 2013 is influenced, among other factors, by the highest priority capital requirements and Welland Hydro's capacity to finance capital projects. As previously stated the effects on cash flow from the change to MIFRS will be significant. All proposed capital projects are outlined in Exhibit 2, Tab 3.

CHANGES IN METHODOLOGY:

Welland Hydro is not requesting any changes in methodology in the current proceeding. However, as previously identified there are two significant items which make comparisons to the 2009 Cost of Service Application and prior years actual difficult.

The first is the inclusion of Smart Meter/TOU expenses which are now reflected in the proper Uniform System of Accounts as opposed to Deferral & Variance accounts 1555 and 1556.

The second is the Board's directive to file this application based upon Modified International Reporting Standards ("MIFRS").

Both of these items will be discussed in detail in Exhibit 2 Rate Base and Exhibit 4 Operating Costs.

Calculation of Revenue Deficiency or Surplus

	2013 Test Existing Rates	2013 Test Proposed Rates
Revenue		
Suff/ Def From Below.		$187,802
Distribution Revenue	$8,970,789	$8,970,789
Other Operating Revenue (Net)	$501,089	$501,089
Total Revenue	$9,471,878	$9,659,680
Distribution Costs		
Operation, Maintenance, and Administration	$6,636,967	$6,636,967
Depreciation & Amortization	$1,081,618	$1,081,618
Property & Capital Taxes	-$35,324	-$35,324
Interest- Deemed Interest	$754,766	$754,766
Total Costs and Expenses	$8,438,027	$8,438,027
Utility Income Before Income Taxes	$1,033,851	$1,221,653
Deemed Income		$1,163,140
Tax Ajustments to Accounting Income	-$807,525	-$807,525
Taxable Income	$226,326	$355,615
Tax Rate	11.06%	16.45%
Income Tax	$25,034	$58,513
Utility Income	$1,008,817	$1,163,140
Rate Base	$31,884,331	$31,884,331
Equity	40.00%	40.00%
Equity Component Rate Base	$12,753,732	$12,753,732
Income / Equity Rate Base %	7.91%	9.12%
Target Return -Equity on Rate Base	9.12%	9.12%
Return- Equity on Rate Base	$1,163,140	$1,163,140
Revenue Deficiency	$154,323	
Revenue Deficiency (Gross-up)	$187,802	

CAUSES OF REVENUE DEFICIENCY:

Welland Hydro's net revenue deficiency is calculated as $154,323 and when grossed up for PILs, the revenue deficiency is $187,802. Welland Hydro-Electric System Corp.'s calculation of its 2013 revenue deficiency is provided in Exhibit 1, Tab 2, Schedule 4 and Exhibit 6, Tab 1, Schedule 1.

The revenue deficiency is primarily the result of the following:

- Reduction in depreciation expense as a result of extended asset lives under MIFRS.
- Reduction in PILS expense as a result of decreased tax rates and reduced taxable income. Reduced taxable income is the result of differences between reduced actual depreciation expense and actual capital cost allowance for tax purposes.
- Increased OM&A costs due to overheads no longer capitalized under MIFRS, inclusion of Smart Meter/TOU expenses, and expenses related to the new CIS/Financial System.
- Significant increases in OMERS Pension Costs along with Employee Retirement Benefits.
- Significant increases in Bad Debt expenses along with the addition of Receivables Insurance for the GS 50 to 4,999 kW and Large Use customer classes. Regulatory costs have also increased compared to the 2009 COS Application.
- Addition of one new apprentice lineperson and the upgrade of an accounting position required by the conversion to IFRS.

FINANCIAL STATEMENTS – 2010 and 2011:

Welland Hydro's Audited Financial Statements accompany this Schedule as Appendix D.

APPENDIX D

COPY OF WELLAND HYDRO-ELECTRIC SYSTEM CORP. AUDITED FINANCIAL STATEMENTS FOR 2010 AND 2011

Financial statements of

Welland Hydro-Electric System Corp.

December 31, 2010

Welland Hydro-Electric System Corp.

December 31, 2010

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Independent Auditor's Report

To the Board of Directors of
Welland Hydro-Electric System Corp.

We have audited the accompanying financial statements of Welland Hydro-Electric System Corp., which comprise the balance sheet as at December 31, 2010, and the statements of earnings and retained earnings and of cash flows for the year then ended, and 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.

Auditor's Responsibility

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 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 the auditor's 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, the auditor considers 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 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 Welland Hydro-Electric Holding Corp. as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 23, 2011

Welland Hydro-Electric System Corp.

Statement of earnings and retained earnings
year ended December 31, 2010

	2010	2009
	$	$
Service revenue		
Energy charges	**28,645,597**	25,450,663
Wholesale market services	**2,428,656**	2,570,345
Retail transmission charges	**4,823,775**	4,038,665
	35,898,028	32,059,673
Distribution revenue	**8,972,908**	8,008,892
	44,870,936	40,068,565
Cost of power	**35,898,028**	32,059,673
Gross margin on service revenue	**8,972,908**	8,008,892
Other operating revenue	**492,498**	624,147
Net operating revenue	**9,465,406**	8,633,039
Administrative expense		
Operating and maintenance	**2,293,843**	2,631,042
Billing and collection	**1,088,113**	983,809
General administration	**1,518,624**	1,382,379
Amortization	**2,045,109**	1,806,344
Total expenses	**6,945,689**	6,803,574
Earnings before financial expense	**2,519,717**	1,829,465
Other expense		
Interest expense	**978,338**	977,481
Earnings before payment in lieu of taxes	**1,541,379**	851,984
Payments in lieu of taxes	**503,422**	288,430
Net earnings	**1,037,957**	563,554
(Deficit) retained earnings, beginning of year	**(352,696)**	1,850,123
Adjustment for change in accounting policy - future taxes	**-**	(2,266,373)
Dividends	**(500,000)**	(500,000)
Retained earnings (deficit), end of year	**185,261**	(352,696)

Welland Hydro-Electric System Corp.

Balance sheet
as at December 31, 2010

	2010	2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	**7,331,442**	7,190,832
Accounts receivable (Note 4)	**2,841,908**	2,015,284
Accounts receivable - unbilled revenue	**5,479,702**	5,577,201
Inventories (Note 2)	**321,394**	315,341
Prepaid expenses	**92,140**	20,116
	16,066,586	15,118,774
Due from related parties (Note 9)	**125,829**	96,332
Property, plant and equipment (Note 5)	**24,292,609**	23,519,395
Investment Non Associated Company (Note 6)	**19,684**	-
Deferred PILS asset - long-term (Note 2)	**2,992,335**	2,935,788
	43,497,043	41,670,289
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**5,126,477**	4,460,696
Customer deposits - current portion	**1,014,007**	936,036
Current portion - liability for employee future benefits (Note 11)	**56,253**	56,253
Other current liabilities	**39,608**	84,590
	6,236,345	5,537,575
Long-term debt		
Note payable and loan payable (Note 10)	**17,199,953**	17,199,953
Other liabilities		
Employee future benefits (Note 11)	**1,479,364**	1,481,494
Other liabilities and deferred credits	**6,540**	6,540
Customer deposits - long-term portion	**279,156**	301,136
Regulated settlement variances (Note 7)	**4,527,086**	3,912,949
	6,292,146	5,702,119
	29,728,444	28,439,647
Commitments and contingencies (Note 14)		
Shareholder's equity		
Share capital (Note 13)	**12,953,180**	12,953,180
Contributed capital	**630,158**	630,158
Retained earnings (deficit)	**185,261**	(352,696)
	13,768,599	13,230,642
	43,497,043	41,670,289

Approved by the Board

_____ Director

Welland Hydro-Electric System Corp.

Statement of cash flows
year ended December 31, 2010

	2010	2009
	$	$
Operating activities		
Net earnings	**1,037,957**	563,554
Items not requiring a cash outlay		
Amortization	**2,045,109**	1,806,344
(Gain) loss on disposal of property, plant and equipment	**(2,849)**	69
Change in employee benefits future - long term	**(2,130)**	(5,262)
Change in deferred PILS asset - long term	**(56,547)**	(516,903)
Changes in non-cash working capital items (Note 12)	**(108,432)**	320,370
Net change in regulated settlement variances	**614,137**	106,719
	3,527,245	2,274,891
Investing activities		
Additions to property, plant and equipment	**(2,830,869)**	(4,426,670)
Net proceeds on disposal of property, plant and equipment	**15,395**	10,919
Investment Non Associated Companies (Note 6)	**(19,684)**	-
Change in due from related parties	**(29,497)**	18,076
	(2,864,655)	(4,397,675)
Financing activities		
Dividends paid	**(500,000)**	(500,000)
Increase in long term notes payable (Note 10)	**-**	3,700,000
Change in customer deposits - long term	**(21,980)**	(95,403)
	(521,980)	3,104,597
Net change in cash and cash equivalents	**140,610**	981,813
Cash and cash equivalents, beginning of year	**7,190,832**	6,209,019
Cash and cash equivalents, end of year	**7,331,442**	7,190,832
Supplemental disclosure of cash flows		
Interest paid	**959,727**	957,827
Payment in lieu of income taxes	**766,015**	267,254

1. Nature of operations

Welland Hydro-Electric System Corp. (the "Company"), is a wholly-owned subsidiary of Welland Hydro-Electric Holding Corp., and was incorporated July 1, 2000 under the Business Corporations Act (Ontario).

The Company is a regulated electricity distribution Company that owns and operates the electricity infrastructure, distributing a safe, reliable delivery of electricity to homes and businesses in the City of Welland. The Company is regulated by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, and for ensuring that distribution companies fulfill their obligations to connect and service customers.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and policies as set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998.

Significant accounting policies are summarized below:

Regulation

The Company is regulated by the OEB and any power rates adjustments require OEB approval. The following accounting policies under the regulated environment differ from GAAP for companies operating under an unregulated environment:

Regulatory assets and liabilities

Regulatory assets and liabilities represent differences between amounts collected through rates (OEB approved) and actual costs incurred by the distributor. Regulatory assets and liabilities on the balance sheet at year-end consist of settlement variances on the cost of power, deferred charges, and the associated regulated interest. Account balances and current year activities are detailed in Note 7.

Regulatory assets and liabilities incurred since January 1, 2008 are subject to review by the OEB for reflection in future rates. Regulatory assets and liabilities will be reflected in the balance sheet until the manner and timing of disposition is determined by the OEB.

Contributions in aid of construction

Subdivision developers as part of their contract with the corporation can request that an economic evaluation be performed based on the number of services connected in a project. The economic evaluation guidelines were created by the OEB and software was developed to calculate the net present value of expected revenue net of expected maintenance costs for the next 25 years.

This calculation is used to determine the value of the asset to be assumed by the Company and is reviewed over the first five years. Any assets assumed by the Company will be treated as post 1999 contributed capital. As at December 31, 2010 the value of such contributed capital was $1,728,419 (2009 - $1,518,155) and has been recorded as a reduction in property, plant and equipment.

Amortization of contributed capital is recorded at an equivalent rate to that used for amortization of the related assets.

Payment in lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

2. Significant accounting policies (continued)

Future income taxes

In December 2007, the CICA revised Handbook Sections 1100, Generally Accepted Accounting Principles, and 3465, Income Taxes, and Accounting Guideline 19 ("AcG-19"), Disclosures by Entities Subject to Rate Regulation. As a result the Company is required to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation. The amendment to Handbook Section 3465 required the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. As a result of the changes to Section 3465, the Company is required to recognize future income taxes associated with its rate regulated operations using the liability method.

An analysis of the future income taxes as at December 31, 2010 identified a deferred tax asset of $2,992,335 (2009 - $2,935,788).

An analysis of future income taxes expected to be included in future rates and recovered from or paid to customers as at December 31, 2010 identified a regulatory liability of $2,619,802 (2009 - $2,679,279).

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with the bank.

Financial Instrument Disclosures and Presentation

Welland Hydro-Electric System Corp. has adopted accounting standards comprising CICA Handbook Sections 3862, Financial Instruments Disclosures; and 3863, Financial Instruments Presentations. The adoption of the standards requires an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments.

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the balance sheet except for loans and receivables, held-to-maturity investments, and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable	Other liabilities
Customer deposits	Other liabilities
Long-term debt	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Company has not designated any non-derivative financial liabilities as held for trading.

2. **Significant accounting policies (continued)**

Financial Instrument Disclosures and Presentation (continued)

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

All fair values have been determined using Level 1 inputs, except for term deposits which have been determined using Level 2. During the year, there has been no significant transfer of amounts between Levels.

Inventories

Inventories consist primarily of construction and maintenance materials and are stated at the lower of cost and net realizable value, with cost being determined using the weighted average method. There is no fixed or variable production overhead costs assigned to inventory values.

Spare meters and transformers

As prescribed by the OEB Accounting Procedures Manual, spare transformers and meters are included in capital assets as at December 31, 2010. The carrying amount included in capital assets in respect of this was $701,752 in 2010 (2009 - $723,602).

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis over the useful service life as follows:

Land and land rights	50 years or effective life
Buildings	50 years
Distribution stations	30 years
Poles and overhead/underground lines	25 years
Distribution	
Transformers	25 years
Distribution meters	25 years
Equipment	4-30 years

2. Significant accounting policies (continued)

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Customer deposits include interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability. Deposits earn interest at a rate of the Bank of Canada Prime Business rate less two percent updated quarterly and accrued monthly.

Post employment benefits other than pension

The Company provides its current and applicable retired employees to age 65 with life insurance and medical benefits beyond those provided by the government-sponsored plans. The cost of these benefits is expensed as earned through employment service.

Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets are reported net of an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provision for obsolescence. Certain estimates are also required as regulations, which ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits and within the framework of the accounting policies.

Revenue recognition

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue. Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used. Any discrepancies in the revenue collected and the associated cost of power to distribute are charged to regulatory assets.

Unbilled revenue

Unbilled revenue is an estimate of customers' consumption of power from the last meter read in the year to December 31st.

2. Significant accounting policies (continued)

Future accounting changes

International financial reporting standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. In September 2010, the AcSB decided to amend the Introduction to Part I of the CICA Handbook – Accounting to require:

a) Qualifying entities with rate-regulated activities, investment companies and segregated accounts of life insurance enterprises to adopt IFRSs for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2012; and

b) Entities electing to defer the first-time adoption of IFRS to disclose that fact.

Welland Hydro-Electric System Corp. has elected to defer adoption of IFRS until January 1, 2012. At this time, the impact on the future financial position and results of operations is not reasonably determined or estimable.

Welland Hydro-Electric System Corp. started its internal review and hired outside consultants to assist in the changeover to IFRS. Both Welland Hydro-Electric System Corp. and its consultants continue to monitor and review announcements from the International Accounting Standards Board in relation to Rate Regulated Activities.

3. Bank indebtedness

The Company has an authorized line of credit of $2,000,000, bearing interest at prime. There is no balance outstanding at December 31, 2010 (2009 - $Nil). The line is secured by a general security agreement representing a first floating charge over all assets whether obtained now or in the future.

The Company has a credit card facility of $45,000, of which there is no balance outstanding at December 31, 2010 (2009 - $Nil).

4. Accounts receivable

	2010	2009
	$	$
Electrical energy	**2,724,375**	1,924,133
Other	**231,057**	175,825
	2,955,432	2,099,958
Less allowance for doubtful accounts	**(113,524)**	(84,674)
	2,841,908	2,015,284

The allowance for doubtful accounts reflects accounts which have been sent to a Credit Collection Agency for which the likelihood of recovery is small. These amounts are written off after one year.

5. Property, plant and equipment

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
	$	$	$	$
Land and land rights	228,982	58,526	170,456	170,921
Buildings	1,973,541	966,885	1,006,656	1,044,434
Distribution stations	4,450,390	2,368,336	2,082,054	1,777,303
Poles and lines	28,468,001	15,237,578	13,230,423	12,782,393
Distribution				
Transformers	5,869,774	3,025,908	2,843,866	2,930,623
Distributions meters	4,637,954	1,851,699	2,786,255	2,915,166
Equipment	5,206,866	3,033,967	2,172,899	1,898,555
	50,835,508	26,542,899	24,292,609	23,519,395

At December 31, 2010 net book value of stranded meters related to the deployment of smart meters amounting to $636,362 (2009 - $720,945) is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $636,362 lower at December 31, 2010 (2009 - $720,945).

6. Long term investment non associated company

	2010	2009
	$	$
100 Common Shares of Utility Collabrative Services Inc ("UCS") - at cost	100	-
Payments and costs incurred on behalf of UCS	19,584	-
	19,684	-

During the year, the Company acquired a 10% interest in UCS. The purpose of this company is to assist in the maintenance of the CIS system for Welland Hydro and its other shareholders. Payments and costs incurred on behalf of UCS are not specifically refundable.

7. Regulatory settlement variances

	2010	2009
	$	$
Variance accounts, beginning year	**(684,461)**	1,823,470
Current year regulated interest expense	**(18,094)**	(27,743)
Current year regulated interest income	**3,471**	12,109
Current year deferred charges	**63,084**	23,335
Current year smart meter deferred expenses	**-**	(25,800)
Current year smart meter recoveries	**-**	180,685
Current year PILS in future rates	**59,477**	(2,679,279)
Current year close 2006 EDR recoveries	**(3,341,548)**	-
Current year regulated settlement		
Variances - Service Revenue	**(1,425,323)**	(606,738)
Variances - cost of power	**8,602**	615,500
Variance accounts, end of year	**(5,334,792)**	(684,461)
Less distributed (recoveries) to date	**807,706**	(3,228,488)
Ending regulatory liabilities	**(4,527,086)**	(3,912,949)
Settlement variances and interest	**(1,418,649)**	(597,737)
Deferred charges and interest	**89,328**	25,430
PILS in future rates	**(2,619,802)**	(2,679,279)
(Distibutable) recoverable variances and interest	**(1,385,669)**	2,567,125
Distributed (recoveries) to date	**807,706**	(3,228,488)
Ending regulatory liabilities	**(4,527,086)**	(3,912,949)
Interest included in the ending regulatory assets balances	**(36,916)**	(12,580)

Regulatory Assets consist of differences between the amounts owed to the Independent Electricity System Operator ("IESO") and the amounts billed to customers and retailers (Settlement Variances) and expenses/revenues deferred for consideration by the OEB for reflection in future rates.

In the absence of rate regulation, GAAP would require that Service Revenue or Cost of Power be adjusted for Regulated Settlement variances as incurred. Current year Regulatory Interest Expense, Regulatory Interest Income, Deferred Rate Recoverable, and Deferred Charges would also be reversed and reflected in the appropriate expense/income classification as incurred. In the absence of rate regulation, Service Revenue would be $1,425,323 higher in 2010 (2009 - $606,738) and Cost of Power would be $8,602 higher in 2010 (2009 - $615,500). Interest income would be $3,471 lower in 2010 (2009 - $12,109). Interest expense would be $18,094 lower in 2010 (2009 - $27,743). Operating and maintenance expense would be $29,052 higher in 2010 (2009 - $3,737). General administration expense would be $34,032 higher in 2010 (2009 - $19,598).

The Current Year - PILS in future years is the result of amendment to Handbook Section 3465 (See Note 2 Future Income Taxes). The OEB does not currently recognize PILS to be included in future rates as a regulatory account. As a result, this amount has been included as Other Liabilities – Long Term for regulatory reporting.

8. Pension agreement

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2010 was $213,764 (2009 - $200,541).

9. Due from/(to) related parties and related party transactions

Welland Hydro-Electric System Corp. provides overall business and strategic planning through its Board of Directors and will negotiate on behalf of Welland Hydro Energy Services Corp. and Welland Hydro-Electric Holdings Corp. other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange.

Amounts due from/(to) related parties at December 31 are as follows:

	2010	2009
	$	$
Welland Hydro Energy Services Corp.		
Accounts payable	**(12,167)**	(5,388)
Note receivable	**1**	1
Welland Hydro-Electric Holding Corp.	**4,256**	2,229
City of Welland - accounts receivable	**133,739**	99,490
	125,829	96,332

The following amounts were invoiced to related parties in the normal course of operations:

	2010	2009
	$	$
City of Welland		
Energy (at commercial rates)	**1,465,143**	1,105,197
Rent	**21,631**	20,744
Welland Hydro-Electric Holding Corp.		
Management fees	**10,991**	16,468
Welland WIFI Corp.		
Management (recovery) fees	**-**	(1,698)
Welland Hydro Energy Services Corp.		
Management fees	**8,829**	8,490
Streetlight/sentinel maintenance and admin	**234,666**	227,601
	1,741,260	1,376,802

The Company has entered into a service level agreement with Welland Hydro Energy Services Corp. The Company is to provide services related to customer billing and collection, accounting and administration at a 7% premium above the actual costs incurred.

9. Due from/(to) related parties and related party transactions (continued)

The following expenses with the City of Welland were incurred in the regular course of operations:

	2010	2009
	$	$
Property taxes and other taxes	**68,607**	70,291
Leases and miscellaneous	**20,585**	16,536
Water	**5,253**	4,953
Interest	**843,747**	843,747
	938,192	935,527

10. Long term debt

	2010	2009
	$	$
Note payable - City of Welland	**13,499,953**	13,499,953
Loan payable - Toronto Dominion Bank	**3,700,000**	3,700,000
	17,199,953	17,199,953

The note is due to the City of Welland and bears interest at 6.25% effective May 1, 2006. It is due 12 months after official demand by the City.

The loan with the TD Canada Trust commenced February 6, 2009 for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement the Company has effectively fixed interest rates at 2.87%. The loan payments cover interest only with no principal repayments.

11. Employee future benefits

The Company pays certain medical and life insurance benefits to age 65 on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2010 of $1,535,617 (2009 - $1,537,747) and the expense for the year ended December 31, 2010 was determined by actuarial valuation using a discount rate of 5.0% (2009 - 5.0%).

Information regarding the defined benefit plan of the Company is as follows:

	2010	2009
	$	$
Total accrued benefit liability, start of year	**1,537,747**	1,533,323
Current service cost	**26,567**	25,302
Interest cost	**64,040**	62,173
Amortization of actuarial gain	**(36,484)**	(36,484)
Benefits paid for the period	**(56,253)**	(46,567)
Total accrued benefit liability, end of year	**1,535,617**	1,537,747
Projected accrued benefit obligation, end of year	**1,316,712**	1,282,357
Unamortized actuarial gain	**218,905**	255,389
Current portion	**56,253**	56,253
Long-term portion	**1,479,364**	1,481,494
	1,535,617	1,537,747

11. Employee future benefits (continued)

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.30% in 2010 and thereafter.

Discount (Interest) Rate - the obligation as at January 1, 2010 of the present value of future liabilities and the expense for the year ended December 31, 2010 were determined using a discount rate of 5%. This rate reflects the assumed long term yield on high quality bonds. The projected liability at December 31, 2010 was determined using a discount rate of 5%.

Salary Levels - future general salary and wage levels were assumed to increase at 3.8% per annum.

Medical Costs- medical costs were assumed to increase at 8.0% in 2010, decreasing to 5% by 2013.

Dental Costs - dental cost were assumed to increase at 5.0% in 2010 and thereafter.

Sensitivity Analysis - assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates have the following effects for 2010:

	Increase
	$
Accrued benefit obligation, end of period	52,000

12. Changes in non-cash working capital items

	2010	2009
	$	$
Accounts receivable	**(826,624)**	518,098
Accounts receivable - unbilled revenue	**97,499**	(473,797)
Inventories	**(6,053)**	(9,441)
Prepaid expenses	**(72,024)**	18,851
Accounts payable and accrued liabilities	**665,781**	314,913
Customer deposits - current portion	**77,971**	10,612
Current portion - liability for future employee benefits	**-**	9,686
Other current liabilities	**(44,982)**	(68,552)
	(108,432)	320,370

13. Share capital

	2010	2009
	$	$
Authorized		
Unlimited number of common shares		
Issued		
1,000 common shares	**12,953,180**	12,953,180

14. Commitments and contingencies

Griffith et al. v. Toronto Hydro-Electric Commission et al.

This action was brought under the Class Proceedings Act, 1992. The plaintiff class sought restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code.

In July, 2010 the Ontario Superior Court of Justice approved a settlement of the LPP Class Action suit. As a result of this settlement, Welland Hydro-Electric System Corp will be required to make a one time payment of $74,905 by June 30, 2011. A liability for this amount has been included in current liabilities with an offsetting reduction to interest income.

Subsequent to year end, the Ontario Energy Board issued a decision in its generic hearings on Late Payment Penalty Litigation Costs which approves the recovery of these amounts in future distribution rates. Welland Hydro has formally requested the Board to approve recovery of its portion of settlement costs by way of a rate rider in its 2011 IRM Rate Application. To date, no decision has been received from the OEB concerning the requested rate rider.

Reciprocal Insurance Exchange

The Company participates with the other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred.

Independent Electricity System Operator

As of May 1, 2002 in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity System Operator (IESO) based on its usage. The security obtained was a letter of credit from a financial institution, which requires an interest coverage ratio of more than 1.5 and a debt capitalization ratio of less than 0.6. The letter is in the amount of $2,369,722 and incurs interest at 0.6% annually.

Commitments

The Company has an agreement to contribute to the costs of power connections and power lines in new subdivisions built in the City of Welland. The Company will take over the ownership of the power distribution equipment in the subdivisions two years after construction is accepted. The contribution made for the construction in subdivisions in 2010 was $25,058 (2009 - $11,503). The estimated contribution for 2011 is $25,000.

15. Capital management

The Company's objectives when managing capital are:

- To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- To maintain capital in a manner that balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholder's equity, long-term debt and customer deposits in the definition of capital. As at December 31, 2010 the Company has $32,261,715 (2009 - $31,667,767) in capital.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

Capital management objectives, policies and procedures are unchanged since the preceding year.

15. Capital management (continued)

Under the Company's borrowing agreements, the Company must satisfy certain restrictive covenants as to minimum financial ratios such as working capital ratio and debt/equity ratio, the purchase of property, plant and equipment and the payment of dividends.

During the year, the Company complied with all of these capital requirements.

16. Financial instruments and risk management

The Company, through its financial assets and liabilities has exposure to the following risks.

Fair value

The fair values of cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. As there is no secondary market for customer deposits, the calculation of their fair value with appropriate reliability is impractical. The fair value of due from related parties approximates their carrying value as these amounts generally represent accounts receivable issued in the normal course of business.

The Company has a Long Term Promissory Note Payable with the City of Welland ("the City") in the amount of $13,499,953. The restated Promissory Note was issued to the City on October 19, 2005 with interest at 6.25% effective May 1, 2006. There is no "term length" associated with the Promissory Note but the City can demand payment twelve months after notice has been provided.

The Long Term Promissory Note Payable with the City has been identified as a financial instrument under the "Other Financial Liabilities" category. A comparison with market prices for similar debt instruments indicates no material difference between market and carrying values. As a result, no changes have been made to the current financial statements.

The Company has a Long Term Loan with the TD Canada Trust (the "Bank") in the amount of $3,700,000 which was entered into on February 6, 2009. The period is for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement the Company has effectively fixed interest rates at 2.87%.

The Long Term Loan with the Bank has been identified as a financial instrument under the "Other Financial Liabilities" category. The fair value of the interest rate swap agreement is greater than book value as at December 31, 2010.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balance and cash flows generated from operations to meet its requirements.

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk. The Company requires customers to provide security deposits subject to OEB regulations.

Financial statements of

Welland Hydro-Electric System Corp.

December 31, 2011

Welland Hydro-Electric System Corp.

December 31, 2011

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Independent Auditor's Report

To the Board of Directors of
Welland Hydro-Electric System Corp.

We have audited the accompanying financial statements of Welland Hydro-Electric System Corp., which comprise the balance sheet as at December 31, 2011, and the statements of earnings and retained earnings and cash flows for the year then ended, and 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.

Auditor's Responsibility

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 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 the auditor's 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, the auditor considers 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 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 Welland Hydro-Electric Holding Corp. 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.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 29, 2012

Welland Hydro-Electric System Corp.

Statement of earnings and retained earnings
year ended December 31, 2011

	2011	2010
	$	$
Service revenue		
Energy charges	**31,378,972**	28,645,597
Wholesale market services	**2,499,595**	2,428,656
Retail transmission charges	**4,775,633**	4,823,775
	38,654,200	35,898,028
Distribution revenue	**8,892,435**	8,972,908
	47,546,635	44,870,936
Cost of power	**38,654,200**	35,898,028
Gross margin on service revenue	**8,892,435**	8,972,908
Other operating revenue	**668,868**	492,498
Net operating revenue	**9,561,303**	9,465,406
Administrative expense		
Operating and maintenance	**2,540,702**	2,293,843
Billing and collection	**1,265,929**	1,088,113
General administration	**1,711,671**	1,518,624
Amortization	**1,960,187**	2,045,109
Total expenses	**7,478,489**	6,945,689
Earnings before financial expense	**2,082,814**	2,519,717
Other expense		
Interest expense	**988,060**	978,338
Earnings before payment in lieu of taxes	**1,094,754**	1,541,379
Payments in lieu of taxes	**188,437**	503,422
Net earnings	**906,317**	1,037,957
Retained earnings (deficit), beginning of year	**185,261**	(352,696)
Dividends	**(650,000)**	(500,000)
Retained earnings, end of year	**441,578**	185,261

Welland Hydro-Electric System Corp.

Balance sheet
as at December 31, 2011

	2011	2010
	$	$
Assets		
Current assets		
Cash and cash equivalents	**5,682,567**	7,331,442
Accounts receivable (Note 4)	**2,718,926**	2,841,908
Accounts receivable - unbilled revenue	**4,437,336**	5,479,702
Inventories (Note 2)	**396,754**	321,394
Prepaid expenses	**71,318**	92,140
	13,306,901	16,066,586
Due from related parties (Note 9)	**130,649**	125,829
Property, plant and equipment (Note 5)	**25,361,408**	24,292,609
Investment Non Associated Company (Note 6)	**19,684**	19,684
Deferred PILS asset - long-term (Note 2)	**2,869,521**	2,992,335
	41,688,163	43,497,043
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**3,444,928**	5,126,477
Customer deposits - current portion	**788,431**	1,014,007
Current portion - liability for employee future benefits (Note 11)	**126,909**	56,253
Other current liabilities	**416,339**	39,608
	4,776,607	6,236,345
Long-term debt		
Notes payable and loan payable (Note 10)	**17,349,953**	17,199,953
Other liabilities		
Employee future benefits (Note 11)	**1,427,938**	1,479,364
Other liabilities and deferred credits	**-**	6,540
Customer deposits - long-term portion	**372,800**	279,156
Regulated settlement variances (Note 7)	**3,735,949**	4,527,086
	5,536,687	6,292,146
	27,663,247	29,728,444
Commitments and contingencies (Note 14)		
Shareholder's equity		
Share capital (Note 13)	**12,953,180**	12,953,180
Contributed capital	**630,158**	630,158
Retained earnings	**441,578**	185,261
	14,024,916	13,768,599
	41,688,163	43,497,043

Approved by the Board

_____ Director

Welland Hydro-Electric System Corp.

Statement of cash flows
year ended December 31, 2011

	2011	2010
	$	$
Operating activities		
Net earnings	**906,317**	1,037,957
Items not requiring a cash outlay		
Amortization	**1,960,187**	2,045,109
Gain on disposal of property, plant and equipment	**(14,409)**	(2,849)
Change in employee benefits future - long-term	**(51,426)**	(2,130)
Change in deferred PILS asset - long-term	**122,814**	(56,547)
Changes in non-cash working capital items (Note 12)	**(348,928)**	(108,432)
Net change in regulated settlement variances	**(791,137)**	614,137
	1,783,418	3,527,245
Investing activities		
Additions to property, plant and equipment	**(3,029,026)**	(2,830,869)
Net proceeds on disposal of property, plant and equipment	**14,449**	15,395
Investment Non Associated Companies (Note 6)	**-**	(19,684)
Change in due from related parties	**(4,820)**	(29,497)
	(3,019,397)	(2,864,655)
Financing activities		
Dividends paid	**(650,000)**	(500,000)
Other liabilities and deferred credits	**(6,540)**	-
Increase in long term notes payable (Note 10)	**150,000**	-
Change in customer deposits - long-term	**93,644**	(21,980)
	(412,896)	(521,980)
Net change in cash and cash equivalents	**(1,648,875)**	140,610
Cash and cash equivalents, beginning of year	**7,331,442**	7,190,832
Cash and cash equivalents, end of year	**5,682,567**	7,331,442
Supplemental disclosure of cash flows		
Interest paid	**959,093**	959,727
Payment in lieu of income taxes	**631,701**	766,015

1. Nature of operations

Welland Hydro-Electric System Corp. (the "Company"), is a wholly-owned subsidiary of Welland Hydro-Electric Holding Corp., and was incorporated July 1, 2000 under the Business Corporations Act (Ontario).

The Company is a regulated electricity distribution Company that owns and operates the electricity infrastructure, distributing a safe, reliable delivery of electricity to homes and businesses in the City of Welland. The Company is regulated by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, and for ensuring that distribution companies fulfill their obligations to connect and service customers.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and policies as set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998.

Significant accounting policies are summarized below:

Regulation

The Company is regulated by the OEB and any power rates adjustments require OEB approval. The following accounting policies under the regulated environment differ from GAAP for companies operating under an unregulated environment:

Regulatory assets and liabilities

Regulatory assets and liabilities represent differences between amounts collected through rates (OEB approved) and actual costs incurred by the distributor. Regulatory assets and liabilities on the balance sheet at year-end consist of settlement variances on the cost of power, deferred charges, and the associated regulated interest. Account balances and current year activities are detailed in Note 7.

Regulatory assets and liabilities incurred since January 1, 2008 are subject to review by the OEB for reflection in future rates. Regulatory assets and liabilities will be reflected in the balance sheet until the manner and timing of disposition is determined by the OEB.

Contributions in aid of construction

Subdivision developers as part of their contract with the Company can request that an economic evaluation be performed based on the number of services connected in a project. The economic evaluation guidelines were created by the OEB and software was developed to calculate the net present value of expected revenue net of expected maintenance costs for the next 25 years.

This calculation is used to determine the value of the asset to be assumed by the Company and is reviewed over the first five years. Any assets assumed by the Company will be treated as post 1999 contributed capital. As at December 31, 2011, the value of such contributed capital was $2,033,600 (2010 - $1,728,419) and has been recorded as a reduction in property, plant and equipment.

Amortization of contributed capital is recorded at an equivalent rate to that used for amortization of the related assets.

Payment-in-lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

2. Significant accounting policies (continued)

Future income taxes

In December 2007, the CICA revised Handbook Sections 1100, Generally Accepted Accounting Principles, and 3465, Income Taxes, and Accounting Guideline 19 ("AcG-19"), Disclosures by Entities Subject to Rate Regulation. As a result, the Company is required to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation. The amendment to Handbook Section 3465 required the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. As a result of the changes to Section 3465, the Company is required to recognize future income taxes associated with its rate regulated operations using the liability method.

An analysis of the future income taxes as at December 31, 2011 identified a deferred tax asset of $2,869,521 (2010 - $2,992,335).

An analysis of future income taxes expected to be included in future rates and recovered from or paid to customers as at December 31, 2011 identified a regulatory liability of $2,528,724 (2010 - $2,619,802).

Cash and cash equivalents

Cash and cash equivalents consist of cash on-hand and balances with the bank.

Financial instruments disclosures and presentation

Welland Hydro-Electric System Corp. has adopted accounting standards comprising CICA Handbook Sections 3862, Financial Instruments Disclosures; and 3863, Financial Instruments Presentations. The adoption of the standards requires an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments.

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the balance sheet except for loans and receivables, held-to-maturity investments, and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable	Other liabilities
Customer deposits	Other liabilities
Long-term debt	Other liabilities

Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in net earnings.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets. The Company has not designated any non-derivative financial liabilities as held-for-trading.

2. Significant accounting policies (continued)

Financial Instrument Disclosures and Presentation (continued)

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

All fair values have been determined using Level 1 inputs. During the year, there has been no significant transfer of amounts between Levels.

Inventories

Inventories consist primarily of construction and maintenance materials and are stated at the lower of cost and net realizable value, with cost being determined using the weighted average method. There is no fixed or variable production overhead costs assigned to inventory values.

Spare meters and transformers

As prescribed by the OEB Accounting Procedures Manual, spare transformers and meters are included in capital assets as at December 31, 2011. The carrying amount included in capital assets in respect of this was $733,934 in 2011 (2010 - $701,752).

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis over the useful service life as follows:

Land and land rights	50 years or effective life
Buildings	50 years
Distribution stations	30 years
Poles and overhead/underground lines	25 years
Distribution	
Transformers	25 years
Distribution meters	25 years
Equipment	4-30 years

2. Significant accounting policies (continued)

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Customer deposits include interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability. Deposits earn interest at a rate of the Bank of Canada Prime Business rate less two percent updated quarterly and accrued monthly.

Post-employment benefits other than pension

The Company provides its current and applicable retired employees to age 65 with life insurance and medical benefits beyond those provided by the government-sponsored plans. The cost of these benefits is expensed as earned through employment service.

Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets are reported net of an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provision for obsolescence. Certain estimates are also required as regulations, which ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits and within the framework of the accounting policies.

Revenue recognition

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue. Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used. Any discrepancies in the revenue collected and the associated cost of power to distribute are charged to regulatory assets.

Unbilled revenue

Unbilled revenue is an estimate of customers' consumption of power from the last meter read in the year to December 31st.

2. Significant accounting policies (continued)

Future accounting changes

International financial reporting standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. In September 2010, the AcSB decided to amend the Introduction to Part I of the CICA Handbook – Accounting to require:

a) Qualifying entities with rate-regulated activities, investment companies and segregated accounts of life insurance enterprises to adopt IFRS for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2012; and

b) Entities electing to defer the first-time adoption of IFRS to disclose that fact.

Welland Hydro-Electric System Corp. has elected to defer adoption of IFRS until January 1, 2012. At this time, the impact on the future financial position and results of operations is not reasonably determined or estimable.

Welland Hydro-Electric System Corp. started its internal review and hired outside consultants to assist in the changeover to IFRS. Both Welland Hydro-Electric System Corp. and its consultants continue to monitor and review announcements from the International Accounting Standards Board in relation to Rate Regulated Activities.

3. Bank indebtedness

The Company has an authorized line of credit of $2,000,000, bearing interest at prime. There is no balance outstanding at December 31, 2011 (2010 - $Nil). The line is secured by a general security agreement representing a first floating charge over all assets whether obtained now or in the future.

The Company has a credit card facility of $45,000, of which there is no balance outstanding at December 31, 2011 (2010 - $Nil).

4. Accounts receivable

	2011	2010
	$	$
Electrical energy	**2,572,106**	2,724,375
Other	**254,584**	231,057
	2,826,690	2,955,432
Less: allowance for doubtful accounts	**(107,764)**	(113,524)
	2,718,926	2,841,908

The allowance for doubtful accounts reflects accounts which have been sent to a Credit Collection Agency for which the likelihood of recovery is small. These amounts are written off after one year.

5. Property, plant and equipment

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
	$	$	$	$
Land and land rights	**228,982**	**58,991**	**169,991**	170,456
Buildings	**2,266,354**	**1,015,066**	**1,251,288**	1,006,656
Distribution stations	**4,509,104**	**2,494,212**	**2,014,892**	2,082,054
Poles and lines	**29,724,164**	**16,303,578**	**13,420,586**	13,230,423
Distribution				
Transformers	**6,036,233**	**3,222,727**	**2,813,506**	2,843,866
Distributions meters	**5,170,933**	**2,106,554**	**3,064,379**	2,786,255
Equipment	**5,747,358**	**3,120,592**	**2,626,766**	2,172,899
	53,683,128	**28,321,720**	**25,361,408**	24,292,609

At December 31, 2011, net book value of stranded meters related to the deployment of smart meters amounting to $559,472 (2010 - $636,362) is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $559,472 lower at December 31, 2011 (2010 - $636,362).

6. Long-term investment non associated company

	2011	2010
	$	$
100 common shares of Utility Collaborative Services Inc ("UCS") - at cost	**100**	100
Payments and costs incurred on behalf of UCS	**19,584**	19,584
	19,684	19,684

During the 2010 year, the Company acquired a 10% interest in UCS. The purpose of UCS is to assist in the maintenance of the CIS system for the Company and its other shareholders. Payments and costs incurred on behalf of UCS are not specifically refundable.

7. Regulatory settlement variances

	2011	2010
	$	$
Variance accounts, beginning year	**(5,334,792)**	(684,461)
Current year regulated interest expense	**(28,071)**	(18,094)
Current year regulated interest income	**6,726**	3,471
Current year deferred charges	**(107,695)**	63,084
Current year PILS in future rates	**91,078**	59,477
Current year close 2006 EDR recoveries	**-**	(3,341,548)
Variances - service revenue	**(415,650)**	(1,425,323)
Variances - cost of power	**803,672**	8,602
Variance accounts, end of year	**(4,984,732)**	(5,334,792)
Less distributed to date	**1,248,783**	807,706
Ending regulatory liabilities	**(3,735,949)**	(4,527,086)
Settlement variances and interest	**(1,048,067)**	(1,418,649)
Deferred charges and interest	**(17,886)**	89,328
PILS in future rates	**(2,528,724)**	(2,619,802)
Distributable variances and interest	**(1,390,055)**	(1,385,669)
Distributed to date	**1,248,783**	807,706
Ending regulatory liabilities	**(3,735,949)**	(4,527,086)
Interest included in the ending regulatory assets balances	**(14,768)**	(36,916)

Regulatory Assets consist of differences between the amounts owed to the Independent Electricity System Operator ("IESO") and the amounts billed to customers and retailers (Settlement Variances) and expenses/revenues deferred for consideration by the OEB for reflection in future rates.

In the absence of rate regulation, GAAP would require that Service Revenue or Cost of Power be adjusted for Regulated Settlement variances as incurred. Current year Regulatory Interest Expense, Regulatory Interest Income, Deferred Rate Recoverable, and Deferred Charges would also be reversed and reflected in the appropriate expense/income classification as incurred. In the absence of rate regulation, Service Revenue would be $415,650 higher in 2011 (2010 - $1,425,323) and Cost of Power would be $803,672 higher in 2011 (2010 - $8,602). Interest income would be $6,726 lower in 2011 (2010 - $3,471). Interest expense would be $28,071 lower in 2011 (2010 - $18,094). Operating and maintenance expense would be $2,373 higher in 2011 (2010 - $29,052). General administration expense would be $110,068 lower in 2011 (2010 - $34,032 higher).

The Current Year - PILS in future years is the result of amendment to Handbook Section 3465 (See Note 2 Future Income Taxes). The OEB does not currently recognize PILS to be included in future rates as a regulatory account. As a result, this amount has been included as Other Liabilities – Long-Term for regulatory reporting.

8. Pension agreement

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2011 was $235,237 (2010 - $213,764).

9. Due from (to) related parties and related party transactions

The Company provides overall business and strategic planning through its Board of Directors and will negotiate on behalf of Welland Hydro Energy Services Corp. and Welland Hydro-Electric Holdings Corp. other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange.

Amounts due from/(to) related parties at December 31 are as follows:

	2011	2010
	$	$
Welland Hydro Energy Services Corp.		
Accounts payable	**(6,915)**	(12,167)
Note receivable	**1**	1
Welland Hydro-Electric Holding Corp.	**7,834**	4,256
City of Welland - accounts receivable	**129,729**	133,739
	130,649	125,829

The following amounts were invoiced to related parties in the normal course of operations:

	2011	2010
	$	$
City of Welland		
Energy (at commercial rates)	**1,413,735**	1,465,143
Energy (prior years adjustment)	**-**	(126,692)
Rent	**21,466**	21,631
Welland Hydro-Electric Holding Corp.		
Management fees	**16,487**	10,991
Welland Hydro Energy Services Corp.		
Management fees	**6,792**	6,792
Streetlight/sentinel maintenance and administration	**163,531**	234,666
	1,622,011	1,612,531

The Company has entered into a service level agreement with Welland Hydro Energy Services Corp. The Company is to provide services related to customer billing and collection, accounting and administration at a 7% premium above the actual costs incurred.

9. Due from (to) related parties and related party transactions (continued)

The following expenses were incurred in the regular course of operations:

	2011	2010
	$	$
Welland Hydro-Electric Holding Corp.		
Interest	**1,499**	-
City of Welland		
Property taxes and other taxes	**66,085**	68,607
Leases and miscellaneous	**22,002**	20,585
Water	**5,859**	5,253
Interest	**843,747**	843,747
	939,192	938,192

10. Long-term debt

	2011	2010
	$	$
Note payable - City of Welland	**13,499,953**	13,499,953
Note payable - Welland Hydro-Electric Holding Corp.	**150,000**	-
Loan payable - Toronto-Dominion Bank	**3,700,000**	3,700,000
	17,349,953	17,199,953

The note is due to the City of Welland and bears interest at 6.25% effective May 1, 2006. It is due 12 months after official demand by the City.

The note payable to Welland Hydro-Electric Holding Corp. bears interest at 2.99% effective September 1, 2011 with a 10 year amortization.

The loan with the Toronto-Dominion Bank commenced February 6, 2009 for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement the Company has effectively fixed interest rates at 2.87%. The loan payments cover interest only with no principal repayments.

11. Employee future benefits

The Company pays certain medical and life insurance benefits to age 65 on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2011 of $1,554,847 (2010 - $1,535,617) and the expense for the year ended December 31, 2011 was determined by actuarial valuation using a discount rate of 4.5% (2010 - 5.0%).

11. Employee future benefits (continued)

Information regarding the defined benefit plan of the Company is as follows:

	2011	2010
	$	$
Total accrued benefit liability, start of year	**1,535,617**	1,537,747
Current service cost	**34,095**	26,567
Interest cost	**81,833**	64,040
Past service costs	**2,242**	-
Amortization of actuarial gain	**8,739**	(36,484)
Benefits paid for the period	**(107,679)**	(56,253)
Total accrued benefit liability, end of year	**1,554,847**	1,535,617
Projected accrued benefit obligation, end of year	**1,748,350**	1,316,712
Unamortized past service costs	**22,416**	-
Unamortized actuarial (loss)/gain	**(171,087)**	218,905
Current portion	**126,909**	56,253
Long-term portion	**1,427,938**	1,479,364
	1,554,847	1,535,617

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.00% in 2011 and thereafter.

Discount (Interest) Rate - the obligation as at January 1, 2011 of the present value of future liabilities and the expense for the year ended December 31, 2011 were determined using a discount rate of 5%. This rate reflects the assumed long-term yield on high quality bonds. The projected liability at December 31, 2011 was determined using a discount rate of 4.5%.

Salary Levels - future general salary and wage levels were assumed to increase at 2.75% per annum for years 2011 and 2012, 3.25% for years 2013 and 2014, and 3.3% thereafter.

Medical Costs - medical costs were assumed to increase at 8.0% in 2011, decreasing to 5% by 2019.

Dental Costs - dental costs were assumed to increase at 5.0% in 2011 and thereafter.

Sensitivity Analysis - assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates have the following effects for 2011:

	Increase
	$
Accrued benefit obligation, end of period	64,000

12. Changes in non-cash working capital items

	2011	2010
	$	$
Accounts receivable	**122,982**	(826,624)
Accounts receivable - unbilled revenue	**1,042,366**	97,499
Inventories	**(75,360)**	(6,053)
Prepaid expenses	**20,822**	(72,024)
Accounts payable and accrued liabilities	**(1,681,549)**	665,781
Customer deposits - current portion	**(225,576)**	77,971
Current portion - liability for future employee benefits	**70,656**	-
Other current liabilities	**376,731**	(44,982)
	(348,928)	(108,432)

13. Share capital

Authorized

Unlimited number of common shares

Issued

	2011	2010
	$	$
1,000 common shares	**12,953,180**	12,953,180

14. Commitments and contingencies

Reciprocal Insurance Exchange

The Company participates with the other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred.

Independent Electricity System Operator

As of May 1, 2002 in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity System Operator (IESO) based on its usage. The security obtained was a letter of credit from a financial institution, which requires an interest coverage ratio of more than 1.5 and a debt capitalization ratio of less than 0.6. The letter is in the amount of $2,369,722 and incurs interest at 0.6% annually.

Commitments

The Company has an agreement to contribute to the costs of power connections and power lines in new subdivisions built in the City of Welland. The Company will take over the ownership of the power distribution equipment in the subdivisions two years after construction is accepted. The contribution made for the construction in subdivisions in 2011 was $58,762 (2010 - $25,058). The estimated contribution for 2012 is $25,000.

15. Capital management

The Company's objectives when managing capital are:

- To maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- To maintain capital in a manner that balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholder's equity, long-term debt and customer deposits in the definition of capital. As at December 31, 2011, the Company has $32,536,100 (2010 - $32,261,715) in capital.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

Capital management objectives, policies and procedures are unchanged since the preceding year.

Under the Company's borrowing agreements, the Company must satisfy certain restrictive covenants as to minimum financial ratios such as working capital ratio and debt/equity ratio, the purchase of property, plant and equipment and the payment of dividends.

During the year, the Company complied with all of these capital requirements.

16. Financial instruments and risk management

The Company, through its financial assets and liabilities has exposure to the following risks.

Fair value

The fair values of cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. As there is no secondary market for customer deposits, the calculation of their fair value with appropriate reliability is impractical. The fair value of due from related parties approximates their carrying value as these amounts generally represent accounts receivable issued in the normal course of business.

The Company has a Long-Term Promissory Note Payable with the City of Welland ("the City") in the amount of $13,499,953. The restated Promissory Note was issued to the City on October 19, 2005 with interest at 6.25% effective May 1, 2006. There is no "term length" associated with the Promissory Note but the City can demand payment twelve months after notice has been provided.

The Long-Term Promissory Note Payable with the City has been identified as a financial instrument under the "Other Financial Liabilities" category. A comparison with market prices for similar debt instruments indicates no material difference between market and carrying values. As a result, no changes have been made to the current financial statements.

The Company has a Long-Term Loan with the Toronto-Dominion Bank (the "Bank") in the amount of $3,700,000 which was entered into on February 6, 2009. The period is for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement the Company has effectively fixed interest rates at 2.87%.

The Long-Term Loan with the Bank has been identified as a financial instrument under the "Other Financial Liabilities" category. The fair value of the interest rate swap agreement is less than book value as at December 31, 2011.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balance and cash flows generated from operations to meet its requirements.

16. Financial instruments and risk management (continued)

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk. The Company requires customers to provide security deposits subject to OEB regulations.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current classification.

RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND REGULATORY ACCOUNTING

Page 2 of this Exhibit contains a reconciliation between the 2011 Income Statement for GAAP purposes and OEB purposes. The major differences between the two are related to the treatment of Smart Meter Revenues and Expenses and the treatment of Contra Deferral & Variance Accounts. Since 2009 Welland Hydro has cleared accounts 1555 and 1556 relating to Smart Meters for GAAP purposes. This has resulted in adjustments to distribution revenues, distribution expenses and depreciation expenses. For GAAP purposes Welland Hydro has expensed account 1563 PILS contra to the 1562 PILS Deferral & Variance account which has decreased net income for GAAP compared to OEB. For GAAP purposes Welland Hydro has expensed 50% of the contra account to 1592 HST Input Tax Credit which has decreased net income for GAAP purposes.

Page 3 of this Exhibit contains a reconciliation between the 2011 Balance Sheet for GAAP purposes and OEB purposes. The major differences between the two are:

-the transfer of capital related items in Inventory to Property, Plant & Equipment for GAAP purposes.

-the inclusion of Smart Meter Capital expenditures and Accumulated Depreciation in Property, Plant & Equipment for GAAP purposes.

-the Liability for PILS to be included in Future Rates is recorded as a Regulatory Liability for GAAP purposes and a Other Liability for OEB purposes.

-the adjustment to Retained Earnings for differences in Income as noted above.

Welland Hydro-Electric System Corp.

Statement of earnings and retained earnings
year ended December 31, 2011

	GAAP 2011 $	ADJUST ENTRIES 2009 $	ADJUST ENTRIES 2010 $	ADJUST ENTRIES 2011 $	OEB 2011 $
Service revenue					
Energy charges	31,378,972				31,378,972
Wholesale market services	2,499,595				2,499,595
Retail transmission charges	4,775,633				4,775,633
	38,654,200			0	38,654,200
Distribution revenue	8,892,435			-524,934	8,367,501
	47,546,635			-524,934	47,021,701
Cost of power	38,654,200				38,654,200
Gross margin on service revenue	8,892,435			-524,934	8,367,501
Other operating revenue	668,868			73,050	741,918
Net operating revenue	9,561,303			-451,884	9,109,419
Administrative expense					
Operating and maintenance	2,540,702			-147,307	2,393,395
Billing and collection	1,265,929				1,265,929
General administration	1,711,671			-40,409	1,671,262
Amortization	1,960,187			-209,510	1,750,677
Total expenses	7,478,489			-397,226	7,081,263
Earnings before financial expense	2,082,814			-54,658	2,028,156
Other expense/(income)					
Interest expense	988,060			11,421	999,481
Earnings before payment in lieu of taxes	1,094,754			-66,079	1,028,675
Payments in lieu of taxes	188,437				188,437
Net earnings	906,317			-66,079	840,238
Retained earnings, beginning of year	185,261	-58,622	-56,049		70,590
Dividends	-650,000				-650,000
Retained earnings, end of year	441,578	-58,622	-56,049	-66,079	260,828

Welland Hydro-Electric System Corp.
Balance sheet
as at December 31, 2011

	GAAP 2011 $	ADJUST ENTRIES 2009 $	ADJUST ENTRIES 2010 $	RECLASS FITA LIAB 2010 $	ADJUST ENTRIES 2011 $	ADJ FITA LIAB 2011 $	OEB 2011 $
Assets							
Current assets							
Cash and cash equivalents	5,682,567						5,682,567
Accounts receivable (Note 4)	2,718,926						2,718,926
Accounts receivable - unbilled revenue	4,437,336						4,437,336
Inventories (Note 2)	396,754	250,000					646,754
Prepaid expenses	71,638						71,638
	13,307,221	250,000	0	0	0	0	13,557,221
Due from related parties (Note 9)	130,649						130,649
Property, plant and equipment (Note 5)	25,361,408	-2,585,158	95,852		-335,347		22,536,756
Investment Non Associated Companies (Note 6)	19,684						19,684
Deferred PILS receivable-long term (Note 2)	2,869,521						2,869,521
	41,688,483	-2,335,158	95,852	0	-335,347	0	39,113,831
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	3,444,928						3,444,928
Customer deposits - current portion	788,431						788,431
Current portion - liability for employee future benefits (Note 11)	126,909						126,909
Other current liabilites	416,339						416,339
	4,776,607	0	0	0	0	0	4,776,607
Long term debt (Note 10)	17,349,953						17,349,953
Other liabilities							
Employee future benefits (Note 11)	1,427,938						1,427,938
Other liabilities and deferred credits	0			2,619,802		-91,078	2,528,724
Customer deposits - long term portion	372,800						372,800
Regulated settlement variances (Note 7)	3,735,949	-2,276,536	151,901	-2,619,802	-269,267	91,078	-1,186,677
	5,536,687	-2,276,536	151,901	0	-269,267	0	3,142,785
	27,663,247	-2,276,536	151,901	0	-269,267	0	25,269,345
Contingencies (Note 14)							
Shareholder's equity							
Share capital (Note 13)	12,953,180						12,953,180
Contributed capital	630,158						630,158
Retained earnings	441,578	-58,622	-56,049		-66,080		260,828
	14,024,916	-58,622	-56,049	0	-66,080	0	13,844,166
	41,688,163	-2,335,158	95,852	0	-335,347	0	39,113,511

PRO FORMA FINANCIAL STATEMENTS - 2012 AND 2013:

The Welland Hydro Pro Forma Statements for the 2012 Bridge Year and the 2013 Test Year accompany this Schedule as Appendix E and Appendix F respectively.

APPENDIX E

COPY OF WELLAND HYDRO-ELECTRIC SYSTEM CORP.
2012 PRO FORMA STATEMENTS

Welland Hydro Electric System Corp.
Pro-forma 2012
BALANCE SHEET

Account Description	Total
1050-Current Assets	
1005-Cash	4,774,631
1010-Cash Advances and Working Funds	0
1020-Interest Special Deposits	0
1030-Dividend Special Deposits	0
1040-Other Special Deposits	908,219
1060-Term Deposits	0
1070-Current Investments	0
1100-Customer Accounts Receivable	2,465,040
1102-Accounts Receivable - Services	0
1104-Accounts Receivable - Recoverable Work	218,749
1105-Accounts Receivable - Merchandise, Jobbing, etc.	0
1110-Other Accounts Receivable	194,227
1120-Accrued Utility Revenues	4,526,083
1130-Accumulated Provision for Uncollectable Accounts -- Credit	(109,919)
1140-Interest and Dividends Receivable	5,208
1150-Rents Receivable	0
1170-Notes Receivable	0
1180-Prepayments	71,318
1190-Miscellaneous Current and Accrued Assets	0
1200-Accounts Receivable from Associated Companies	120,648
1210-Notes Receivable from Associated Companies	1
1050-Current Assets Total	**13,174,205**

1100-Inventory	
1305-Fuel Stock	0
1330-Plant Materials and Operating Supplies	646,754
1340-Merchandise	0
1350-Other Material and Supplies	0
1100-Inventory Total	**646,754**

1150-Non-Current Assets	
1405-Long Term Investments in Non-Associated Companies	19,684
1408-Long Term Receivable - Street Lighting Transfer	0

1410-Other Special or Collateral Funds	0
1415-Sinking Funds	0
1425-Unamortized Debt Expense	0
1445-Unamortized Discount on Long-Term Debt--Debit	0
1455-Unamortized Deferred Foreign Currency Translation Gains and Losses	0
1460-Other Non-Current Assets	2,869,521
1465-O.M.E.R.S. Past Service Costs	0
1470-Past Service Costs - Employee Future Benefits	0
1475-Past Service Costs -Other Pension Plans	0
1480-Portfolio Investments - Associated Companies	0
1485-Investment In Subsidiary Companies - Significant Influence	0
1490-Investment in Subsidiary Companies	0
1150-Non-Current Assets Total	**2,889,205**

1200-Other Assets and Deferred Charges	
1505-Unrecovered Plant and Regulatory Study Costs	0
1508-Other Regulatory Assets	45,943
1510-Preliminary Survey and Investigation Charges	0
1515-Emission Allowance Inventory	0
1516-Emission Allowance Withheld	0
1518-RCVA Retail	0
1525-Miscellaneous Deferred Debits	0
1530-Deferred Losses from Disposition of Utility Plant	0
1535-Smart Grid Capital OM&A Account	36,306
1540-Deferred Losses from Disposition of Utility Plant	0
1545-Development Charge Deposits/ Receivables	0
1548-RCVA - Service Transaction Request (STR)	0
1550-LV Charges - Variance	0
1555-Smart Meters Recovery	480,240
1556-Smart Meters OM & A	0
1562-Deferred PILs	0
1563-Deferred PILs - Contra	0
1565-C & DM Costs	0
1566-C & DM Costs Contra	0
1570-Qualifying Transition Costs	0
1571-Pre Market CofP Variance	0
1572-Extraordinary Event Losses	0
1574-Deferred Rate Impact Amounts	0
1575-IFRS-CGAAP Transitional PP&E Amounts	(586,779)
1580-RSVA - Wholesale Market Services	(429,000)

1582-RSVA - One-Time	0
1584-RSVA - Network Charges	252,354
1586-RSVA - Connection Charges	136,327
1588-RSVA - Commodity (Power)	428,064
1590-Recovery of Regulatory Assets (25% of 2002 bal.)	0
1592-PILs and Tax Variance for 2006 & Subsequent Years	0
1595-Disposition and Recovery of Regulatory Balances	(1,026,399)
1200-Other Assets and Deferred Charges Total	**(662,944)**

1450-Distribution Plant	
1805-Land	158,686
1806-Land Rights	70,296
1808-Buildings and Fixtures	96,567
1810-Leasehold Improvements	0
1815-Transformer Station Equipment - Normally Primary above 50 kV	467,359
1820-Distribution Station Equipment - Normally Primary below 50 kV	4,041,746
1825-Storage Battery Equipment	0
1830-Poles, Towers and Fixtures	6,966,507
1835-Overhead Conductors and Devices	12,894,709
1840-Underground Conduit	905,654
1845-Underground Conductors and Devices	11,629,895
1850-Line Transformers	6,826,233
1855-Services	681,473
1860-Meters	2,991,529
1865-Other Installations on Customer's Premises	8,010
1450-Distribution Plant Total	**47,738,664**

1500-General Plant	
1905-Land	0
1906-Land Rights	0
1908-Buildings and Fixtures	2,444,785
1910-Leasehold Improvements	0
1915-Office Furniture and Equipment	107,819
1920-Computer Equipment - Hardware	322,608
1925-Computer Software	1,100,405
1930-Transportation Equipment	1,391,450
1935-Stores Equipment	30,023
1940-Tools, Shop and Garage Equipment	127,950
1945-Measurement and Testing Equipment	20,391
1950-Power Operated Equipment	0

1955-Communication Equipment	279,005
1960-Miscellaneous Equipment	315,235
1970-Load Management Controls - Customer Premises	0
1975-Load Management Controls - Utility Premises	0
1980-System Supervisory Equipment	1,162,245
1985-Sentinel Lighting Rentals	0
1990-Other Tangible Property	0
1995-Contributions and Grants	(2,133,600)
1500-General Plant Total	**5,168,316**

1550-Other Capital Assets	
2005-Property Under Capital Leases	0
2010-Electric Plant Purchased or Sold	0
2020-Experimental Electric Plant Unclassified	0
2030-Electric Plant and Equipment Leased to Others	0
2040-Electric Plant Held for Future Use	0
2050-Completed Construction Not Classified--Electric	0
2055-Construction Work in Progress--Electric	0
2060-Electric Plant Acquisition Adjustment	0
2065-Other Electric Plant Adjustment	0
2070-Other Utility Plant	0
2075-Non-Utility Property Owned or Under Capital Lease	237,244
1550-Other Capital Assets Total	**237,244**

1600-Accumulated Amortization	
2105-Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment	(27,870,275)
2120-Accumulated Amortization of Electric Utility Plant - Intangibles	0
2140-Accumulated Amortization of Electric Plant Acquisition Adjustment	0
2160-Accumulated Amortization of Other Utility Plant	0
2180-Accumulated Amortization of Non-Utility Property	0
1600-Accumulated Amortization Total	**(27,870,275)**

Total Assets	**41,321,169**

1650-Current Liabilities	
2205-Accounts Payable	235,161
2208-Customer Credit Balances	189,947
2210-Current Portion of Customer Deposits	788,431
2215-Dividends Declared	0
2220-Miscellaneous Current and Accrued Liabilities	3,544,858

2225-Notes and Loans Payable	0
2240-Accounts Payable to Associated Companies	0
2242-Notes Payable to Associated Companies	0
2250-Debt Retirement Charges (DRC) Payable	217,668
2252-Transmission Charges Payable	0
2254-Electric Safety Authority Fees Payable	0
2256-Independent Market Operator Fees and Penalties Payable	0
2260-Current Portion of Long Term Debt	0
2262-Ontario Hydro Debt - Current Portion	0
2264-Pensions and Employee Benefits - Current Portion	126,909
2268-Accrued Interest on Long Term Debt	0
2270-Matured Long Term Debt	0
2272-Matured Interest on Long Term Debt	0
2285-Obligations Under Capital Leases--Current	0
2290-Commodity Taxes	0
2292-Payroll Deductions / Expenses Payable	78,634
2294-Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	0
2296-Future Income Taxes - Current	0
1650-Current Liabilities Total	**5,181,608**

1700-Non-Current Liabilities	
2305-Accumulated Provision for Injuries and Damages	0
2306-Employee Future Benefits	1,435,102
2308-Other Pensions - Past Service Liability	0
2310-Vested Sick Leave Liability	0
2315-Accumulated Provision for Rate Refunds	0
2320-Other Miscellaneous Non-Current Liabilities	2,528,722
2325-Obligations Under Capital Lease--Non-Current	0
2330-Devolpment Charge Fund	0
2335-Long Term Customer Deposits	372,800
2340-Collateral Funds Liability	0
2345-Unamortized Premium on Long Term Debt	0
2348-O.M.E.R.S. - Past Service Liability - Long Term Portion	0
2350-Future Income Tax - Non-Current	0
2405-Other Regulatory Liabilities	0
2410-Deferred Gains From Disposition of Utility Plant	0
2415-Unamortized Gain on Reacquired Debt	0
2425-Other Deferred Credits	0
2435-Accrued Rate-Payer Benefit	0
1700-Non-Current Liabilities Total	**4,336,624**

1800-Long-Term Debt	
2505-Debentures Outstanding - Long Term Portion	0
2510-Debenture Advances	0
2515-Required Bonds	0
2520-Other Long Term Debt	0
2525-Term Bank Loans - Long Term Portion	3,700,000
2530-Ontario Hydro Debt Outstanding - Long Term Portion	0
2550-Advances from Associated Companies	13,499,953
1800-Long-Term Debt Total	**17,199,953**

1850-Shareholders' Equity	
3005-Common Shares Issued	12,953,180
3008-Preference Shares Issued	0
3010-Contributed Surplus	5,459,738
3020-Donations Received	0
3022-Devolpment Charges Transferred to Equity	0
3026-Capital Stock Held in Treasury	0
3030-Miscellaneous Paid-In Capital	630,158
3035-Installments Received on Capital Stock	0
3040-Appropriated Retained Earnings	0
3045-Unappropriated Retained Earnings	0
3046-Balance Transferred From Income	448,740
3047-Appropriations of Retained Earnings - Current Period	0
3048-Dividends Payable-Preference Shares	0
3049-Dividends Payable-Common Shares	(5,352,500)
3055-Adjustment to Retained Earnings	213,668
3065-Unappropriated Undistributed Subsidiary Earnings	0
3075-Non-Utility Shareholders Equity	250,000
1850-Shareholders' Equity Total	**14,602,984**

Total Liabilities & Shareholder's Equity	**41,321,169**

Balance Sheet Total	0

Welland Hydro Electric System Corp.
2012 Pro-Forma
STATEMENT OF INCOME AND RETAINED EARNINGS

Account Description	Total
3000-Sales of Electricity	
4006-Residential Energy Sales	(12,506,097)
4010-Commercial Energy Sales	0
4015-Industrial Energy Sales	0
4020-Energy Sales to Large Users	(4,712,926)
4025-Street Lighting Energy Sales	(182,791)
4030-Sentinel Energy Sales	(70,666)
4035-General Energy Sales	(16,415,276)
4040-Other Energy Sales to Public Authorities	0
4045-Energy Sales to Railroads and Railways	0
4050-Revenue Adjustment	0
4055-Energy Sales for Resale	(1,200,000)
4060-IESO Smart Meter Charge	(105,280)
4062-WMS	(2,772,654)
4064-Billed WMS-One Time	0
4066-NS	(3,030,436)
4068-CS	(2,332,009)
4075-LV Charges	0
3000-Sales of Electricity Total	**(43,328,135)**
3050-Revenues From Services - Distirbution	
4080-Distribution Services Revenue	(8,937,225)
4080-2-SSS Revenue	(60,501)
4080-3 Microfit Service Charge	(696)
4082-RS Rev	(20,525)
4084-Serv Tx Requests	(789)
4090-Electric Services Incidental to Energy Sales	0
3050-Revenues From Services - Distirbution Total	**(9,019,736)**
3100-Other Operating Revenues	
4205-Interdepartmental Rents	0
4210-Rent from Electric Property	(151,980)
4215-Other Utility Operating Income	0
4220-Other Electric Revenues	0
4225-Late Payment Charges	(68,785)

4230-Sales of Water and Water Power	0
4235-Miscellaneous Service Revenues	(149,069)
4240-Provision for Rate Refunds	0
4245-Government Assistance Directly Credited to Income	0
3100-Other Operating Revenues Total	**(369,834)**

3150-Other Income & Deductions	
4305-Regulatory Debits	0
4310-Regulatory Credits	0
4315-Revenues from Electric Plant Leased to Others	0
4320-Expenses of Electric Plant Leased to Others	0
4325-Revenues from Merchandise, Jobbing, Etc.	0
4330-Costs and Expenses of Merchandising, Jobbing, Etc	0
4335-Profits and Losses from Financial Instrument Hedges	0
4340-Profits and Losses from Financial Instrument Investments	0
4345-Gains from Disposition of Future Use Utility Plant	0
4350-Losses from Disposition of Future Use Utility Plant	0
4355-Gain on Disposition of Utility and Other Property	0
4360-Loss on Disposition of Utility and Other Property	0
4365-Gains from Disposition of Allowances for Emission	0
4370-Losses from Disposition of Allowances for Emission	0
4375-Revenues from Non-Utility Operations	(23,250)
4380-Expenses of Non-Utility Operations	19,975
4385-Expenses of Non-Utility Operations	0
4390-Miscellaneous Non-Operating Income	(17,835)
4395-Rate-Payer Benefit Including Interest	0
4398-Foreign Exchange Gains and Losses, Including Amortization	0
3150-Other Income & Deductions Total	**(21,110)**

3200-Investment Income	
4405-Interest and Dividend Income	(71,390)
4415-Equity in Earnings of Subsidiary Companies	0
3200-Investment Income Total	**(71,390)**

3350-Power Supply Expenses	
4705-Power Purchased	35,087,756
4708-WMS	2,288,540
4710-Cost of Power Adjustments	0
4712-IESO Smart Meter Charge	105,280
4714-NW	3,030,436

4715-System Control and Load Dispatching	0
4716-NCN	2,332,009
4720-Other Expenses	0
4725-Competition Transition Expense	0
4730-Rural Rate Assistance Expense	484,114
4750-LV Charges	0
3350-Power Supply Expenses Total	**43,328,135**

3500-Distribution Expenses - Operation	
5005-Operation Supervision and Engineering	127,299
5010-Load Dispatching	127,528
5012-Station Buildings and Fixtures Expense	23,233
5014-Transformer Station Equipment - Operation Labour	0
5015-Transformer Station Equipment - Operation Supplies and Expenses	0
5016-Distribution Station Equipment - Operation Labour	17,804
5017-Distribution Station Equipment - Operation Supplies and Expenses	117,183
5020-Overhead Distribution Lines and Feeders - Operation Labour	101,575
5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	47,460
5030-Overhead Subtransmission Feeders - Operation	74,131
5035-Overhead Distribution Transformers - Operation	4,750
5040-Underground Distribution Lines and Feeders - Operation Labour	177,967
5045-Underground Distribution Lines and Feeders - Operation Supplies and Expenses	9,386
5050-Underground Subtransmission Feeders - Operation	46,777
5055-Underground Distribution Transformers - Operation	3,156
5060-Street Lighting and Signal System Expense	0
5065-Meter Expense	278,012
5070-Customer Premises - Operation Labour	0
5075-Customer Premises - Materials and Expenses	1,122
5085-Miscellaneous Distribution Expense	185,055
5090-Underground Distribution Lines and Feeders - Rental Paid	0
5095-Overhead Distribution Lines and Feeders - Rental Paid	25,581
5096-Other Rent	0
3500-Distribution Expenses - Operation Total	**1,368,019**

3550-Distribution Expenses - Maintenance	
5105-Maintenance Supervision and Engineering	87,148
5110-Maintenance of Structures	36,054
5112-Maintenance of Transformer Station Equipment	0
5114-Mtaint Dist Stn Equip	55,424
5120-Maintenance of Poles, Towers and Fixtures	154,531

5125-Maintenance of Overhead Conductors and Devices	335,997
5130-Maintenance of Overhead Services	271,274
5135-Overhead Distribution Lines and Feeders - Right of Way	140,547
5145-Maintenance of Underground Conduit	0
5150-Maintenance of Underground Conductors and Devices	173,674
5155-Maintenance of Underground Services	110,923
5160-Maintenance of Line Transformers	75,594
5165-Maintenance of Street Lighting and Signal Systems	0
5170-Sentinel Lights - Labour	0
5172-Sentinel Lights - Materials and Expenses	0
5175-Maintenance of Meters	28,168
5178-Customer Installations Expenses - Leased Property	0
5195-Maintenance of Other Installations on Customer Premises	0
3550-Distribution Expenses - Maintenance Total	**1,469,334**

3650-Billing and Collecting	
5305-Supervision	0
5310-Meter Reading Expense	30,479
5315-Customer Billing	862,496
5320-Collecting	332,975
5325-Collecting - Cash Over and Short	0
5330-Collection Charges	0
5335-Bad Debt Expense	98,368
5340-Miscellaneous Customer Accounts Expenses	29,374
3650-Billing and Collecting Total	**1,353,692**

3700-Community Relations	
5405-Supervision	39,223
5410-Community Relations - Sundry	2,949
5415-Energy Conservation	69,707
5420-Community Safety Program	4,579
5425-Miscellaneous Customer Service and Informational Expenses	0
5515-Advertising Expense	12,740
3700-Community Relations Total	**129,198**

3800-Administrative and General Expenses	
5605-Executive Salaries and Expenses	385,270
5610-Management Salaries and Expenses	514,036
5615-General Administrative Salaries and Expenses	374,284
5620-Office Supplies and Expenses	0

5625-Administrative Expense Transferred-Credit	(8,596)
5630-Outside Services Employed	140,770
5635-Property Insurance	0
5640-Injuries and Damages	0
5645-Employee Pensions and Benefits	117,484
5650-Franchise Requirements	0
5655-Regulatory Expenses	100,000
5660-General Advertising Expenses	0
5665-Miscellaneous Expenses	107,343
5670-Rent	0
5675-Maintenance of General Plant	0
5680-Electrical Safety Authority Fees	9,597
5685-Independent Market Operator Fees and Penalties	0
6205-Donations-Sub Account Lease Payments	11,000
3800-Administrative and General Expenses Total	**1,751,188**

3850-Amortization Expense	
5705-Amortization Expense - Property, Plant and Equipment	1,259,719
5710-Amortization of Limited Term Electric Plant	0
5715-Amortization of Intangibles and Other Electric Plant	0
5720-Amortization of Electric Plant Acquisition Adjustments	0
5725-Miscellaneous Amortization	0
5730-Amortization of Unrecovered Plant and Regulatory Study Costs	0
5735-Amortization of Deferred Development Costs	0
5740-Amortization of Deferred Charges	0
3850-Amortization Expense Total	**1,259,719**

3900-Interest Expense	
6005-Interest on Long Term Debt	949,934
6010-Amortization of Debt Discount and Expense	0
6015-Amortization of Premium on Debt-Credit	0
6020-Amortization of Loss on Reacquired Debt	0
6025-Amortization of Gain on Reacquired Debt-Credit	0
6030-Interest on Debt to Associated Companies	0
6035-Other Interest Expense	34,406
6040-Allowance for Borrowed Funds Used During Construction-Credit	0
6042-Allowance for Other Funds Used During Construction	0
6045-Interest Expense on Capital Lease Obligations	0
3900-Interest Expense Total	**984,340**

3950-Taxes Other Than Income Taxes	
6105-Taxes Other Than Income Taxes	0
3950-Taxes Other Than Income Taxes Total	**0**
4000-Income Taxes	
6110-Income Taxes	107,461
6115-Provision for Future Income Taxes	0
4000-Income Taxes Total	**107,461**
4100-Extraordinary & Other Items	
6205-Donations	23,600
6210-Life Insurance	0
6215-Penalties	0
6225-Other Deductions	0
4100-Extraordinary & Other Items Total	**23,600**
MIFRS Net Income - (Gain)/Loss	**(1,035,519)**
Additional Depreciation Expenses GAAP	853,779
Reduction in OM&A Expenses GAAP	(267,000)
CGAAP Net Income - (Gain)/Loss	**(448,740)**

APPENDIX F

COPY OF WELLAND HYDRO-ELECTRIC SYSTEM CORP. 2013 PRO FORMA STATEMENTS

Welland Hydro Electric System Corp.
Pro-forma 2013
BALANCE SHEET

Account Description	Total
1050-Current Assets	
1005-Cash	3,366,327
1010-Cash Advances and Working Funds	0
1020-Interest Special Deposits	0
1030-Dividend Special Deposits	0
1040-Other Special Deposits	908,219
1060-Term Deposits	0
1070-Current Investments	0
1100-Customer Accounts Receivable	2,465,040
1102-Accounts Receivable - Services	0
1104-Accounts Receivable - Recoverable Work	225,312
1105-Accounts Receivable - Merchandise, Jobbing, etc.	0
1110-Other Accounts Receivable	194,355
1120-Accrued Utility Revenues	4,312,279
1130-Accumulated Provision for Uncollectable Accounts -- Credit	(113,217)
1140-Interest and Dividends Receivable	3,646
1150-Rents Receivable	0
1170-Notes Receivable	0
1180-Prepayments	73,458
1190-Miscellaneous Current and Accrued Assets	0
1200-Accounts Receivable from Associated Companies	124,116
1210-Notes Receivable from Associated Companies	1
1050-Current Assets Total	**11,559,536**

1100-Inventory	
1305-Fuel Stock	0
1330-Plant Materials and Operating Supplies	668,165
1340-Merchandise	0
1350-Other Material and Supplies	0
1100-Inventory Total	**668,165**

1150-Non-Current Assets	
1405-Long Term Investments in Non-Associated Companies	19,684
1408-Long Term Receivable - Street Lighting Transfer	0
1410-Other Special or Collateral Funds	0

1415-Sinking Funds	0
1425-Unamortized Debt Expense	0
1445-Unamortized Discount on Long-Term Debt--Debit	0
1455-Unamortized Deferred Foreign Currency Translation Gains and Losses	0
1460-Other Non-Current Assets	2,869,521
1465-O.M.E.R.S. Past Service Costs	0
1470-Past Service Costs - Employee Future Benefits	0
1475-Past Service Costs -Other Pension Plans	0
1480-Portfolio Investments - Associated Companies	0
1485-Investment In Subsidiary Companies - Significant Influence	0
1490-Investment in Subsidiary Companies	0
1150-Non-Current Assets Total	**2,889,205**

1200-Other Assets and Deferred Charges	
1505-Unrecovered Plant and Regulatory Study Costs	0
1508-Other Regulatory Assets	46,600
1510-Preliminary Survey and Investigation Charges	0
1515-Emission Allowance Inventory	0
1516-Emission Allowance Withheld	0
1518-RCVA Retail	0
1525-Miscellaneous Deferred Debits	0
1530-Deferred Losses from Disposition of Utility Plant	0
1535-Smart Grid Capital OM&A Account	36,306
1540-Deferred Losses from Disposition of Utility Plant	0
1545-Development Charge Deposits/ Receivables	0
1548-RCVA - Service Transaction Request (STR)	0
1550-LV Charges - Variance	0
1555-Smart Meters Recovery	480,240
1556-Smart Meters OM & A	0
1562-Deferred PILs	0
1563-Deferred PILs - Contra	0
1565-C & DM Costs	0
1566-C & DM Costs Contra	0
1570-Qualifying Transition Costs	0
1571-Pre Market CofP Variance	0
1572-Extraordinary Event Losses	0
1574-Deferred Rate Impact Amounts	0
1575-IFRS-CGAAP Transitional PP&E Amounts	(440,084)
1580-RSVA - Wholesale Market Services	(435,110)
1582-RSVA - One-Time	0

1584-RSVA - Network Charges	256,018
1586-RSVA - Connection Charges	138,320
1588-RSVA - Commodity (Power)	434,455
1590-Recovery of Regulatory Assets (25% of 2002 bal.)	0
1592-PILs and Tax Variance for 2006 & Subsequent Years	0
1595-Disposition and Recovery of Regulatory Balances	(310,646)
1200-Other Assets and Deferred Charges Total	**206,099**

1450-Distribution Plant	
1805-Land	158,686
1806-Land Rights	70,296
1808-Buildings and Fixtures	96,567
1810-Leasehold Improvements	0
1815-Transformer Station Equipment - Normally Primary above 50 kV	467,359
1820-Distribution Station Equipment - Normally Primary below 50 kV	4,041,746
1825-Storage Battery Equipment	0
1830-Poles, Towers and Fixtures	7,541,736
1835-Overhead Conductors and Devices	13,011,719
1840-Underground Conduit	1,021,854
1845-Underground Conductors and Devices	11,821,995
1850-Line Transformers	7,143,533
1855-Services	716,473
1860-Meters	3,041,529
1865-Other Installations on Customer's Premises	8,010
1450-Distribution Plant Total	**49,141,503**

1500-General Plant	
1905-Land	0
1906-Land Rights	0
1908-Buildings and Fixtures	2,464,785
1910-Leasehold Improvements	0
1915-Office Furniture and Equipment	107,819
1920-Computer Equipment - Hardware	368,608
1925-Computer Software	1,158,905
1930-Transportation Equipment	1,741,450
1935-Stores Equipment	30,023
1940-Tools, Shop and Garage Equipment	132,950
1945-Measurement and Testing Equipment	20,391
1950-Power Operated Equipment	0
1955-Communication Equipment	279,005

1960-Miscellaneous Equipment	315,235
1970-Load Management Controls - Customer Premises	0
1975-Load Management Controls - Utility Premises	0
1980-System Supervisory Equipment	1,214,745
1985-Sentinel Lighting Rentals	0
1990-Other Tangible Property	0
1995-Contributions and Grants	(2,133,600)
1500-General Plant Total	**5,700,316**

1550-Other Capital Assets	
2005-Property Under Capital Leases	0
2010-Electric Plant Purchased or Sold	0
2020-Experimental Electric Plant Unclassified	0
2030-Electric Plant and Equipment Leased to Others	0
2040-Electric Plant Held for Future Use	0
2050-Completed Construction Not Classified--Electric	0
2055-Construction Work in Progress--Electric	0
2060-Electric Plant Acquisition Adjustment	0
2065-Other Electric Plant Adjustment	0
2070-Other Utility Plant	0
2075-Non-Utility Property Owned or Under Capital Lease	224,744
1550-Other Capital Assets Total	**224,744**

1600-Accumulated Amortization	
2105-Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment	(29,051,159)
2120-Accumulated Amortization of Electric Utility Plant - Intangibles	0
2140-Accumulated Amortization of Electric Plant Acquisition Adjustment	0
2160-Accumulated Amortization of Other Utility Plant	0
2180-Accumulated Amortization of Non-Utility Property	0
1600-Accumulated Amortization Total	**(29,051,159)**

Total Assets	**41,338,409**

1650-Current Liabilities	
2205-Accounts Payable	220,622
2208-Customer Credit Balances	189,947
2210-Current Portion of Customer Deposits	752,901
2215-Dividends Declared	0
2220-Miscellaneous Current and Accrued Liabilities	3,169,419
2225-Notes and Loans Payable	0

2240-Accounts Payable to Associated Companies	0
2242-Notes Payable to Associated Companies	0
2250-Debt Retirement Charges (DRC) Payable	205,230
2252-Transmission Charges Payable	0
2254-Electric Safety Authority Fees Payable	0
2256-Independent Market Operator Fees and Penalties Payable	0
2260-Current Portion of Long Term Debt	0
2262-Ontario Hydro Debt - Current Portion	0
2264-Pensions and Employee Benefits - Current Portion	126,909
2268-Accrued Interest on Long Term Debt	0
2270-Matured Long Term Debt	0
2272-Matured Interest on Long Term Debt	0
2285-Obligations Under Capital Leases--Current	0
2290-Commodity Taxes	0
2292-Payroll Deductions / Expenses Payable	80,993
2294-Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	0
2296-Future Income Taxes - Current	0
1650-Current Liabilities Total	**4,746,021**

1700-Non-Current Liabilities	
2305-Accumulated Provision for Injuries and Damages	0
2306-Employee Future Benefits	1,435,102
2308-Other Pensions - Past Service Liability	0
2310-Vested Sick Leave Liability	0
2315-Accumulated Provision for Rate Refunds	0
2320-Other Miscellaneous Non-Current Liabilities	2,528,722
2325-Obligations Under Capital Lease--Non-Current	0
2330-Devolpment Charge Fund	0
2335-Long Term Customer Deposits	355,326
2340-Collateral Funds Liability	0
2345-Unamortized Premium on Long Term Debt	0
2348-O.M.E.R.S. - Past Service Liability - Long Term Portion	0
2350-Future Income Tax - Non-Current	0
2405-Other Regulatory Liabilities	0
2410-Deferred Gains From Disposition of Utility Plant	0
2415-Unamortized Gain on Reacquired Debt	0
2425-Other Deferred Credits	0
2435-Accrued Rate-Payer Benefit	0
1700-Non-Current Liabilities Total	**4,319,150**

1800-Long-Term Debt	
2505-Debentures Outstanding - Long Term Portion	0
2510-Debenture Advances	0
2515-Required Bonds	0
2520-Other Long Term Debt	0
2525-Term Bank Loans - Long Term Portion	3,700,000
2530-Ontario Hydro Debt Outstanding - Long Term Portion	0
2550-Advances from Associated Companies	13,499,953
1800-Long-Term Debt Total	**17,199,953**

1850-Shareholders' Equity	
3005-Common Shares Issued	12,953,180
3008-Preference Shares Issued	0
3010-Contributed Surplus	5,908,478
3020-Donations Received	0
3022-Devolpment Charges Transferred to Equity	0
3026-Capital Stock Held in Treasury	0
3030-Miscellaneous Paid-In Capital	630,158
3035-Installments Received on Capital Stock	0
3040-Appropriated Retained Earnings	0
3045-Unappropriated Retained Earnings	0
3046-Balance Transferred From Income	743,301
3047-Appropriations of Retained Earnings - Current Period	0
3048-Dividends Payable-Preference Shares	0
3049-Dividends Payable-Common Shares	(5,625,500)
3055-Adjustment to Retained Earnings	213,668
3065-Unappropriated Undistributed Subsidiary Earnings	0
3075-Non-Utility Shareholders Equity	250,000
1850-Shareholders' Equity Total	**15,073,285**

Total Liabilities & Shareholder's Equity	**41,338,409**

Balance Sheet Total	0

Welland Hydro Electric System Corp.
Pro-forma 2013
STATEMENT OF INCOME AND RETAINED EARNINGS

Account Description	Total
3000-Sales of Electricity	
4006-Residential Energy Sales	(12,441,611)
4010-Commercial Energy Sales	0
4015-Industrial Energy Sales	0
4020-Energy Sales to Large Users	(4,679,004)
4025-Street Lighting Energy Sales	(104,915)
4030-Sentinel Energy Sales	(70,158)
4035-General Energy Sales	(16,327,650)
4040-Other Energy Sales to Public Authorities	0
4045-Energy Sales to Railroads and Railways	0
4050-Revenue Adjustment	0
4055-Energy Sales for Resale	(1,200,000)
4060-IESO Smart Meter Charge	(214,022)
4062-WMS	(2,751,610)
4064-Billed WMS-One Time	0
4066-NS	(3,023,591)
4068-CS	(2,324,691)
4075-LV Charges	0
3000-Sales of Electricity Total	**(43,137,252)**
3050-Revenues From Services - Distirbution	
4080-Distribution Services Revenue	(8,970,789)
4080-2-SSS Revenue	(61,575)
4080-3 Microfit Service Charge	(1,392)
4082-RS Rev	(20,515)
4084-Serv Tx Requests	(789)
4090-Electric Services Incidental to Energy Sales	0
3050-Revenues From Services - Distirbution Total	**(9,055,060)**
3100-Other Operating Revenues	
4205-Interdepartmental Rents	0
4210-Rent from Electric Property	(152,637)
4215-Other Utility Operating Income	0
4220-Other Electric Revenues	0
4225-Late Payment Charges	(70,849)

4230-Sales of Water and Water Power	0
4235-Miscellaneous Service Revenues	(150,385)
4240-Provision for Rate Refunds	0
4245-Government Assistance Directly Credited to Income	0
3100-Other Operating Revenues Total	**(373,871)**

3150-Other Income & Deductions	
4305-Regulatory Debits	0
4310-Regulatory Credits	0
4315-Revenues from Electric Plant Leased to Others	0
4320-Expenses of Electric Plant Leased to Others	0
4325-Revenues from Merchandise, Jobbing, Etc.	0
4330-Costs and Expenses of Merchandising, Jobbing, Etc	0
4335-Profits and Losses from Financial Instrument Hedges	0
4340-Profits and Losses from Financial Instrument Investments	0
4345-Gains from Disposition of Future Use Utility Plant	0
4350-Losses from Disposition of Future Use Utility Plant	0
4355-Gain on Disposition of Utility and Other Property	0
4360-Loss on Disposition of Utility and Other Property	0
4362-Loss on Retirement of Assets-IFRS	18,932
4365-Gains from Disposition of Allowances for Emission	0
4370-Losses from Disposition of Allowances for Emission	0
4375-Revenues from Non-Utility Operations	(36,350)
4380-Expenses of Non-Utility Operations	19,975
4385-Expenses of Non-Utility Operations	0
4390-Miscellaneous Non-Operating Income	(18,129)
4395-Rate-Payer Benefit Including Interest	0
4398-Foreign Exchange Gains and Losses, Including Amortization	0
3150-Other Income & Deductions Total	**(15,572)**

3200-Investment Income	
4405-Interest and Dividend Income	(43,750)
4415-Equity in Earnings of Subsidiary Companies	0
3200-Investment Income Total	**(43,750)**

3350-Power Supply Expenses	
4705-Power Purchased	34,823,338
4708-WMS	2,271,170
4710-Cost of Power Adjustments	0
4712-IESO Smart Meter Charge	214,022

4714-NW	3,023,591
4715-System Control and Load Dispatching	0
4716-NCN	2,324,691
4720-Other Expenses	0
4725-Competition Transition Expense	0
4730-Rural Rate Assistance Expense	480,440
4750-LV Charges	0
3350-Power Supply Expenses Total	**43,137,252**

3500-Distribution Expenses - Operation	
5005-Operation Supervision and Engineering	145,436
5010-Load Dispatching	144,184
5012-Station Buildings and Fixtures Expense	23,698
5014-Transformer Station Equipment - Operation Labour	0
5015-Transformer Station Equipment - Operation Supplies and Expenses	0
5016-Distribution Station Equipment - Operation Labour	20,413
5017-Distribution Station Equipment - Operation Supplies and Expenses	119,696
5020-Overhead Distribution Lines and Feeders - Operation Labour	116,459
5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	48,572
5030-Overhead Subtransmission Feeders - Operation	83,833
5035-Overhead Distribution Transformers - Operation	4,845
5040-Underground Distribution Lines and Feeders - Operation Labour	194,011
5045-Underground Distribution Lines and Feeders - Operation Supplies and Expenses	9,879
5050-Underground Subtransmission Feeders - Operation	52,984
5055-Underground Distribution Transformers - Operation	3,240
5060-Street Lighting and Signal System Expense	0
5065-Meter Expense	311,606
5070-Customer Premises - Operation Labour	0
5075-Customer Premises - Materials and Expenses	1,145
5085-Miscellaneous Distribution Expense	202,100
5090-Underground Distribution Lines and Feeders - Rental Paid	0
5095-Overhead Distribution Lines and Feeders - Rental Paid	26,093
5096-Other Rent	0
3500-Distribution Expenses - Operation Total	**1,508,194**

3550-Distribution Expenses - Maintenance	
5105-Maintenance Supervision and Engineering	98,255
5110-Maintenance of Structures	37,274
5112-Maintenance of Transformer Station Equipment	0
5114-Mtaint Dist Stn Equip	59,644

5120-Maintenance of Poles, Towers and Fixtures	209,585
5125-Maintenance of Overhead Conductors and Devices	374,665
5130-Maintenance of Overhead Services	299,490
5135-Overhead Distribution Lines and Feeders - Right of Way	184,638
5145-Maintenance of Underground Conduit	0
5150-Maintenance of Underground Conductors and Devices	191,749
5155-Maintenance of Underground Services	120,617
5160-Maintenance of Line Transformers	92,022
5165-Maintenance of Street Lighting and Signal Systems	0
5170-Sentinel Lights - Labour	0
5172-Sentinel Lights - Materials and Expenses	0
5175-Maintenance of Meters	88,643
5178-Customer Installations Expenses - Leased Property	0
5195-Maintenance of Other Installations on Customer Premises	0
3550-Distribution Expenses - Maintenance Total	**1,756,582**

3650-Billing and Collecting	
5305-Supervision	0
5310-Meter Reading Expense	31,725
5315-Customer Billing	906,187
5320-Collecting	354,093
5325-Collecting - Cash Over and Short	0
5330-Collection Charges	0
5335-Bad Debt Expense	100,335
5340-Miscellaneous Customer Accounts Expenses	30,935
3650-Billing and Collecting Total	**1,423,275**

3700-Community Relations	
5405-Supervision	42,200
5410-Community Relations - Sundry	3,008
5415-Energy Conservation	71,375
5420-Community Safety Program	4,671
5425-Miscellaneous Customer Service and Informational Expenses	0
5515-Advertising Expense	12,995
3700-Community Relations Total	**134,249**

3800-Administrative and General Expenses	
5605-Executive Salaries and Expenses	394,555
5610-Management Salaries and Expenses	556,670
5615-General Administrative Salaries and Expenses	385,614

5620-Office Supplies and Expenses	0
5625-Administrative Expense Transferred-Credit	(8,930)
5630-Outside Services Employed	144,719
5635-Property Insurance	0
5640-Injuries and Damages	0
5645-Employee Pensions and Benefits	120,243
5650-Franchise Requirements	0
5655-Regulatory Expenses	91,184
5660-General Advertising Expenses	0
5665-Miscellaneous Expenses	109,823
5670-Rent	0
5675-Maintenance of General Plant	0
5680-Electrical Safety Authority Fees	9,789
5685-Independent Market Operator Fees and Penalties	0
6205-Donations-Sub Account Lease Payments	11,000
3800-Administrative and General Expenses Total	**1,814,667**

3850-Amortization Expense	
5705-Amortization Expense - Property, Plant and Equipment	1,228,313
5710-Amortization of Limited Term Electric Plant	0
5715-Amortization of Intangibles and Other Electric Plant	0
5720-Amortization of Electric Plant Acquisition Adjustments	0
5725-Miscellaneous Amortization	0
5730-Amortization of Unrecovered Plant and Regulatory Study Costs	0
5735-Amortization of Deferred Development Costs	0
5740-Amortization of Deferred Charges	0
3850-Amortization Expense Total	**1,228,313**

3900-Interest Expense	
6005-Interest on Long Term Debt	949,934
6010-Amortization of Debt Discount and Expense	0
6015-Amortization of Premium on Debt-Credit	0
6020-Amortization of Loss on Reacquired Debt	0
6025-Amortization of Gain on Reacquired Debt-Credit	0
6030-Interest on Debt to Associated Companies	0
6035-Other Interest Expense	27,799
6040-Allowance for Borrowed Funds Used During Construction-Credit	0
6042-Allowance for Other Funds Used During Construction	0
6045-Interest Expense on Capital Lease Obligations	0
3900-Interest Expense Total	**977,733**

3950-Taxes Other Than Income Taxes	
6105-Taxes Other Than Income Taxes	0
3950-Taxes Other Than Income Taxes Total	**0**
4000-Income Taxes	
6110-Income Taxes	25,034
6115-Provision for Future Income Taxes	0
4000-Income Taxes Total	**25,034**
4100-Extraordinary & Other Items	
6205-Donations	23,600
6210-Life Insurance	0
6215-Penalties	0
6225-Other Deductions	0
4100-Extraordinary & Other Items Total	**23,600**
Net Income - (Gain)/Loss Before 1575 Adjustment	**(596,606)**
Adjust Account 1575 (25%)	(146,695)
Net Income - (Gain)/Loss After 1575 Adjustment	**(743,301)**

RECONCILIATION BETWEEN PRO FORMA STATEMENTS AND REVENUE DEFICIENCY STATEMENTS

The 2012 Pro-Forma Income Statement has been prepared on the basis of MIFRS for comparison purposes. It has been adjusted to CGAAP in order to set up the credit balance of $586,779 in account 1575 IFRS-CGAAP Transitional PP&E amounts. Actual distribution revenues in 2012 will differ slightly from the 2012 Pro-forma amounts as a result of the timing of 2012 IRM rates (not included in Jan-Apr), Smart Meter Disposition Rate Rider (included from May-Dec), and the Smart Meter Funding Adder (included Jan-Apr).

The following is a reconciliation between the 2013 Pro-Forma Income Statement and the Revenue Deficiency Statement:

Net Income Per 2013 Pro-Forma Income Statement	($743,301)
Adjust Non Utility Income/Expense	16,375
Adjust Donations	(23,600)
Adjust Actual versus Deemed Interest Expense	(222,967)
PPE Return on Rate Base	(35,324)
Net Income per Revenue Deficiency Exhibit	(1,008,817)

The 2013 Pro-forma Income Statement reflects an adjustment of $146,695 (25% of Account 1575) to reflect the reduced depreciation expense in the 2013 Revenue Deficiency Statement. Actual depreciation expense has been used in the calculation of taxable income for PILs calculation in Exhibit 4, Appendix D.

INFORMATION ON AFFILIATES

Welland Hydro-Electric Holding Corp. is the parent company. It is wholly owned by the City of Welland. Copies of Welland Hydro-Electric Holding Corp.'s consolidated and non-consolidated 2011 Audited financial statements accompany this Schedule as Appendix G.

Welland Hydro Energy Services is a wholly owned company of Welland Hydro-Electric Holding Corp. involved mainly in Street and Sentinel Light Maintenance. A copy of Welland Hydro Energy Services non-consolidated 2011 Audited financial statements are also included in Appendix G of the Schedule. Welland Hydro Energy Services owns two subsidiaries for which there are no current activities which are Welland WiFi and Welland Solar Corp.

APPENDIX G

COPIES OF WELLAND HYDRO-ELECTRIC HOLDING CORP. CONSOLIDATED AND NON-CONSOLIDATED 2011 FINANCIAL STATEMENTS

COPY OF WELLAND HYDRO ENERGY SERVICES NON-CONSILDATED 2011 FINANCIAL STATEMENTS

Consolidated financial statements of

Welland Hydro-Electric Holding Corp.

December 31, 2011

Welland Hydro-Electric Holding Corp.

December 31, 2011

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Independent Auditor's Report

To the Board of Directors of
Welland Hydro-Electric Holding Corp.

We have audited the accompanying consolidated financial statements of Welland Hydro-Electric Holding Corp., which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statements of earnings and retained earnings and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Welland Hydro-Electric Holding Corp. as at December 31, 2011, and the results if its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 29, 2012

Welland Hydro-Electric Holding Corp.

Consolidated statement of earnings and retained earnings
year ended December 31, 2011

	2011	2010
	$	$
Service revenue		
Energy charges	**31,378,972**	28,645,597
Wholesale market services	**2,499,595**	2,428,656
Retail transmission charges	**4,775,633**	4,823,775
	38,654,200	35,898,028
Distribution revenue	**9,116,998**	9,271,558
	47,771,198	45,169,586
Cost of power	**38,654,200**	35,898,028
Gross margin on service revenue	**9,116,998**	9,271,558
Other operating revenue	**695,281**	572,557
Net operating revenue	**9,812,279**	9,844,115
Administrative expense		
Operating and maintenance	**2,704,233**	2,528,509
Billing and collection	**1,265,929**	1,088,113
General administration	**1,838,850**	1,626,413
Amortization	**1,963,433**	2,048,354
Total expenses	**7,772,445**	7,291,389
Earnings before financial expense	**2,039,834**	2,552,726
Other expense		
Interest expense	**986,561**	978,338
Earnings before payment in lieu of taxes	**1,053,273**	1,574,388
Payments in lieu of taxes	**188,507**	512,422
Net earnings	**864,766**	1,061,966
Retained earnings, beginning of year	**2,617,174**	2,055,208
Dividends	**(775,000)**	(500,000)
Retained earnings, end of year	**2,706,940**	2,617,174

Welland Hydro-Electric Holding Corp.

Consolidated balance sheet
as at December 31, 2011

	2011	2010
	$	$
Assets		
Current assets		
Cash and cash equivalents	**7,885,405**	8,209,989
Accounts receivable (Note 4)	**2,722,582**	2,949,452
Accounts receivable - unbilled revenue	**4,437,336**	5,479,702
Due from City of Welland	**129,750**	133,760
Inventories	**396,754**	321,394
Prepaid expenses	**71,318**	96,140
	15,643,145	17,190,437
Investment in term deposits	-	1,500,000
Property, plant and equipment (Note 6)	**25,371,210**	24,305,657
Deferred PILS asset - long-term (Note 2)	**2,869,521**	2,992,335
Long-term investment non associated company (Note 5)	**19,684**	19,684
	43,903,560	46,008,113
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**3,481,943**	5,142,614
Customer deposits - current portion	**788,431**	1,014,007
Employee future benefits - current portion (Note 11)	**126,909**	56,253
Other current liabilities	**416,339**	39,608
	4,813,622	6,252,482
Long-term debt (Note 10)	**17,199,953**	17,199,953
Other long-term liabilities		
Employee future benefits (Note 11)	**1,427,938**	1,479,364
Other liabilities and deferred credits	-	6,540
Customer deposits - long-term portion	**372,800**	279,156
Regulated settlement variances (Note 7)	**3,735,949**	4,527,086
	5,536,687	6,292,146
	27,550,262	29,744,581
Commitments and contingencies (Note 14)		
Shareholder's equity		
Share capital (Note 13)	**12,953,200**	12,953,200
Contributed capital	**693,158**	693,158
Retained earnings	**2,706,940**	2,617,174
	16,353,298	16,263,532
	43,903,560	46,008,113

Approved by the Board

_____ Director

Welland Hydro-Electric Holding Corp.

Consolidated statement of cash flows
year ended December 31, 2011

	2011	2010
	$	$
Operating activities		
Net earnings	**864,766**	1,061,966
Items not requiring a cash outlay		
Amortization	**1,963,433**	2,048,354
(Gain) loss on disposal of property, plant and equipment	**(14,409)**	(2,849)
Change in employee benefits future - long-term	**(51,426)**	(2,130)
Change in deferred PILS asset - long-term	**122,814**	(56,547)
Changes in non-cash working capital items (Note 12)	**(216,152)**	(229,395)
Net change in regulated settlement variances	**(791,137)**	614,137
	1,877,889	3,433,536
Investing activities		
Investment in term deposits	**1,500,000**	-
Additions to property, plant and equipment	**(3,029,026)**	(2,830,869)
Net proceeds on disposal of property, plant and equipment	**14,449**	15,395
Investment in non-associated company	**-**	(19,684)
	(1,514,577)	(2,835,158)
Financing activities		
Dividends paid	**(775,000)**	(500,000)
Increase in long-term notes payable	**(6,540)**	-
Change in customer deposits - long-term	**93,644**	(21,980)
	(687,896)	(521,980)
Net change in cash and cash equivalents	**(324,584)**	76,398
Cash and cash equivalents, beginning of year	**8,209,989**	8,133,591
Cash and cash equivalents, end of year	**7,885,405**	8,209,989
Supplemental disclosure of cash flows		
Interest paid	**959,163**	957,827
Payment in lieu of income taxes	**631,701**	286,397

1. Nature of operations

Welland Hydro-Electric Holding Corp. (the "Company"), is a wholly-owned subsidiary of the City of Welland, and was incorporated July 1, 2000 under the Business Corporations Act (Ontario).

The Company is a regulated electricity distribution Company that owns and operates the electricity infrastructure, distributing a safe, reliable delivery of electricity to home and business in the City of Welland. The Company is regulated by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, and for ensuring that distribution companies fulfill their obligations to connect and service customers.

Other activities of the Company are providing energy services, meter services, and street lighting services.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and policies as set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998.

Significant accounting policies are summarized below:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Welland Hydro-Electric System Corp., Welland Hydro Energy Services Corp., and Welland Wifi Corp.

Regulation

The Company is regulated by the OEB and any power rate adjustments require OEB approval. The following accounting policies under the regulated environment differ from GAAP for companies operating under an unregulated environment:

Regulatory assets and liabilities

Regulatory assets and liabilities represent differences between amounts collected through rates (OEB approved) and actual costs incurred by the distributor. Regulatory assets and liabilities on the balance sheet at year-end consist of settlement variances on the cost of power, deferred charges, and the associated regulated interest. Account balances and current year activities are detailed in Note 7.

Regulatory assets and liabilities incurred since January 1, 2008 are subject to review by the OEB for reflection in future rates. Regulatory assets and liabilities will be reflected in the balance sheet until the manner and timing of disposition is determined by the OEB.

Contributions in aid of construction

Subdivision developers as part of their contract with the Company can request that an economic evaluation be performed based on the number of services connected in a project. The economic evaluation guidelines were created by the OEB and software was developed to calculate the net present value of expected revenue, net of expected maintenance costs for the next 25 years.

This calculation is used to determine the value of the asset to be assumed by the Company and is reviewed over the first five years. Any assets assumed by the Company will be treated as post 1999 contributed capital. As at December 31, 2011, the value of such contributed capital was $2,033,600 (2010 - $1,728,419) and has been recorded as a reduction in property, plant and equipment.

Amortization of contributed capital is recorded at an equivalent rate to that used for amortization of the related assets.

2. Significant accounting policies (continued)

Payment-in-lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Company. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

Future income taxes

In December 2007, the CICA revised Handbook Sections 1100, Generally Accepted Accounting Principles, and 3465, Income Taxes, and Accounting Guideline 19 ("AcG-19"), Disclosures by Entities Subject to Rate Regulation. As a result, the Company is required to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation. The amendment to Handbook Section 3465 required the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. As a result of the changes to Section 3465, the Company is required to recognize future income taxes associated with its rate regulated operations using liability method.

An analysis of the future income taxes as at December 31, 2011 identified a deferred tax asset of $2,869,521 (2010 - $2,992,335).

An analysis of future income taxes expected to be included in future rates and recovered from or paid to customers as at December 31, 2011 identified a regulatory liability of $2,528,724 (2010 - $2,619,802).

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with the bank.

Investments

Investments are recorded at cost.

Financial instruments disclosures and presentation

The Company has adopted accounting standards comprising CICA Handbook Sections 3862, Financial Instruments Disclosures; and 3863, Financial Instruments Presentation. The adoption of the standards requires an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments.

All financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the balance sheet except for loans and receivables, held-to-maturity investments, and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

2. Significant accounting policies (continued)

Financial instrument disclosures and presentation (continued)

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from related parties	Loans and receivables
Investment in term deposits	Held-to-maturity investments
Accounts payable	Other liabilities
Customer deposits	Other liabilities
Long-term debt	Other liabilities

Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held-for-trading assets. The Company has not designated any non-derivative financial liabilities as held-for-trading.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

All fair values have been determined using Level 1 inputs. During the year, there has been no significant transfer of amounts between Levels.

Inventories

Inventories consist primarily of construction and maintenance materials and are stated at the lower of cost and net realizable value, with cost being determined using the weighted average method. There is no fixed or variable production overhead costs assigned to inventory values.

2. Significant accounting policies (continued)

Spare meters and transformers

As prescribed by the OEB Accounting Procedures Manual, spare transformers and meters were included in capital assets as at December 31, 2011. The carrying amount included in capital assets in respect of this was $733,934 in 2011 (2010 - $701,752).

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis over the useful service life as follows:

Land and land rights	50 years or effective life
Buildings	50 years
Distribution stations	30 years
Poles and overhead/underground lines	25 years
Distribution	
Transformers	25 years
Distribution meters	25 years
Equipment	4-30 years

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Customer deposits include interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability. Deposits earn interest at a rate of the Bank of Canada Prime Business rate less two percent updated quarterly and accrued monthly.

Post employment benefits other than pension

The Company provides its current and applicable retired employees to age 65 with life insurance and medical benefits beyond those provided by the government-sponsored plans. The cost of these benefits is expensed as earned through employment service.

2. Significant accounting policies (continued)

Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets are reported net of an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provision for obsolescence. Certain estimates are also required as regulations, which ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits and within the framework of the accounting policies.

Revenue recognition

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue. Service revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis on power used. Any discrepancies in the revenue collected and the associated cost of power to distribute are charged to regulatory assets.

Unbilled revenue

Unbilled revenue is an estimate of customers' consumption of power from the last meter read in the year to December 31st.

Future accounting changes

International financial reporting standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. In September 2010, the AcSB decided to amend the Introduction to Part I of the CICA Handbook – Accounting to require:

a) Qualifying entities with rate-regulated activities, investment companies and segregated accounts of life insurance enterprises to adopt IFRS for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2012; and

b) Entities electing to defer the first time adoption of IFRS to disclose that fact.

Welland Hydro-Electric System Corp. has elected to defer adoption of IFRS until January 1, 2012. At this time, the impact on the future financial position and results of operations is not reasonably determined or estimable.

Welland Hydro-Electric System Corp. has started its internal review and hired outside consultants to assist in the changeover to IFRS. Both Welland Hydro-Electric System Corp. and its consultants continue to monitor and review announcements from the International Accounting Standards Board in relation to Rate Regulated Activities.

3. Bank indebtedness

The Company has an authorized line of credit of $2,000,000, bearing interest at prime. There is no balance outstanding at December 31, 2011 (2010 - $Nil). The line is secured by a general security agreement representing a first floating charge over all assets whether obtained now or in the future.

The Company has a credit card facility of $45,000, of which there is no balance outstanding at December 31, 2011 (2010 - $Nil).

4. Accounts receivable

	2011	2010
	$	$
Electrical energy	**2,572,106**	2,724,375
Other	**258,240**	338,601
	2,830,346	3,062,976
Less: allowance for doubtful accounts	**(107,764)**	(113,524)
	2,722,582	2,949,452

The allowance for doubtful accounts reflects accounts which have been sent to a Credit Collection Agency for which the likelihood of recovery is small. These amounts are written off after one year.

5. Long-term investment non-associated company

	2011	2010
	$	$
100 common shares of Utility Collabrative Services Inc. ("UCS") - at cost	**100**	100
Payments and costs incurred on behalf of UCS	**19,584**	19,584
	19,684	19,684

The Company has a 10% interest in UCS. The purpose of this company is to assist in the maintenance of the CIS system for Welland Hydro and its other shareholders. Payments and costs incurred on behalf of UCS are not specifically refundable.

6. Property, plant and equipment

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land and land rights	**228,982**	**58,991**	**169,991**	170,456
Buildings	**2,266,354**	**1,015,066**	**1,251,288**	1,006,656
Distribution stations	**4,509,104**	**2,494,212**	**2,014,892**	2,082,054
Poles and lines	**29,724,164**	**16,303,578**	**13,420,586**	13,230,423
Distribution				
Transformers	**6,036,233**	**3,222,727**	**2,813,506**	2,843,866
Distributions meters	**5,170,933**	**2,106,554**	**3,064,379**	2,786,255
Equipment	**5,779,809**	**3,143,241**	**2,636,568**	2,185,947
	53,715,579	**28,344,369**	**25,371,210**	24,305,657

At December 31, 2011, net book value of stranded meters related to the deployment of smart meters amounting to $559,472 (2010 - $636,362) is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $559,472 lower at December 31, 2011 (2010 - $636,362).

7. Regulatory settlement variances

	2011	2010
	$	$
Variance accounts, beginning year	**(5,334,792)**	(684,461)
Current year regulated interest expense	**(28,071)**	(18,094)
Current year regulated interest income	**6,726**	3,471
Current year deferred charges	**(107,695)**	63,084
Current year smart meter deferred expenses	-	-
Current year smart meter recoveries	-	-
Current year PILS in future rates	**91,078**	59,477
Current year close 2006 EDR recoveries	-	(3,341,548)
Current year regulated settlement		
Variances - service revenue	**(415,650)**	(1,425,323)
Variances - cost of power	**803,672**	8,602
Variance accounts, end of year	**(4,984,732)**	(5,334,792)
Less: recoveries (distributed) to date	**1,248,783**	807,706
Ending regulatory liabilities	**(3,735,949)**	(4,527,086)
Settlement variances and interest	**(1,048,067)**	(1,418,649)
Deferred charges and interest	**(17,886)**	89,328
PILS in future rates	**(2,528,724)**	(2,619,802)
(Distributable) recoverable variances and interest	**(1,390,055)**	(1,385,669)
Distributed (recoveries) to date	**1,248,783**	807,706
Ending regulatory liabilities	**(3,735,949)**	(4,527,086)
Interest included in the ending regulatory assets balances	(14,768)	(36,916)

Regulatory Assets consist of differences between the amounts owed to the Independent Electricity System Operator ("IESO") and the amounts billed to customers and retailers (Settlement Variances) and expenses/revenues deferred for consideration by the OEB for reflection in future rates.

In the absence of rate regulation, GAAP would require that Service Revenue or Cost of Power be adjusted for Regulated Settlement variances as incurred. Current year Regulatory Interest Expense, Regulatory Interest Income, Deferred Rate Recoverable, and Deferred Charges would also be reversed and reflected in the appropriate expense/income classification as incurred. In the absence of rate regulation, Service Revenue would be $415,650 higher in 2011 (2010 - $1,425,323) and Cost of Power would be $803,672 higher in 2011 (2010 - $8,602). Interest income would be $6,726 lower in 2011 (2010 - $3,471). Interest expense would be $28,071 lower in 2011 (2010 - $18,094). Operating and maintenance expense would be $2,373 higher in 2011 (2010 - $29,052). General administration expense would be $110,068 lower in 2011 (2010 - $34,032 higher).

The Current Year - PILS in future years is the result of amendment to Handbook Section 3465 (See Note 2 Future Income Taxes). The OEB does not currently recognize PILS to be included in future rates as a regulatory account. As a result, this amount has been included as Other Liabilities – Long-Term for regulatory reporting.

8. Pension agreement

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As the Company is only liable for the contributions, defined contribution accounting is used by the Company. The Company's contribution for employees' current service for the year ended December 31, 2011 was $235,237 (2010 - $213,764).

9. Related party transactions

Welland Hydro-Electric System Corp. provides overall business and strategic planning through its Board of Directors and will negotiate on behalf of Welland Hydro Energy Services Corp. and Welland Hydro-Electric Holdings Corp. other corporate programs such as risk management. The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange.

The Company provided the following services in the normal course of operations for the City of Welland:

	2011	2010
	$	$
City of Welland		
Energy (at commercial rates)	**1,413,735**	1,465,143
Energy (prior years adjustment)	**-**	(126,692)
Rent	**21,466**	21,631
Streetlight maintenance	**184,155**	260,964
	1,619,356	1,621,046

The following expenses with the City were incurred in the regular course of operations:

	2011	2010
	$	$
City of Welland		
Property taxes and other taxes	**56,085**	68,607
Leases and miscellaneous	**22,002**	20,585
Water	**5,859**	5,253
Interest	**843,747**	843,747
	937,693	938,192

10. Long-term debt

	2011	2010
	$	$
Note payable - City of Welland	**13,499,953**	13,499,953
Loan payable - TD Canada Trust	**3,700,000**	3,700,000
	17,199,953	17,199,953

The note is due to the City of Welland and bears interest at 6.25% effective May 1, 2006. It is due 12 months after official demand by the City.

10. Long-term debt (continued)

The loan with the TD Canada Trust commenced February 6, 2009 for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement, the Company has effectively fixed interest rates at 2.87%. The loan payments cover interest only with no principal repayments.

11. Employee future benefits

The Company pays certain medical and life insurance benefits to age 65 on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2011 of $1,554,847 (2010 - $1,535,617) and the expense for the year ended December 31, 2011 was determined by actuarial valuation using a discount rate of 4.5% (2010 - 5.0%).

Information regarding the defined benefit plan of the Company is as follows:

	2011	2010
	$	$
Total accrued benefit liability, start of year	**1,535,617**	1,537,747
Current service cost	**34,095**	26,567
Interest cost	**81,833**	64,040
Past service costs	**2,242**	-
Amortization of actuarial gain	**8,739**	(36,484)
Benefits paid for the period	**(107,679)**	(56,253)
Total accrued benefit liability, end of year	**1,554,847**	1,535,617
Projected accrued benefit obligation, end of year	**1,748,350**	1,316,712
Unamortized past service costs	**(22,416)**	-
Unamortized actuarial gain/(loss)	**(171,087)**	218,905
Current portion	**126,909**	56,253
Long-term portion	**1,427,938**	1,479,364
	1,554,847	1,535,617

The main actuarial assumptions utilized for the valuation are as follows:

General Inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.00% in 2011 and thereafter.

Discount (Interest) Rate - the obligation as at January 1, 2011 of the present value of future liabilities and the expense for the year ended December 31, 2011 were determined using a discount rate of 5%. This rate reflects the assumed long-term yield on high quality bonds. The projected liability at December 31, 2011 was determined using a discount rate of 4.5%.

Salary Levels - future general salary and wage levels were assumed to increase at 2.75% per annum for years 2011 and 2012, 3.25% for years 2013 and 2014, and 3.3% thereafter.

Medical Costs - medical costs were assumed to increase at 8.0% in 2011, decreasing to 5% by 2019.

Dental Costs - dental cost were assumed to increase at 5.0% in 2011 and thereafter.

11. Employee future benefits (continued)

Sensitivity Analysis - assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates have the following effects for 2011:

	Increase
	$
Accrued benefit obligation, end of period	64,000

12. Changes in non-cash working capital components

	2011	2010
	$	$
Accounts receivable	**226,870**	(906,162)
Accounts receivable - unbilled revenue	**1,042,366**	97,499
Due from the City of Welland	**4,010**	(34,249)
Inventories	**(75,360)**	(6,053)
Prepaid expenses	**24,822**	(76,024)
Accounts payable and accrued liabilities	**(1,660,671)**	662,605
Customer deposits - current portion	**(225,576)**	77,971
Current portion - liability for future employee benefits	**70,656**	-
Other current liabilities	**376,731**	(44,982)
	(216,152)	(229,395)

13. Share capital

Authorized

Unlimited number of common shares

Issued

	2011	2010
	$	$
1,000 common shares	**12,953,200**	12,953,200

14. Commitments and contingencies

Reciprocal Insurance Exchange

The Company participates with the other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred.

14. Commitments and contingencies (continued)

Independent Electricity System Operator

As of May 1, 2002, in order for the Company to obtain the electricity it requires to distribute to its customers, the Company was required to provide security to the Independent Electricity System Operator (IESO) based on its usage. The security obtained was a letter of credit from a financial institution, which requires an interest coverage ratio of more than 1.5 and a debt capitalization ratio of less than 0.6. The letter is in the amount of $2,369,722 and incurs interest at 0.6% annually.

As of April and June of 2011, the Company was required to provide additional security to the Independent Electricity System Operator (IESO). The security obtained was two letters of credit from a financial institution. The letters of credit are in the amount of $100,000 & $200,000 and also incur interest at 0.6% annually.

Commitments

The Company has an agreement to contribute to the costs of power connections and power lines in new subdivisions built in the City of Welland. The Company will take over the ownership of the power distribution equipment in the subdivisions two years after construction is accepted. The contribution made for the construction in subdivisions in 2011 was $58,762 (2010 - $25,058). The estimated contribution for 2012 is $25,000.

15. Capital management

The Company's objectives when managing capital are:

a) To maintain a flexible capital structure which optimized the cost of capital as an acceptable risk; and

b) To maintain capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholder's equity, long-term debt, and customer deposits in the definition of capital. As at December 31, 2011, the Company has $34,714,482 (2010 - $34,756,650) in capital.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

Capital management objectives, policies and procedures are unchanged since the preceding year.

Under its various borrowing agreements, the Company must satisfy certain restrictive covenants as to minimum financial ratios such as working capital ratio and debt/equity ratio, the purchase of property, plant and equipment and the payment of dividends.

During the year, the Company complied with all these capital requirements.

16. Financial instruments and risk management

The Company, through its financial assets and liabilities has exposure to following risks.

Fair value

The fair values of cash and cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. As there is no secondary market for customer deposits, the calculation of their fair value with appropriate reliability is impractical.

The Company has a Long-Term Promissory Note Payable with the City of Welland ("the City") in the amount of $13,499,953. The restated Promissory Note was issued to the City on October 19, 2005 with interest at 6.25% effective May 1, 2006. There is no "term length" associated with the Promissory Note but the City can demand payment twelve months after notice has been provided.

The Long-Term Promissory Note Payable with the City has been identified as a financial instrument under the "Other Financial Liabilities" category. A comparison with market prices for similar debt instruments indicates no material difference between market and carrying values. As a result, no changes have been made to the current financial statements.

The Company has a Long-Term Loan with the TD Canada Trust (the "Bank") in the amount of $3,700,000 which was entered into on February 6, 2009. The period is for five years with an Optional Exit Strategy at three years. The Company has also entered into an interest rate swap agreement with Toronto Dominion Securities for the full amount of the loan to reduce its exposure to interest rate fluctuations. Under the terms of the agreement, the Company has effectively fixed interest rates at 2.87%.

The Long-Term Loan with the Bank has been identified as a financial instrument under the "Other Financial Liabilities" category. The fair value of the interest rate swap agreement is less than book value as at December 31, 2011.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balance and cash flow generated from operations to meet its requirements.

Credit risk

The Company is exposed to credit risk from its customers. However, the Company has a large number of diverse customers minimizing concentration of credit risk. The Company requires customers to provide security deposits subject to OEB regulations.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current classification.

Non-consolidated financial statements of

Welland Hydro-Electric Holding Corp.

December 31, 2011

Welland Hydro-Electric Holding Corp.

December 31, 2011

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Independent Auditor's Report

To the Board of Directors of
Welland Hydro-Electric Holding Corp.

We have audited the accompanying non-consolidated financial statements of Welland Hydro-Electric Holding Corp., which comprise the non-consolidated balance sheet as at December 31, 2011, and the non-consolidated statements of earnings and retained earnings and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Welland Hydro-Electric Corp. on a non-consolidated basis for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting described in Note 2 of the non-consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements.

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

Opinion

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of Welland Hydro-Electric Holding Corp. as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note 2 of the non-consolidated financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the use of the Board of Directors of Welland Hydro-Electric Holding Corp. and the Ontario Electricity Financial Company and should not be used by parties other than the Board of Directors of Welland Hydro-Electric Holding Corp. and the Ontario Electricity Financial Company

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 29, 2012

Welland Hydro-Electric Holding Corp.

Non-consolidated statement of earnings and retained earnings
year ended December 31, 2011

	2011	2010
	$	$
Dividends	**650,000**	500,000
Interest income	**26,791**	79,578
	676,791	579,578
Expenses		
Bank charges	**620**	1,842
Director fees	**7,546**	8,285
Insurance	**1,000**	2,000
Management fees	**16,487**	10,991
Professional fees	**33,594**	50,750
	59,247	73,868
Earnings before income taxes	**617,544**	505,710
Provision for income taxes	**105**	-
Net earnings	**617,439**	505,710
Retained earnings, beginning of year	**2,402,379**	2,396,669
Dividends	**(775,000)**	(500,000)
Retained earnings, end of year	**2,244,818**	2,402,379

Welland Hydro-Electric Holding Corp.

Non-consolidated balance sheet
as at December 31, 2011

	2011	2010
	$	$
Assets		
Current assets		
Cash	**2,112,606**	803,829
Accounts receivable	**340**	107,130
Prepaid expenses	**-**	1,000
Due from related party (Note 3)	**20**	20
	2,112,966	911,979
Investment in term deposits	**-**	1,500,000
Long-term note receivable from related party (Note 3)	**150,000**	-
Investment in subsidiary companies (Note 4)	**12,953,190**	12,953,190
	15,216,156	15,365,169
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**6,201**	3,702
Income taxes payable	**2,914**	2,914
	9,115	6,616
Due to related parties (Note 3)	**9,023**	2,974
	18,138	9,590
Shareholder's equity		
Share capital (Note 5)	**12,953,200**	12,953,200
Retained earnings	**2,244,818**	2,402,379
	15,198,018	15,355,579
	15,216,156	15,365,169

Approved by the Board

_____ Director

Welland Hydro-Electric Holding Corp.

Non-consolidated statement of cash flows
year ended December 31, 2011

	2011	2010
	$	$
Operating activities		
Net earnings	**617,439**	505,710
Changes in non-cash working capital items		
Accounts receivable	**106,790**	(80,012)
Prepaid expenses	**1,000**	(1,000)
Accounts payable	**2,499**	2
Income taxes payable	**-**	1
	727,728	424,701
Investing activities		
Investment in term deposits	**1,500,000**	-
Long-term loan receivable related party	**(150,000)**	-
	1,350,000	-
Financing activities		
Due from related parties	**6,049**	735
Dividends paid	**(775,000)**	(500,000)
	(768,951)	(499,265)
Net change in cash and cash equivalents	**1,308,777**	(74,564)
Cash and cash equivalents, beginning of year	**803,829**	878,393
Cash and cash equivalents, end of year	**2,112,606**	803,829
Supplemental disclosure of cash flow information		
Payments in lieu of income taxes	**105**	-

1. Description of business

Welland Hydro-Electric Holding Corp. (the "Company") was incorporated July 1, 2000 under the Business Corporations Act (Ontario).

The Company is wholly-owned by the City of Welland.

The principal business of the Company is to oversee the operations of Welland Hydro-Electric System Corp., a regulated electricity distribution company, and Welland Hydro Energy Services Corp., a retail service company.

2. Significant accounting policies

Private enterprises are not required to apply the following Sections of the CICA Handbook: 1530, 3855, 3862, 3863 and 3865 which would otherwise have applied to the financial statements of the Company for the year ended December 31, 2011. The Company has elected to use this exemption and applies the requirements of Section 3860 and of Accounting Guideline 13 (AcG-13) of the CICA Handbook.

Basis of accounting

These financial statements have been prepared in accordance with the significant accounting policies summarized below. The financial statements have been prepared on a non-consolidated basis for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998. The Company's investments in its wholly-owned subsidiaries Welland Hydro Energy Services Corp. and Welland Hydro-Electric System Corp. have been recorded at cost. Earnings from the investments are recognized only to the extent dividends are received or receivable.

Payment-in-lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are recorded in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company Tax Act (Ontario) and modified by the Electricity Act, 1998, and related regulations.

Cash and cash equivalents

Cash and cash equivalents consist of cash on-hand and balances with the bank.

Investments

Investments are recorded at cost.

Use of estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements.

Future accounting changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. The Company has decided to issue special purpose financial statements for its year ended December 31, 2011 under Canadian GAAP which will allow for a one year delay in the adoption of IFRS. This one year delay will coincide with the adoption date for its rate regulated affiliate and parent company. The revised adoption date of January 1, 2012 will require the restatement, for comparative purposes, of amounts reported by the Company of its year ended December 31, 2011, and of the opening balance sheet as at January 1, 2011.

2. Significant accounting policies (continued)

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS on its financial statements. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required.

3. Related party transactions

Amount due from a related party is as follows:

	2011	2010
	$	$
City of Welland	20	20

Amounts due to related parties are as follows:

	2011	2010
	$	$
Welland Hydro-Electric System Corp. - accounts payable	7,834	4,256
Welland Hydro Energy Services Corp. - note payable	10	10
Welland Hydro Energy Services Corp. - accounts payable	1,179	-
Welland Hydro Energy Services Corp. - accounts receivable	-	(1,292)
	9,023	2,974

Long-term amounts due from a related company are as follows:

	2011	2010
	$	$
Welland Hydro-Electric System Corp.		
Long-term note receivable	150,000	-

The long-term note receivable from Welland Hydro-Electric System Corp. bears interest at 2.99% effective September 1, 2011 with a 10 year amortization.

4. Investment in subsidiary companies

	2011	2010
	$	$
Welland Hydro-Electric Systems Corp.		
1,000 common shares	12,953,180	12,953,180
Welland Hydro Energy Services Corp.		
1,000 common shares	10	10
	12,953,190	12,953,190

5. Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares.

Issued

	2011	2010
	$	$
2,000 common shares	**12,953,200**	12,953,200

6. Financial instruments and risk management

The Company, through its financial assets and liabilities, has exposure to the following risks:

Credit risk

The Company provides credit to third parties in the normal course of its operations. It carries out, on a continuing basis, credit checks and maintains provisions, when necessary, for contingent credit losses.

Fair value

The fair value of cash, accounts receivable, due from related party, investment in term deposits and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. The fair value of the long-term note receivable from related party approximates its carrying value as it was issued during the year at prevailing market rates.

Liquidity risk

The Company's objective is to have sufficient liquidity to meets its liabilities when due. The Company monitors its cash balance and cash flows generated from operations to meets its requirements.

7. Commitments and contingencies

Independent Electricity System Operator

As of April and June of 2011, the Company was required to provide security to the Independent Electricity System Operator (IESO). The security obtained was two letters of credit from a financial institution. The letters of credit are in the amount of $100,000 & $200,000 and incur interest at 0.6% annually.

Non-consolidated financial statements of

Welland Hydro Energy Services Corp.

December 31, 2011

Welland Hydro Energy Services Corp.

December 31, 2011

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Independent Auditor's Report

To the Board of Directors of
Welland Hydro Energy Services Corp.

We have audited the accompanying non-consolidated financial statements of Welland Hydro Energy Services Corp., which comprise the non-consolidated balance sheet as at December 31, 2011, and the non-consolidated statements of earnings and retained earnings and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Welland Hydro Energy Services Corp. on a non-consolidated basis for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting described in Note 2 of the non-consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements.

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

Opinion

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of Welland Hydro Energy Services Corp. as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note 2 of the non-consolidated financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the use of the Board of Directors of Welland Hydro Energy Services Corp. and the Ontario Electricity Financial Company and should not be used by parties other than the Board of Directors of Welland Hydro Energy Services Corp. and the Ontario Electricity Financial Company.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 29, 2012

Welland Hydro Energy Services Corp.

Non-consolidated statement of loss and retained earnings
year ended December 31, 2011

	2011	2010
	$	$
Service revenue	224,563	298,650
Interest income	1,121	481
	225,684	299,131
Cost of sales	163,531	234,666
Gross margin	62,153	64,465
Expenses		
Amortization	3,246	3,245
Bank charges	-	220
Grant	-	10,000
Insurance	3,000	2,000
Management fee	6,792	6,792
Professional fees	58,134	14,897
	71,172	37,154
(Loss) earnings before income taxes	(9,019)	27,311
Provision for income taxes	-	9,000
Net (loss) earnings	(9,019)	18,311
Retained earnings, beginning of year	92,015	73,704
Retained earnings, end of year	82,996	92,015

Welland Hydro Energy Services Corp.

Non-consolidated balance sheet
as at December 31, 2011

	2011	2010
	$	$
Assets		
Current assets		
Cash	**89,685**	74,200
Accounts receivable	**3,316**	414
Prepaid expenses	**-**	3,000
	93,001	77,614
Due from related parties (Note 3)	**8,102**	10,883
Investment in subsidiary company (Note 5)	**1**	1
Property, plant and equipment (Note 4)	**9,802**	13,048
	110,906	101,546
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	**26,079**	7,700
Income taxes payable	**1,821**	1,821
	27,900	9,521
Shareholder's equity		
Share capital (Note 6)	**10**	10
Retained earnings	**82,996**	92,015
	83,006	92,025
	110,906	101,546

Approved by the Board

_____ Director

Welland Hydro Energy Services Corp.

Non-consolidated statement of cash flows
year ended December 31, 2011

	2011	2010
	$	$
Operating activities		
Net (loss) earnings	**(9,019)**	18,311
Item not affecting cash		
Amortization	**3,246**	3,245
Changes in non-cash working capital items		
Accounts receivable	**(2,902)**	449
Prepaid expenses	**3,000**	(3,000)
Accounts payable and accrued liabilities	**18,379**	300
Income taxes payable	-	(3,479)
	12,704	15,826
Financing activity		
Change in due to/from related parties	**2,781**	(5,487)
Net change in cash and cash equivalents	**15,485**	10,339
Cash and cash equivalents, beginning of year	**74,200**	63,861
Cash and cash equivalents, end of year	**89,685**	74,200
Supplemental disclosure of cash flow information		
Payment in lieu of income taxes	-	9,000

1. Nature of operations

Welland Hydro Energy Services Corp. (the "Company"), is a wholly-owned subsidiary of the Welland Hydro-Electric System Corp., and was incorporated July 1, 2000 under the Business Corporations Act (Ontario).

The principal business of the Company is to provide maintenance support for streetlights to the City of Welland. Sentinel light rentals and expert energy management services are auxiliary services offered to energy consuming organizations and corporations.

2. Significant accounting policies

Private enterprises are not required to apply the following Sections of the CICA Handbook: 1530, 3855, 3862, 3863 and 3865 which would otherwise have applied to the financial statements of the Company for the year ended December 31, 2011. The Company has elected to use this exemption and applies the requirements of Section 3860 and of Accounting Guideline 13 (AcG-13) of the CICA Handbook.

Basis of accounting

The financial statements have been prepared in accordance with the significant accounting policies set out below. The financial statements have been prepared on a non-consolidated basis for the calculation of payments in lieu of taxes under the provisions of the Electricity Act, 1998. The Company's investment in its wholly-owned subsidiary, Welland WIFI Company, has been recorded at cost. Canadian GAAP requires the investment in the subsidiary to be recorded using the consolidation method.

The financial statements reflect the following significant accounting policies:

Asset retirement obligations

The Company recognizes the liability for an asset retirement that results from acquisition, construction, development, or through normal operations. The liability for an asset retirement is initially recorded at its fair value in the year in which it is incurred and when a reasonable estimate of fair value can be made. The corresponding cost is capitalized as part of the related asset and is amortized over the asset's useful life. In subsequent years, the liability is adjusted for changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis over the useful service life as follows:

Poles and sentinel light equipment	10 years

Payment-in-lieu of income taxes

Under the Electricity Act, 1998, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are recorded 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) and modified by the Electricity Act, 1998, and related regulations.

2. Significant accounting policies (continued)

Investments

Investments are recorded at cost

Revenue recognition

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue representing services consumed by customers since the date of each customer's last bill.

Use of estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements.

Future accounting changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP effective January 1, 2011. The Company has decided to issue special purpose financial statements for its year ended December 31, 2011 under Canadian GAAP which will allow for a one year delay in the adoption of IFRS. This one year delay will coincide with the adoption date for its rate regulated affiliate and parent company. The revised adoption date of January 1, 2012 will require the restatement, for comparative purposes, of amounts reported by the Company of its year ended December 31, 2011, and of the opening balance sheet as at January 1, 2011.

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS on its financial statements. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required.

3. Due from (to) related parties and related party transactions

Amount due from related parties are as follows:

	2011	2010
	$	$
Welland Hydro-Electric System Corp. - accounts receivable	6,915	12,167
Welland Hydro-Electric Holding Corp. - accounts receivable	1,179	-
Welland Hydro-Electric Holding Corp. - accounts receivable	10	10
Welland Hydro-Electric System Corp. - accounts payable	(1)	(1)
Welland Hydro-Electric Holding Corp. - accounts payable	-	(1,292)
Welland WiFi Corp.	(1)	(1)
	8,102	10,883

3. Due from (to) related parties and related party transactions (continued)

The following charges were incurred with Welland Hydro-Electric System Corp. in the regular course of operations:

	2011	2010
	$	$
Management fee	**6,792**	6,792
Streetlight/sentinel maintenance and admin	**163,531**	234,666
	170,323	241,458

Included in revenue for the year were streetlight maintenance charges to the City of Welland amounting to $184,155 (2010 - $260,964).

Amounts due to and from related parties arose in the normal course of operations. The amounts are unsecured and have no specified terms of repayment

4. Property, plant and equipment

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Sentinel lights	**32,451**	**22,649**	**9,802**	13,048

5. Investment in subsidiary company

	2011	2010
	$	$
Welland WiFi Corp.		
1 common share	**1**	1

6. Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares.

Issued

	2011	2010
	$	$
1,000 common shares	**10**	10

MATERIALITY THRESHOLDS:

Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, issued by the Board June 29, 2012 states the relevant default materiality threshold as:

"$50,000 for a distributor with a distribution revenue requirement less than or equal to $10 million"

With a distribution revenue requirement estimated at $9.7 million, Welland has used a materiality threshold of $50,000 as per the Board's filing guidelines.

RATE BASE:

Rate Base Overview:

The rate base used for the purpose of calculating the revenue requirement used in this Application follows the definition used in the EDR Handbook as an average of the balances of Net Fixed Assets at the beginning and the end of the 2013 Test Year, plus a working capital allowance, which is 13% of the sum of the cost of power and controllable expenses.

The net fixed assets include those distribution assets that are associated with activities that enable the conveyance of electricity for distribution purposes. Welland Hydro's rate base calculation excludes any non-distribution assets which have been included in account 2075-Non-Utility Property. Amounts in this account represent Micro-Fit Solar installations owned by Welland Hydro-Electric System Corp. Controllable expenses include operations and maintenance, billing and collecting and administration expenses.

Welland Hydro has provided its rate base calculations for the years 2009 Board Approved, 2009 Actual, 2010 Actual, 2011 Actual, 2012 Bridge Year and 2013 Test Year in Table 2.1 below. Welland Hydro has calculated its 2013 rate base as $31,884,331.

Table 2.1
Summary of Rate Base

Description	2009 OEB Approved	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test
Gross Fixed Assets	46,754,751	46,196,436	48,097,500	50,232,520	52,906,980	54,841,819
Accumulated Depreciation	25,630,677	25,262,201	26,293,738	27,863,510	27,870,275	29,051,159
Net Book Value	21,124,074	20,934,235	21,803,762	22,369,010	25,036,705	25,790,660
Average Net Book Value	20,843,654	20,797,145	21,368,999	22,086,386	24,712,230	25,413,683
Working Capital	40,585,836	36,853,031	40,631,354	43,931,938	49,399,566	49,774,219
Working Capital Allowance	6,087,875	5,527,955	6,094,703	6,589,791	7,409,935	6,470,648
Rate Base	26,931,529	26,325,100	27,463,702	28,676,177	32,122,165	31,884,331

Average Net Book Value Overview:

The average Net Book Value from 2009 to 2011 increased by $1,434,775. During this two year period capital expenditures exceeded depreciation by $1,447,358. Major expenditures during this time period included $433,700 on Wholesale Primary metering as required by the IESO, $573,949 on Computer Software which included the replacement of the Customer Information System (required for TOU billing but excluded from Smart Meter capital expenditures)/Financial System, and $303,012 on building modification required to meet Accessibility Standards for Customer Service, Ontario Regulation 429/07 and Accessibility for Ontarians with Disabilities Act, 2005. A detail of capital expenditures by year by project is included in Exhibit 2 Tab 3.

The average Net Book Value increases $2,625,844 in 2012 which is related to the transfer of Smart Meter Capital Expenditures from account 1555, transfer of stranded meters to account 1555, and the net changes do to the introduction of MIFRS. The 2011 Fixed Asset Continuity Schedule C-GAAP in Tab 2 (Pg. 4) of this exhibit shows an increase in net book value of $2,574,654 as a result of Smart Meter Capital Expenditures transferred to rate base as of January 1, 2012. The same fixed asset continuity schedule also shows a decrease in net book value of $555,909 due to stranded meters. These two adjustments account for the majority of the increase in average net book value for the year. The balance is comprised of adjustments to capital expenditures and depreciation as a result of the move to MIFRS. The 2012 Fixed Asset Continuity Schedule-CGAAP in Tab 2 (Pg. 5) of this exhibit only shows an increase of $62,171 ($2,100,000 capital expenditures/$2,037,829 depreciation) to net fixed assets while the 2012 Fixed Asset Continuity Schedule-MIFRS in Tab 2 (Pg. 6) of this exhibit shows a increase of $648,950 to net fixed assets ($1,833,000 capital expenditures/$1,184,050 depreciation). Capital expenditures under MIFRS are decreased by $267,000 as a result of exclusion of indirect overhead costs and depreciation expense is reduced by $853,779 as a result of extended useful lives for assets and Stranded Meter depreciation expense effecting account 1555.

The average Net Book Value increases by $701,453 in 2013 which is once again related to the reduction in depreciation expense due to MIFRS being much more significant than the impact of

non capitalized overheads on overall capital spending levels. As indicated earlier in this application the long term effect of this change will impact cash balances and will eventually have an impact on long term debt.

Working Capital Overview:

Welland Hydro has provided a summary of its calculations of the cost of power and controllable expenses used in the calculations for determining working capital for the years 2009 Board Approved, 2009 Actual, 2010 Actual, 2011 Actual, 2012 Bridge Year and 2013 Test Year in Table 2.2 below. Details of Welland Hydro's changes in OM&A expenses are outlined in Exhibit 4, Tab 2 and Cost of Power calculations are provided later in this schedule.

Table 2.2
Summary of Working Capital Calculation

Description	2009 OEB Approved	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test
Cost of Power	35,671,999	32,059,676	35,898,028	38,654,200	43,328,135	43,137,252
Operations	1,465,769	1,317,883	1,297,663	1,161,143	1,368,019	1,508,194
Maintenance	1,111,632	1,191,970	932,588	1,232,249	1,469,334	1,756,582
Billing & Collecting	980,174	899,448	969,343	1,144,021	1,353,692	1,423,275
Community Relations	159,667	84,366	118,770	121,908	129,198	134,249
Administration & General Expense	1,196,595	1,299,688	1,414,962	1,618,417	1,751,188	1,814,667
Property Taxes	0	0	0	0	0	0
Working Capital	40,585,836	36,853,031	40,631,354	43,931,938	49,399,566	49,774,219

The changes in working capital are primarily attributed to the annual change in Cost of Power resulting from increases in the market price of electricity and transmission charges, and increases in OM&A resulting from smart meter and time of use billing expenses, costs related to the new CIS/Financial Systems, increases in OM&A due to MIFRS, inflation and other increases. As indicated above changes in OM&A are discussed in Exhibit 4, Tab 2.

Working Capital Allowance Overview:

Welland Hydro has not undertaken a Working Capital lead-lag study and has elected to use the 13% option as allowed under Chapter 2 of the OEB's Filing Requirements for Transmission and Distribution Applications.

Welland Hydro's working capital allowance is forecast to be $6,470,648 for the 2013 Test Year as can be seen in Table 2.3 below. This represents an increase of $382,773 over four years as compared to the 2009 COS application.

The working capital allowance is based on 15% from 2009 to 2012 and changes to 13% in 2013 as noted above. The reduction in the working capital allowance to 13% has significantly reduced the impact of increases to overall working capital allowance.

A summary of the working capital allowances by year are summarized in Table 2.3 below which shows the majority of the increase in working capital allowance is related to Cost of Power:

Table 2.3
Summary of Working Capital Allowance

Description	2009 OEB Approved	2009 Actual	2010 Actual	2011 Actual	2012 Bridge	2013 Test	Difference
Cost of Power	5,350,800	4,808,951	5,384,704	5,798,130	6,499,220	5,607,843	257,043
Operations	219,865	197,682	194,649	174,171	205,203	196,065	(23,800)
Maintenance	166,745	178,796	139,888	184,837	220,400	228,356	61,611
Billing & Collecting	147,026	134,917	145,401	171,603	203,054	185,026	38,000
Community Relations	23,950	12,655	17,816	18,286	19,380	17,452	(6,498)
Administration & General Expense	179,489	194,953	212,244	242,763	262,678	235,907	56,417
Property Taxes	0	0	0	0	0	0	0
Working Capital	6,087,875	5,527,955	6,094,703	6,589,791	7,409,935	6,470,648	382,773

COST OF POWER

Welland Hydro has calculated the cost of power for the 2012 Bridge Year and 2013 Test Year based on the results of the load forecast which is discussed in detail in Exhibit 3. The electricity prices used in the calculation are the published prices in the OEB's latest Regulated Price Plan Report. Welland Hydro will update the electricity prices should the OEB publish a revised Regulated Price Plan Report prior to a Decision.

The cost of power calculations for the 2012 Bridge Year and 2013 Test Year are provided on pages 6 through 9 of this schedule. Beginning in July 2012 Cost of Power has been adjusted to reflect the new charge proposed by the IESO related to the MDMR.

2012 Load Foreacst	kWh	kW	2011 %RPP
Residential	161,757,930		88%
General Service < 50 kW	54,504,980		86%
General Service 50 to 4,999 kW	141,048,217	386,714	13%
Street Lighting	2,203,348	6,144	0%
Sentinel Lighting	832,323	2,297	96%
Unmetered Scattered Load	1,113,272		95%
Large Use	59,563,454	168,888	0%
TOTAL	**421,023,524**	**564,043**	

Electricity - Commodity RPP	2012	2012 Loss			
Class per Load Forecast RPP	**Forecasted**	**Factor**	**2012**		
Residential	141,714,665	1.0532	149,253,885	$0.08069	$12,043,296
General Service < 50 kW	46,903,861	1.0532	49,399,146	$0.08069	$3,986,017
General Service 50 to 4,999 kW	17,649,521	1.0502	18,536,257	$0.08069	$1,495,691
Street Lighting	0	1.0532	0	$0.08069	$0
Sentinel Lighting	799,362	1.0532	841,888	$0.08069	$67,932
Unmetered Scattered Load	1,063,047	1.0532	1,119,601	$0.08069	$90,341
Large Use	0	1.0045	0	$0.08069	$0
TOTAL	**208,130,456**		**219,150,778**		**$17,683,276**

Electricity - Commodity Non-RPP	2012	2012 Loss			
Class per Load Forecast	**Forecasted**	**Factor**	**2012**		
Residential	20,043,265	1.0532	21,109,567	$0.07877	$1,662,801
General Service < 50 kW	7,601,119	1.0532	8,005,499	$0.07877	$630,593
General Service 50 to 4,999 kW	123,398,696	1.0502	129,598,412	$0.07877	$10,208,467
Street Lighting	2,203,348	1.0532	2,320,566	$0.07877	$182,791
Sentinel Lighting	32,961	1.0532	34,714	$0.07877	$2,734
Unmetered Scattered Load	50,225	1.0532	52,897	$0.07877	$4,167
Large Use	59,563,454	1.0045	59,831,490	$0.07877	$4,712,926
TOTAL	**212,893,068**		**161,121,655**		**$17,404,479**

Transmission - Network		Volume			
Class per Load Forecast		**Metric**	**2012**		
Residential		kWh	170,363,452	$0.0080	$1,362,908
General Service < 50 kW		kWh	57,404,645	$0.0071	$407,573
General Service 50 to 4,999 kW		kW	386,714	$2.4279	$938,908
Street Lighting		kW	3,784	$2.2633	$8,564
Sentinel Lighting		kW	2,297	$2.2682	$5,210
Unmetered Scattered Load		kWh	1,172,498	$0.0071	$8,325
Large Use		kW	168,888	$1.7701	$298,949
TOTAL					**$3,030,436**

Transmission - Connection		**Volume**			
Class per Load Forecast		**Metric**		**2012**	
Residential		kWh	170,363,452	$0.0056	$954,035
General Service < 50 kW		kWh	57,404,645	$0.0049	$281,283
General Service 50 to 4,999 kW		kW	386,714	$1.8093	$699,697
Street Lighting		kW	6,144	$1.5640	$9,609
Sentinel Lighting		kW	2,297	$1.5674	$3,600
Unmetered Scattered Load		kWh	1,172,498	$0.0049	$5,745
Large Use		kW	168,888	$2.2384	$378,039
TOTAL					**$2,332,009**

Wholesale Market Service					
Class per Load Forecast				**2012**	
Residential		kWh	170,363,452	$0.0052	$885,890
General Service < 50 kW		kWh	57,404,645	$0.0052	$298,504
General Service 50 to 4,999 kW		kWh	148,134,669	$0.0052	$770,300
Street Lighting		kWh	2,320,566	$0.0052	$12,067
Sentinel Lighting		kWh	876,603	$0.0052	$4,558
Unmetered Scattered Load		kWh	1,172,498	$0.0052	$6,097
Large Use		kWh	59,831,490	$0.0052	$311,124
TOTAL			**440,103,922**		**$2,288,540**

Rural Rate Assistance					
Class per Load Forecast				**2012**	
Residential		kWh	170,363,452	$0.0011	$187,400
General Service < 50 kW		kWh	57,404,645	$0.0011	$63,145
General Service 50 to 4,999 kW		kWh	148,134,669	$0.0011	$162,948
Street Lighting		kWh	2,320,566	$0.0011	$2,553
Sentinel Lighting		kWh	876,603	$0.0011	$964
Unmetered Scattered Load		kWh	1,172,498	$0.0011	$1,290
Large Use		kWh	59,831,490	$0.0011	$65,815
TOTAL			**440,103,922**		**$484,114**

	2012
4705-Power Purchased	$35,087,755
4708-Charges-WMS	$2,288,540
4712-IESO Smart Meter Charge	$105,280
4714-Charges-NW	$3,030,436
4716-Charges-CN	$2,332,009
4730-Rural Rate Assistance	$484,114
4750-Low Voltage	
TOTAL	**43,328,135**

2013 Load Foreacst	kWh	kW	2011 %RPP
Residential	160,995,683		88%
General Service < 50 kW	54,236,152		86%
General Service 50 to 4,999 kW	140,269,569	389,693	13%
Street Lighting	1,264,642	3,552	0%
Sentinel Lighting	826,332	2,297	96%
Unmetered Scattered Load	1,103,690		96%
Large Use	59,134,727	167,672	0%
TOTAL	**417,830,795**	**563,214**	

Electricity - Commodity RPP	2013	2013 Loss			
Class per Load Forecast RPP	**Forecasted**	**Factor**	**2013**		
Residential	141,096,617	1.0532	148,602,957	$0.08069	$11,990,773
General Service < 50 kW	46,691,903	1.0532	49,175,913	$0.08069	$3,968,004
General Service 50 to 4,999 kW	17,856,316	1.0502	18,753,309	$0.08069	$1,513,205
Street Lighting	0	1.0532	0	$0.08069	$0
Sentinel Lighting	793,692	1.0532	835,916	$0.08069	$67,450
Unmetered Scattered Load	1,054,024	1.0532	1,110,098	$0.08069	$89,574
Large Use	0	1.0045	0	$0.08069	$0
TOTAL	**207,492,552**		**218,478,193**		**$17,629,005**

Electricity - Commodity Non-RPP	2013	2013 Loss			
Class per Load Forecast	**Forecasted**	**Factor**	**2013**		
Residential	19,899,066	1.0532	20,957,697	$0.07877	$1,650,838
General Service < 50 kW	7,544,249	1.0532	7,945,603	$0.07877	$625,875
General Service 50 to 4,999 kW	122,413,253	1.0502	128,562,554	$0.07877	$10,126,872
Street Lighting	1,264,642	1.0532	1,331,921	$0.07877	$104,915
Sentinel Lighting	32,640	1.0532	34,377	$0.07877	$2,708
Unmetered Scattered Load	49,666	1.0532	52,308	$0.07877	$4,120
Large Use	59,134,727	1.0045	59,400,833	$0.07877	$4,679,004
TOTAL	**210,338,243**		**158,884,459**		**$17,194,333**

Transmission - Network		Volume			
Class per Load Forecast		**Metric**	**2013**		
Residential		kWh	169,560,653	$0.0080	$1,356,485
General Service < 50 kW		kWh	57,121,515	$0.0071	$405,563
General Service 50 to 4,999 kW		kW	389,693	$2.4279	$946,141
Street Lighting		kW	2,272	$2.2633	$5,142
Sentinel Lighting		kW	2,297	$2.2682	$5,210
Unmetered Scattered Load		kWh	1,162,406	$0.0071	$8,253
Large Use		kW	167,672	$1.7701	$296,796
TOTAL					**$3,023,591**

Transmission - Connection		**Volume**			
Class per Load Forecast		**Metric**		**2013**	
Residential		kWh	169,560,653	$0.0056	$949,540
General Service < 50 kW		kWh	57,121,515	$0.0049	$279,895
General Service 50 to 4,999 kW		kW	389,693	$1.8093	$705,087
Street Lighting		kW	3,552	$1.5640	$5,555
Sentinel Lighting		kW	2,297	$1.5674	$3,600
Unmetered Scattered Load		kWh	1,162,406	$0.0049	$5,696
Large Use		kW	167,672	$2.2384	$375,317
TOTAL					**$2,324,691**

Wholesale Market Service					
Class per Load Forecast				**2013**	
Residential		kWh	169,560,653	$0.0052	$881,715
General Service < 50 kW		kWh	57,121,515	$0.0052	$297,032
General Service 50 to 4,999 kW		kWh	147,315,864	$0.0052	$766,042
Street Lighting		kWh	1,331,921	$0.0052	$6,926
Sentinel Lighting		kWh	870,293	$0.0052	$4,526
Unmetered Scattered Load		kWh	1,162,406	$0.0052	$6,045
Large Use		kWh	59,400,833	$0.0052	$308,884
TOTAL			**436,763,486**		**$2,271,170**

Rural Rate Assistance					
Class per Load Forecast				**2013**	
Residential		kWh	169,560,653	$0.0011	$186,517
General Service < 50 kW		kWh	57,121,515	$0.0011	$62,834
General Service 50 to 4,999 kW		kWh	147,315,864	$0.0011	$162,047
Street Lighting		kWh	1,331,921	$0.0011	$1,465
Sentinel Lighting		kWh	870,293	$0.0011	$957
Unmetered Scattered Load		kWh	1,162,406	$0.0011	$1,279
Large Use		kWh	59,400,833	$0.0011	$65,341
TOTAL			**436,763,486**		**$480,440**

	2013
4705-Power Purchased	$34,823,338
4708-Charges-WMS	$2,271,170
4712-IESO Smart Meter Charge	$214,022
4714-Charges-NW	$3,023,591
4716-Charges-CN	$2,324,691
4730-Rural Rate Assistance	$480,440
4750-Low Voltage	
TOTAL	**43,137,251**

Gross Assets-Property, Plant, and Equipment & Accumulated Depreciation

The Board has provided Fixed Assets Continuity Schedules required in the Filing Requirement Chapter 2 Appendices Module. They are presented in this Exhibit and will be referenced from time to time as required.

2B – 2009 CGAAP

2B - 2010 CGAAP

2B - 2011 CGAAP

2B - 2012 CGAAP

2B - 2012 MIFRS

2B - 2013 MIFRS

The Board has provided Depreciation and Amortization Expenses Schedules required in the Filing Requirement Chapter 2 Appendices Module. They are presented in this Exhibit and will be referenced from time to time as required.

2CE - 2011 CGAAP

2CF - 2012 CGAAP

2CG - 2012 MIFRS

2CH - 2013 MIFRS

Appendix 2-B
Fixed Asset Continuity Schedule-CGAAP

Year 2009

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686				$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 57,597	-$ 464		-$ 58,061	$ 12,235
47	1808	Buildings		$ 96,567			$ 96,567	-$ 52,635	-$ 2,040		-$ 54,675	$ 41,892
13	1810	Leasehold Improvements					$ -				$ -	$ -
47	1815	Transformer Station Equipment >50 kV			$ 5,485		$ 5,485				$ -	$ 5,485
47	1820	Distribution Station Equipment <50 kV		$ 3,862,200	$ 164,711		$ 4,026,911	-$ 2,141,766	-$ 113,325		-$ 2,255,091	$ 1,771,820
47	1825	Storage Battery Equipment					$ -				$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 3,596,853	$ 1,019,194		$ 4,616,047	-$ 421,269	-$ 184,642		-$ 605,911	$ 4,010,136
47	1835	Overhead Conductors & Devices		$ 12,119,533	$ 152,334		$ 12,271,867	-$ 6,871,963	-$ 442,744		-$ 7,314,707	$ 4,957,160
47	1840	Underground Conduit		$ 386,610	$ 100,369		$ 486,979	-$ 39,343	-$ 19,479		-$ 58,822	$ 428,157
47	1845	Underground Conductors & Devices		$ 10,626,540	$ 171,940		$ 10,798,480	-$ 5,994,598	-$ 408,152		-$ 6,402,750	$ 4,395,730
47	1850	Line Transformers		$ 5,954,195	$ 130,919	-$ 30,345	$ 6,054,769	-$ 2,615,858	-$ 242,711	$ 21,486	-$ 2,837,083	$ 3,217,686
47	1855	Services (Overhead & Underground)		$ 346,546	$ 69,887		$ 416,433	-$ 48,010	-$ 16,657		-$ 64,667	$ 351,766
47	1860	Meters		$ 2,288,712	$ 16,417		$ 2,305,129	-$ 1,431,635	-$ 87,695		-$ 1,519,330	$ 785,799
47	1860	Meters (Smart Meters)					$ -				$ -	$ -
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 1,922	-$ 320		-$ 2,242	$ 5,768
N/A	1905	Land					$ -				$ -	$ -
47	1908	Buildings & Fixtures		$ 1,834,723	$ 29,920		$ 1,864,643	-$ 818,014	-$ 46,133		-$ 864,147	$ 1,000,496
13	1910	Leasehold Improvements					$ -				$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 240,687	$ 6,564		$ 247,251	-$ 135,673	-$ 18,845		-$ 154,518	$ 92,733
8	1915	Office Furniture & Equipment (5 years)					$ -				$ -	$ -
10	1920	Computer Equipment - Hardware		$ 348,682	$ 20,314		$ 368,996	-$ 307,999	-$ 23,222		-$ 331,221	$ 37,775
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)					$ -				$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)					$ -				$ -	$ -
	1925	Computer Software		$ 619,325	$ 2,500		$ 621,825	-$ 473,173	-$ 67,069		-$ 540,242	$ 81,583
10	1930	Transportation Equipment		$ 1,579,871	$ 29,803	-$ 161,927	$ 1,447,747	-$ 1,325,484	-$ 40,306	$ 161,927	-$ 1,203,863	$ 243,884
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 24,810	-$ 761		-$ 25,571	$ 4,452
8	1940	Tools, Shop & Garage Equipment		$ 320,268	$ 7,521		$ 327,789	-$ 264,236	-$ 10,237		-$ 274,473	$ 53,316
8	1945	Measurement & Testing Equipment		$ 152,441		-$ 134,055	$ 18,386	-$ 145,654	-$ 1,349	$ 134,055	-$ 12,948	$ 5,438
8	1950	Power Operated Equipment					$ -				$ -	$ -
8	1955	Communications Equipment		$ 110,718	$ 15,938		$ 126,656	-$ 96,899	-$ 5,432		-$ 102,331	$ 24,325
8	1955	Communication Equipment (Smart Meters)					$ -				$ -	$ -
8	1960	Miscellaneous Equipment		$ 170,439	$ 144,796		$ 315,235	-$ 37,040	-$ 11,128		-$ 48,168	$ 267,067
47	1975	Load Management Controls Utility Premises					$ -				$ -	$ -
47	1980	System Supervisor Equipment		$ 1,030,381			$ 1,030,381	-$ 703,486	-$ 50,197		-$ 753,683	$ 276,698
47	1985	Miscellaneous Fixed Assets					$ -				$ -	$ -
47	1995	Contributions & Grants		-$ 1,444,763	-$ 73,392		-$ 1,518,155	$ 161,576	$ 60,727		$ 222,303	-$ 1,295,852
	etc.						$ -				$ -	$ -
							$ -				$ -	$ -
		Total		**$ 44,507,543**	**$ 2,015,220**	**-$ 326,327**	**$ 46,196,436**	**-$ 23,847,488**	**-$ 1,732,181**	**$ 317,468**	**-$ 25,262,201**	**$ 20,934,235**

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stores Equipment
Net Depreciation -$ 1,732,181

Appendix 2-B
Fixed Asset Continuity Schedule-CGAAP

Year 2010

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686	$ -			$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 58,061	-$ 465		-$ 58,526	$ 11,770
47	1808	Buildings		$ 96,567			$ 96,567	-$ 54,675	-$ 2,040		-$ 56,715	$ 39,852
13	1810	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
47	1815	Transformer Station Equipment >50 kV		$ 5,485	$ 433,700		$ 439,185	$ -	-$ 7,411		-$ 7,411	$ 431,774
47	1820	Distribution Station Equipment <50 kV		$ 4,026,911	$ 439	-$ 16,145	$ 4,011,205	-$ 2,255,091	-$ 118,208	$ 12,378	-$ 2,360,921	$ 1,650,284
47	1825	Storage Battery Equipment		$ -			$ -	$ -			$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 4,616,047	$ 965,206		$ 5,581,253	-$ 605,911	-$ 203,946		-$ 809,857	$ 4,771,396
47	1835	Overhead Conductors & Devices		$ 12,271,857	$ 202,390		$ 12,474,257	-$ 7,314,707	-$ 437,889		-$ 7,752,596	$ 4,721,661
47	1840	Underground Conduit		$ 486,979	$ 228,724		$ 715,703	-$ 58,822	-$ 24,054		-$ 82,876	$ 632,827
47	1845	Underground Conductors & Devices		$ 10,798,480	$ 256,382		$ 11,054,862	-$ 6,402,750	-$ 413,281		-$ 6,816,031	$ 4,238,831
47	1850	Line Transformers		$ 6,054,769	$ 206,802	-$ 21,451	$ 6,240,120	-$ 2,837,083	-$ 264,953	$ 12,672	-$ 3,089,364	$ 3,150,756
47	1855	Services (Overhead & Underground)		$ 416,433	$ 83,294		$ 499,727	-$ 64,667	-$ 18,323		-$ 82,990	$ 416,737
47	1860	Meters		$ 2,305,129	$ 84,374		$ 2,389,503	-$ 1,519,330	-$ 136,945		-$ 1,656,275	$ 733,228
47	1860	Meters (Smart Meters)		$ -			$ -	$ -			$ -	$ -
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 2,242	-$ 320		-$ 2,562	$ 5,448
N/A	1905	Land		$ -			$ -	$ -			$ -	$ -
47	1908	Buildings & Fixtures		$ 1,864,643	$ 10,200		$ 1,874,843	-$ 864,147	-$ 45,852		-$ 909,999	$ 964,844
13	1910	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 247,251		-$ 162,667	$ 84,584	-$ 154,518	-$ 49,619	$ 162,667	-$ 41,470	$ 43,114
8	1915	Office Furniture & Equipment (5 years)		$ -			$ -	$ -			$ -	$ -
10	1920	Computer Equipment - Hardware		$ 368,996	$ 16,315	-$ 159,687	$ 225,624	-$ 331,221	-$ 21,102	$ 159,687	-$ 192,636	$ 32,988
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)		$ -			$ -	$ -			$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)		$ -			$ -	$ -			$ -	$ -
	1925	Computer Software		$ 621,825	$ 333,015	-$ 213,229	$ 741,611	-$ 540,242	-$ 63,832	$ 213,229	-$ 390,845	$ 350,766
10	1930	Transportation Equipment		$ 1,447,747	$ 25,545		$ 1,473,292	-$ 1,203,863	-$ 32,499		-$ 1,236,362	$ 236,930
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 25,571	-$ 761		-$ 26,332	$ 3,691
8	1940	Tools, Shop & Garage Equipment		$ 327,789	$ 11,698	-$ 224,537	$ 114,950	-$ 274,473	-$ 22,020	$ 224,540	-$ 71,953	$ 42,997
8	1945	Measurement & Testing Equipment		$ 18,386			$ 18,386	-$ 12,948	-$ 1,349		-$ 14,297	$ 4,089
8	1950	Power Operated Equipment		$ -			$ -	$ -			$ -	$ -
8	1955	Communications Equipment		$ 126,656		-$ 53,404	$ 73,252	-$ 102,331	-$ 5,369	$ 53,401	-$ 54,299	$ 18,953
8	1955	Communication Equipment (Smart Meters)		$ -			$ -	$ -			$ -	$ -
8	1960	Miscellaneous Equipment		$ 315,235			$ 315,235	-$ 48,168	-$ 11,128		-$ 59,296	$ 255,939
47	1975	Load Management Controls Utility Premises		$ -			$ -	$ -			$ -	$ -
47	1980	System Supervisor Equipment		$ 1,030,381	$ 104,364		$ 1,134,745	-$ 753,683	-$ 53,677		-$ 807,360	$ 327,385
47	1985	Miscellaneous Fixed Assets		$ -			$ -	$ -			$ -	$ -
47	1995	Contributions & Grants		-$ 1,518,155	-$ 210,264		-$ 1,728,419	$ 222,303	$ 64,932		$ 287,235	-$ 1,441,184
	etc.			$ -			$ -	$ -			$ -	$ -
				$ -			$ -	$ -			$ -	$ -
		Total		$ 46,196,436	$ 2,752,184	-$ 851,120	$ 48,097,500	-$ 25,252,201	-$ 1,870,111	$ 838,574	-$ 26,283,738	$ 21,803,762

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stores Equipment
Net Depreciation -$ 1,870,111

Appendix 2-B
Fixed Asset Continuity Schedule-CGAAP

Year 2011

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686	$ -			$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 58,526	-$ 465		-$ 58,991	$ 11,305
47	1808	Buildings		$ 96,567			$ 96,567	-$ 56,715	-$ 2,040		-$ 58,755	$ 37,812
13	1810	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
47	1815	Transformer Station Equipment >50 kV		$ 439,185	$ 28,174		$ 467,359	-$ 7,411	-$ 15,579		-$ 22,990	$ 444,369
47	1820	Distribution Station Equipment <50 kV		$ 4,011,205	$ 30,541		$ 4,041,746	-$ 2,360,921	-$ 110,295		-$ 2,471,216	$ 1,570,530
47	1825	Storage Battery Equipment		$ -			$ -	$ -			$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 5,581,253	$ 870,254		$ 6,451,507	-$ 809,857	-$ 240,658		-$ 1,050,515	$ 5,400,992
47	1835	Overhead Conductors & Devices		$ 12,474,257	$ 114,952		$ 12,589,209	-$ 7,752,596	-$ 433,779		-$ 8,186,375	$ 4,402,834
47	1840	Underground Conduit		$ 715,703	$ 110,951		$ 826,654	-$ 82,876	-$ 30,847		-$ 113,723	$ 712,931
47	1845	Underground Conductors & Devices		$ 11,054,862	$ 404,033		$ 11,458,895	-$ 6,816,031	-$ 419,922		-$ 7,235,953	$ 4,222,942
47	1850	Line Transformers		$ 6,240,120	$ 260,447	-$ 32,834	$ 6,467,733	-$ 3,089,364	-$ 245,651	$ 32,794	-$ 3,302,221	$ 3,165,512
47	1855	Services (Overhead & Underground)		$ 499,727	$ 147,746		$ 647,473	-$ 82,990	-$ 22,944		-$ 105,934	$ 541,539
47	1860	Meters		$ 2,389,503	$ 26,046		$ 2,415,549	-$ 1,656,275	-$ 63,385		-$ 1,719,660	$ 695,889
47	1860	Meters (Smart Meters)		$ -			$ -	$ -			$ -	$ -
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 2,562	-$ 320		-$ 2,882	$ 5,128
N/A	1905	Land		$ -			$ -	$ -			$ -	$ -
47	1908	Buildings & Fixtures		$ 1,874,843	$ 292,812		$ 2,167,655	-$ 909,999	-$ 46,098		-$ 956,097	$ 1,211,558
13	1910	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 84,584	$ 5,735		$ 90,319	-$ 41,470	-$ 8,134		-$ 49,604	$ 40,715
8	1915	Office Furniture & Equipment (5 years)		$ -			$ -	$ -			$ -	$ -
10	1920	Computer Equipment - Hardware		$ 225,624	$ 20,247		$ 245,871	-$ 192,636	-$ 15,978		-$ 208,614	$ 37,257
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)		$ -			$ -	$ -			$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)		$ -			$ -	$ -			$ -	$ -
	1925	Computer Software		$ 741,611	$ 240,934		$ 982,545	-$ 390,845	-$ 44,794		-$ 435,639	$ 546,906
10	1930	Transportation Equipment		$ 1,473,292	$ 66,729	-$ 148,571	$ 1,391,450	-$ 1,236,362	-$ 37,337	$ 148,574	-$ 1,125,125	$ 266,325
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 26,332	-$ 761		-$ 27,093	$ 2,930
8	1940	Tools, Shop & Garage Equipment		$ 114,950			$ 114,950	-$ 71,953	-$ 7,886		-$ 79,839	$ 35,111
8	1945	Measurement & Testing Equipment		$ 18,386	$ 2,005		$ 20,391	-$ 14,297	-$ 1,449		-$ 15,746	$ 4,645
8	1950	Power Operated Equipment		$ -			$ -	$ -			$ -	$ -
8	1955	Communications Equipment		$ 73,252			$ 73,252	-$ 54,299	-$ 14,932		-$ 69,231	$ 4,021
8	1955	Communication Equipment (Smart Meters)		$ -			$ -	$ -			$ -	$ -
8	1960	Miscellaneous Equipment		$ 315,235			$ 315,235	-$ 59,296	-$ 11,128		-$ 70,424	$ 244,811
47	1975	Load Management Controls Utility Premises		$ -			$ -	$ -			$ -	$ -
47	1980	System Supervisor Equipment		$ 1,134,745			$ 1,134,745	-$ 607,360	-$ 51,998		-$ 659,358	$ 275,387
47	1985	Miscellaneous Fixed Assets		$ -			$ -	$ -			$ -	$ -
47	1995	Contributions & Grants		-$ 1,728,419	-$ 305,181		-$ 2,033,600	$ 267,235	$ 75,240		$ 342,475	-$ 1,691,125
	etc.			$ -			$ -	$ -			$ -	$ -
				$ -			$ -	$ -			$ -	$ -
		Total		$ 48,097,500	$ 2,316,425	-$ 181,405	$ 50,232,520	-$ 26,293,738	-$ 1,751,140	$ 181,368	-$ 27,863,510	$ 22,369,010
		Transfer Smart Meters from 1555 to Various Accounts					**$ 3,032,864**				**-$ 458,210**	**$ 2,574,654**
		Transfer Stranded Meters from 1860 to 1555					**-$ 2,191,404**				**$ 1,635,485**	**-$ 555,909**
		Revised Closing Blance Forward					**$ 51,073,980**				**-$ 26,686,225**	**$ 24,387,755**

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stores Equipment
Net Depreciation -$ 1,751,140

Appendix 2-B
Fixed Asset Continuity Schedule-CGAAP

Year 2012

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686	$ -			$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 58,991	-$ 465		-$ 59,456	$ 10,840
47	1808	Buildings		$ 96,567			$ 96,567	-$ 58,755	-$ 2,041		-$ 60,796	$ 35,771
13	1810	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
47	1815	Transformer Station Equipment >50 kV		$ 467,359			$ 467,359	-$ 22,990	-$ 15,579		-$ 38,569	$ 428,790
47	1820	Distribution Station Equipment <50 kV		$ 4,041,746			$ 4,041,746	-$ 2,471,216	-$ 106,654		-$ 2,577,870	$ 1,463,876
47	1825	Storage Battery Equipment		$ -			$ -	$ -			$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 6,451,507	$ 610,000		$ 7,061,507	-$ 1,050,515	-$ 270,260		-$ 1,320,775	$ 5,740,732
47	1835	Overhead Conductors & Devices		$ 12,589,209	$ 367,500		$ 12,956,709	-$ 8,186,375	-$ 431,813		-$ 8,618,188	$ 4,338,521
47	1840	Underground Conduit		$ 826,654	$ 90,000		$ 916,654	-$ 113,723	-$ 34,866		-$ 148,589	$ 768,065
47	1845	Underground Conductors & Devices		$ 11,458,895	$ 195,000		$ 11,653,895	-$ 7,235,953	-$ 414,305		-$ 7,650,258	$ 4,003,637
47	1850	Line Transformers		$ 6,467,733	$ 427,500		$ 6,895,233	-$ 3,302,221	-$ 252,266		-$ 3,554,487	$ 3,340,746
47	1855	Services (Overhead & Underground)		$ 647,473	$ 40,000		$ 687,473	-$ 105,934	-$ 26,699		-$ 132,633	$ 554,840
47	1860	Meters		$ 224,145			$ 224,145	-$ 84,165	-$ 8,475		-$ 92,640	$ 131,505
47	1860	Meters (Smart Meters)		$ 2,755,384	$ 12,000		$ 2,767,384	-$ 386,394	-$ 184,092		-$ 570,986	$ 2,196,398
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 2,882	-$ 320		-$ 3,202	$ 4,808
N/A	1905	Land		$ -			$ -	$ -			$ -	$ -
47	1908	Buildings & Fixtures		$ 2,169,785	$ 275,000		$ 2,444,785	-$ 956,310	-$ 60,650		-$ 1,016,960	$ 1,427,825
13	1910	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 90,319	$ 17,500		$ 107,819	-$ 49,604	-$ 9,250		-$ 58,854	$ 48,965
8	1915	Office Furniture & Equipment (5 years)		$ -			$ -	$ -			$ -	$ -
10	1920	Computer Equipment - Hardware		$ 287,608	$ 35,000		$ 322,608	-$ 223,707	-$ 25,442		-$ 249,149	$ 73,459
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)		$ -			$ -	$ -			$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)		$ -			$ -	$ -			$ -	$ -
	1925	Computer Software		$ 1,010,405	$ 90,000		$ 1,100,405	-$ 441,749	-$ 138,101		-$ 579,850	$ 520,555
10	1930	Transportation Equipment		$ 1,391,450			$ 1,391,450	-$ 1,125,125	-$ 40,898		-$ 1,166,023	$ 225,427
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 27,093	-$ 761		-$ 27,854	$ 2,169
8	1940	Tools, Shop & Garage Equipment		$ 114,950	$ 13,000		$ 127,950	-$ 79,839	-$ 8,121		-$ 87,960	$ 39,990
8	1945	Measurement & Testing Equipment		$ 20,391			$ 20,391	-$ 15,746	-$ 1,035		-$ 16,781	$ 3,610
8	1950	Power Operated Equipment		$ -			$ -	$ -			$ -	$ -
8	1955	Communications Equipment		$ 279,005			$ 279,005	-$ 119,132	-$ 24,857		-$ 143,989	$ 135,016
8	1955	Communication Equipment (Smart Meters)		$ -			$ -	$ -			$ -	$ -
8	1960	Miscellaneous Equipment		$ 315,235			$ 315,235	-$ 70,424	-$ 11,128		-$ 81,552	$ 233,683
47	1975	Load Management Controls Utility Premises		$ -			$ -	$ -			$ -	$ -
47	1980	System Supervisor Equipment		$ 1,134,745	$ 27,500		$ 1,162,245	-$ 859,358	-$ 53,094		-$ 912,452	$ 249,793
47	1985	Miscellaneous Fixed Assets		$ -			$ -	$ -			$ -	$ -
47	1995	Contributions & Grants		-$ 2,033,600	-$ 100,000		-$ 2,133,600	$ 362,475	$ 83,343		$ 445,818	-$ 1,687,782
	etc			$ -			$ -	$ -			$ -	$ -
				$ -			$ -	$ -			$ -	$ -
		Total		**$ 51,073,980**	**$ 2,100,000**	**$ -**	**$ 53,173,980**	**-$ 26,686,226**	**-$ 2,037,829**	**$ -**	**-$ 28,724,055**	**$ 24,449,925**

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stranded Meters -$ 75,669
Net Depreciation -$ 2,113,498

Appendix 2-B
Fixed Asset Continuity Schedule-MIFRS

Year 2012

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686	$ -			$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 58,991	-$ 640		-$ 59,631	$ 10,665
47	1808	Buildings		$ 96,567			$ 96,567	-$ 58,755	-$ 1,236		-$ 59,991	$ 36,576
13	1810	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
47	1815	Transformer Station Equipment >50 kV		$ 467,359			$ 467,359	-$ 22,990	-$ 14,857		-$ 37,847	$ 429,512
47	1820	Distribution Station Equipment <50 kV		$ 4,041,746			$ 4,041,746	-$ 2,471,216	-$ 71,683		-$ 2,542,899	$ 1,498,847
47	1825	Storage Battery Equipment		$ -			$ -	$ -			$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 6,451,507	$ 515,000		$ 6,966,507	-$ 1,050,515	-$ 122,350		-$ 1,172,865	$ 5,793,642
47	1835	Overhead Conductors & Devices		$ 12,589,209	$ 305,500		$ 12,894,709	-$ 8,186,375	-$ 120,862		-$ 8,307,237	$ 4,587,472
47	1840	Underground Conduit		$ 826,654	$ 79,000		$ 905,654	-$ 113,723	-$ 16,054		-$ 129,777	$ 775,877
47	1845	Underground Conductors & Devices		$ 11,458,895	$ 171,000		$ 11,629,895	-$ 7,235,953	-$ 205,480		-$ 7,441,433	$ 4,188,462
47	1850	Line Transformers		$ 6,467,733	$ 358,500		$ 6,826,233	-$ 3,302,221	-$ 111,060		-$ 3,413,281	$ 3,412,952
47	1855	Services (Overhead & Underground)		$ 647,473	$ 34,000		$ 681,473	-$ 105,934	-$ 15,428		-$ 121,362	$ 560,111
47	1860	Meters		$ 224,145			$ 224,145	-$ 84,165	-$ 8,475		-$ 92,640	$ 131,505
47	1860	Meters (Smart Meters)		$ 2,755,384	$ 12,000		$ 2,767,384	-$ 386,894	-$ 184,092		-$ 570,986	$ 2,196,398
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 2,882	-$ 2,564		-$ 5,446	$ 2,564
N/A	1905	Land		$ -			$ -	$ -			$ -	$ -
47	1908	Buildings & Fixtures		$ 2,169,785	$ 275,000		$ 2,444,785	-$ 956,310	-$ 61,319		-$ 1,017,629	$ 1,427,156
13	1910	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 90,319	$ 17,500		$ 107,819	-$ 49,604	-$ 9,250		-$ 58,854	$ 48,965
8	1915	Office Furniture & Equipment (5 years)		$ -			$ -	$ -			$ -	$ -
10	1920	Computer Equipment - Hardware		$ 287,608	$ 35,000		$ 322,608	-$ 223,707	-$ 39,126		-$ 262,833	$ 59,775
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)		$ -			$ -	$ -			$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)		$ -			$ -	$ -			$ -	$ -
	1925	Computer Software		$ 1,010,405	$ 90,000		$ 1,100,405	-$ 441,749	-$ 138,101		-$ 579,850	$ 520,555
10	1930	Transportation Equipment		$ 1,391,450			$ 1,391,450	-$ 1,125,125	-$ 29,819		-$ 1,154,944	$ 236,506
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 27,093	-$ 759		-$ 27,852	$ 2,171
8	1940	Tools, Shop & Garage Equipment		$ 114,950	$ 13,000		$ 127,950	-$ 79,839	-$ 8,121		-$ 87,960	$ 39,990
8	1945	Measurement & Testing Equipment		$ 20,391			$ 20,391	-$ 15,746	-$ 1,299		-$ 17,045	$ 3,346
8	1950	Power Operated Equipment		$ -			$ -	$ -			$ -	$ -
8	1955	Communications Equipment		$ 279,005			$ 279,005	-$ 119,132	-$ 24,143		-$ 143,275	$ 135,730
8	1955	Communication Equipment (Smart Meters)		$ -			$ -	$ -			$ -	$ -
8	1960	Miscellaneous Equipment		$ 315,235			$ 315,235	-$ 70,424	-$ 11,128		-$ 81,552	$ 233,683
47	1975	Load Management Controls Utility Premises		$ -			$ -	$ -			$ -	$ -
47	1980	System Supervisor Equipment		$ 1,134,745	$ 27,500		$ 1,162,245	-$ 859,358	-$ 49,204		-$ 908,562	$ 253,683
47	1985	Miscellaneous Fixed Assets		$ -			$ -	$ -			$ -	$ -
47	1995	Contributions & Grants		-$ 2,033,600	-$ 100,000		-$ 2,133,600	$ 362,475	$ 63,000		$ 425,475	-$ 1,708,125
	etc.			$ -			$ -	$ -			$ -	$ -
				$ -			$ -	$ -			$ -	$ -
		Total		$ 51,073,980	$ 1,833,000	$ -	$ 52,906,980	-$ 26,686,226	-$ 1,184,050	$ -	-$ 27,870,276	$ 25,036,704

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stranded Meters -$ 75,669
Net Depreciation -$ 1,259,719

Appendix 2-B
Fixed Asset Continuity Schedule-MIFRS

Year 2013

CCA Class	OEB	Description	Depreciation Rate	Cost				Accumulated Depreciation				Net Book Value
				Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
12	1611	Computer Software (Formally known as Account 1925)					$ -				$ -	$ -
CEC	1612	Land Rights (Formally known as Account 1906)					$ -				$ -	$ -
N/A	1805	Land		$ 158,686			$ 158,686	$ -			$ -	$ 158,686
	1806	Land Rights		$ 70,296			$ 70,296	-$ 59,631	-$ 640		-$ 60,271	$ 10,025
47	1808	Buildings		$ 96,567			$ 96,567	-$ 59,991	-$ 1,236		-$ 61,227	$ 35,340
13	1810	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
47	1815	Transformer Station Equipment >50 kV		$ 467,359			$ 467,359	-$ 37,847	-$ 14,857		-$ 52,704	$ 414,655
47	1820	Distribution Station Equipment <50 kV		$ 4,041,746			$ 4,041,746	-$ 2,542,899	-$ 71,683		-$ 2,614,582	$ 1,427,164
47	1825	Storage Battery Equipment		$ -			$ -	$ -			$ -	$ -
47	1830	Poles, Towers & Fixtures		$ 6,966,507	$ 825,000	-$ 49,771	$ 7,541,736	-$ 1,172,885	-$ 133,751	$ 35,572	-$ 1,271,044	$ 6,270,692
47	1835	Overhead Conductors & Devices		$ 12,894,709	$ 133,600	-$ 16,590	$ 13,011,719	-$ 8,307,237	-$ 125,253	$ 11,857	-$ 8,420,633	$ 4,591,086
47	1840	Underground Conduit		$ 905,654	$ 116,200		$ 1,021,854	-$ 129,777	-$ 18,006		-$ 147,783	$ 874,071
47	1845	Underground Conductors & Devices		$ 11,629,895	$ 192,100		$ 11,821,995	-$ 7,441,433	-$ 211,532		-$ 7,652,965	$ 4,169,030
47	1850	Line Transformers		$ 6,826,233	$ 317,300		$ 7,143,533	-$ 3,413,281	-$ 119,507		-$ 3,532,788	$ 3,610,745
47	1855	Services (Overhead & Underground)		$ 681,473	$ 35,000		$ 716,473	-$ 121,362	-$ 16,290		-$ 137,652	$ 578,821
47	1860	Meters		$ 224,145			$ 224,145	-$ 92,640	-$ 8,475		-$ 101,115	$ 123,030
47	1860	Meters (Smart Meters)		$ 2,767,384	$ 50,000		$ 2,817,384	-$ 570,986	-$ 186,159		-$ 757,145	$ 2,060,239
	1870	Other Installations-Customer Premises		$ 8,010			$ 8,010	-$ 5,446	-$ 2,564		-$ 8,010	$ -
N/A	1905	Land		$ -			$ -	$ -			$ -	$ -
47	1908	Buildings & Fixtures		$ 2,444,785	$ 20,000		$ 2,464,785	-$ 1,017,629	-$ 65,006		-$ 1,082,635	$ 1,382,150
13	1910	Leasehold Improvements		$ -			$ -	$ -			$ -	$ -
8	1915	Office Furniture & Equipment (10 years)		$ 107,819			$ 107,819	-$ 58,854	-$ 9,591		-$ 68,445	$ 39,374
8	1915	Office Furniture & Equipment (5 years)		$ -			$ -	$ -			$ -	$ -
10	1920	Computer Equipment - Hardware		$ 322,608	$ 46,000		$ 368,608	-$ 262,833	-$ 27,988		-$ 290,821	$ 77,787
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)		$ -			$ -	$ -			$ -	$ -
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)		$ -			$ -	$ -			$ -	$ -
	1925	Computer Software		$ 1,100,405	$ 58,500		$ 1,158,905	-$ 579,850	-$ 144,712		-$ 724,562	$ 434,343
10	1930	Transportation Equipment		$ 1,391,450	$ 350,000		$ 1,741,450	-$ 1,154,944	-$ 41,485		-$ 1,196,429	$ 545,021
8	1935	Stores Equipment		$ 30,023			$ 30,023	-$ 27,852	-$ 759		-$ 28,611	$ 1,412
8	1940	Tools, Shop & Garage Equipment		$ 127,950	$ 5,000		$ 132,950	-$ 87,960	-$ 8,298		-$ 96,258	$ 36,692
8	1945	Measurement & Testing Equipment		$ 20,391			$ 20,391	-$ 17,045	-$ 1,168		-$ 18,213	$ 2,178
8	1950	Power Operated Equipment		$ -			$ -	$ -			$ -	$ -
8	1955	Communications Equipment		$ 279,005			$ 279,005	-$ 143,275	-$ 21,373		-$ 164,648	$ 114,357
8	1955	Communication Equipment (Smart Meters)		$ -			$ -	$ -			$ -	$ -
8	1960	Miscellaneous Equipment		$ 315,235			$ 315,235	-$ 81,552	-$ 11,128		-$ 92,680	$ 222,555
47	1975	Load Management Controls Utility Premises		$ -			$ -	$ -			$ -	$ -
47	1980	System Supervisor Equipment		$ 1,162,245	$ 52,500		$ 1,214,745	-$ 906,562	-$ 50,852		-$ 959,414	$ 255,331
47	1985	Miscellaneous Fixed Assets		$ -			$ -	$ -			$ -	$ -
47	1995	Contributions & Grants		-$ 2,133,600			-$ 2,133,600	$ 425,475	$ 64,000		$ 489,475	-$ 1,644,125
	etc.			$ -			$ -	$ -			$ -	$ -
				$ -			$ -	$ -			$ -	$ -
		Total		$ 52,906,980	$ 2,001,200	-$ 66,361	$ 54,841,819	-$ 27,870,276	-$ 1,228,313	$ 47,429	-$ 29,051,160	$ 25,790,659

10		Transportation
8		Stores Equipment

Less: *Fully Allocated Depreciation*
Transportation
Stranded Meters
Net Depreciation -$ 1,228,313

Appendix 2-CE
Depreciation and Amortization Expense

Assumes the applicant adopted IFRS for financial reporting purposes January 1, 2013

Year 2011 CGAAP

Account	Description	Opening Regulatory Gross PP&E as at Jan 1, 2011 (a)	Less Fully Depreciated (b)	Net for Depreciation (c)	Additions (d)	Total for Depreciation (e) = (c) + ½ x (d) [1]	Years (f)	Depreciation Rate (g) = 1 / (f)	2011 Depreciation Expense (h) = (e) / (f)	2011 Depreciation Expense per Appendix 2-B Fixed Assets, Column K (l)	Variance [2] (m) = (h) - (l)
1611	Computer Software (Formally known as Account 1925)			$ -		$ -			$ -		$ -
1612	Land Rights (Formally known as Account 1906)			$ -		$ -			$ -		$ -
1805	Land	158,686		158,686	0	$ 158,686.00			0	0	0
1806	Land Rights	70,296	55,355	14,941	0	$ 14,941.00	32.13	3.11%	465	465	0
1808	Buildings	96,567		96,567	0	$ 96,567.00	47.34	2.11%	2,040	2,040	0
1810	Leasehold Improvements	0		0	0	$ -			0	0	0
1815	Transformer Station Equipment >50 kV	439,185		439,185	28,174	$ 453,272.00	29.10	3.44%	15,579	15,579	0
1820	Distribution Station Equipment <50 kV	4,011,205	454,198	3,557,007	30,541	$ 3,572,277.50	32.39	3.09%	110,295	110,295	0
1825	Storage Battery Equipment	0		0	0	$ -			0	0	0
1830	Poles, Towers & Fixtures	5,581,253		5,581,253	870,254	$ 6,016,380.00	25.00	4.00%	240,658	240,658	0
1835	Overhead Conductors & Devices	12,474,257	1,688,531	10,785,726	114,952	$ 10,843,202.00	25.00	4.00%	433,779	433,779	0
1840	Underground Conduit	715,703		715,703	110,951	$ 771,178.50	25.00	4.00%	30,847	30,847	0
1845	Underground Conductors & Devices	11,054,862		11,054,862	404,033	$ 11,256,878.50	26.81	3.73%	419,922	419,922	0
1850	Line Transformers	6,240,120	299,221	5,940,899	260,447	$ 6,071,122.50	24.71	4.05%	245,651	245,651	0
1855	Services (Overhead & Underground)	499,727		499,727	147,746	$ 573,600.00	25.00	4.00%	22,944	22,944	0
1860	Meters	2,389,503	641,581	1,747,922	26,046	$ 1,760,945.00	27.78	3.60%	63,385	63,385	0
1860	Meters (Smart Meters)	0		0	0	$ -			0	0	0
1870	Lease Property on Customer Premises	8,010		8,010	0	$ 8,010.00	25.03	4.00%	320	320	0
1905	Land	0		0	0	$ -			0	0	0
1908	Buildings & Fixtures	1,874,843		1,874,843	292,812	$ 2,021,249.00	43.85	2.28%	46,098	46,098	0
1910	Leasehold Improvements	0		0	0	$ -			0	0	0
1915	Office Furniture & Equipment (10 years)	84,584	6,502	78,082	5,735	$ 80,949.50	9.95	10.05%	8,134	8,134	0
1915	Office Furniture & Equipment (5 years)	0		0	0	$ -			0	0	0
1920	Computer Equipment - Hardware	225,624	169,507	56,117	20,247	$ 66,240.50	4.15	24.12%	15,978	15,978	0
1920	Computer Equip.-Hardware(Post Mar. 22/04)	0		0	0	$ -			0	0	0
1920	Computer Equip.-Hardware(Post Mar. 19/07)	0		0	0	$ -			0	0	0
1925	Computer Software	741,611	364,897	376,714	240,934	$ 497,181.00	11.10	9.01%	44,794	44,794	0
1930	Transportation Equipment	1,473,292	1,142,814	330,478	66,729	$ 363,842.50	9.74	10.26%	37,337	37,337	0
1935	Stores Equipment	30,023	22,418	7,605	0	$ 7,605.00	9.99	10.01%	761	761	0
1940	Tools, Shop & Garage Equipment	114,950	34,748	80,202	0	$ 80,202.00	10.17	9.83%	7,886	7,886	0
1945	Measurement & Testing Equipment	18,386	4,896	13,490	2,005	$ 14,492.50	10.00	10.00%	1,449	1,449	0
1950	Power Operated Equipment	0		0	0	$ -			0	0	0
1955	Communications Equipment	73,252	20,574	52,678	0	$ 52,678.00	3.53	28.35%	14,932	14,932	0
1955	Communication Equipment (Smart Meters)	0		0	0	$ -			0	0	0
1960	Miscellaneous Equipment	315,235	37,040	278,195	0	$ 278,195.00	25.00	4.00%	11,128	11,128	0
1975	Load Management Controls Utility Premises	0		0	0	$ -			0	0	0
1980	System Supervisor Equipment	1,134,745	221,166	913,579	0	$ 913,579.00	17.57	5.69%	51,998	51,998	0
1985	Miscellaneous Fixed Assets	0		0	0	$ -			0	0	0
1995	Contributions & Grants	-1,728,419		-1,728,419	-305,181	-$ 1,881,009.50	25.00	4.00%	-75,240	-75,240	0
etc.				0	0	$ -			0	0	0
				0	0	$ -			0	0	0
	Total	48,097,500	5,163,448	42,934,052	2,316,425	44,092,265			1,751,140	1,751,140	0

Appendix 2-CF
Depreciation and Amortization Expense

Assumes the applicant adopted IFRS for financial reporting purposes January 1, 2013

Year 2012 CGAAP

Account	Description	Opening Regulatory Gross PP&E as at Jan 1, 2012 (a)	Less Fully Depreciated (b)	Net for Depreciation (c)	Additions (d)	Total for Depreciation (e) = (c) + ½ x (d) [1]	Years (f)	Depreciation Rate (g) = 1 / (f)	2012 Depreciation Expense (h) = (e) / (f)	2012 Depreciation Expense per Appendix 2 B Fixed Assets, Column K (I)	Variance [2] (m) = (h) - (I)
1611	Computer Software (Formally known as Account 1925)			$ -		$ -		0.00%	$ -		$ -
1612	Land Rights (Formally known as Account 1906)			$ -		$ -		0.00%	0		0
1805	Land	158,686		158,686	0	158,686		0.00%	0	0	0
1806	Land Rights	70,296	55,355	14,941	0	14,941	32.13	3.11%	465	465	0
1808	Buildings	96,567		96,567	0	96,567	47.31	2.11%	2,041	2,041	0
1810	Leasehold Improvements	0		0	0	0		0.00%	0	0	0
1815	Transformer Station Equipment >50 kV	467,359		467,359	0	467,359	30.00	3.33%	15,579	15,579	0
1820	Distribution Station Equipment <50 kV	4,041,746	587,215	3,454,531	0	3,454,531	32.39	3.09%	106,654	106,654	0
1825	Storage Battery Equipment	0		0	0	0		0.00%	0	0	0
1830	Poles, Towers & Fixtures	6,451,507		6,451,507	610,000	6,756,507	25.00	4.00%	270,260	270,260	0
1835	Overhead Conductors & Devices	12,589,209	1,977,606	10,611,603	367,500	10,795,353	25.00	4.00%	431,813	431,813	0
1840	Underground Conduit	826,654		826,654	90,000	871,654	25.00	4.00%	34,866	34,866	0
1845	Underground Conductors & Devices	11,458,895	482,983	10,975,912	195,000	11,073,412	26.73	3.74%	414,305	414,305	0
1850	Line Transformers	6,467,733	299,221	6,168,512	427,500	6,382,262	25.30	3.95%	252,266	252,266	0
1855	Services (Overhead & Underground)	647,473		647,473	40,000	667,473	25.00	4.00%	26,699	26,699	0
1860	Meters	224,145	97,020	127,125	0	127,125	15.00	6.67%	8,475	8,475	0
1860	Meters (Smart Meters)	2,755,384		2,755,384	12,000	2,761,384	15.00	6.67%	184,092	184,092	0
1870	Leased Property on Customer Premises	8,010		8,010	0	8,010	25.03	4.00%	320	320	0
1905	Land	0		0	0	0		0.00%	0	0	0
1908	Buildings & Fixtures	2,169,785		2,169,785	275,000	2,307,285	38.04	2.63%	60,650	60,650	0
1910	Leasehold Improvements	0		0	0	0		0.00%	0	0	0
1915	Office Furniture & Equipment (10 years)	90,319	6,961	83,358	17,500	92,108	9.96	10.04%	9,250	9,250	0
1915	Office Furniture & Equipment (5 years)	0		0	0	0		0.00%	0	0	0
1920	Computer Equipment - Hardware	287,608	177,898	109,710	35,000	127,210	5.00	20.00%	25,442	25,442	0
1920	Computer Equip.-Hardware(Post Mar. 22/04)	0		0	0	0		0.00%	0	0	0
1920	Computer Equip.-Hardware(Post Mar. 19/07)	0		0	0	0		0.00%	0	0	0
1925	Computer Software	1,010,405	364,897	645,508	90,000	690,508	5.00	20.00%	138,101	138,101	0
1930	Transportation Equipment	1,391,450	994,242	397,208	0	397,208	9.71	10.30%	40,898	40,898	0
1935	Stores Equipment	30,023	22,418	7,605	0	7,605	9.99	10.01%	761	761	0
1940	Tools, Shop & Garage Equipment	114,950	40,241	74,709	13,000	81,209	10.00	10.00%	8,121	8,121	0
1945	Measurement & Testing Equipment	20,391	9,371	11,020	0	11,020	10.65	9.39%	1,035	1,035	0
1950	Power Operated Equipment	0		0	0	0		0.00%	0	0	0
1955	Communications Equipment	279,005	28,621	250,384	0	250,384	10.07	9.93%	24,857	24,857	0
1955	Communication Equipment (Smart Meters)	0		0	0	0		0.00%	0	0	0
1960	Miscellaneous Equipment	315,235	37,040	278,195	0	278,195	25.00	4.00%	11,128	11,128	0
1975	Load Management Controls Utility Premises	0		0	0	0		0.00%	0	0	0
1980	System Supervisor Equipment	1,134,745	232,221	902,524	27,500	916,274	17.26	5.79%	53,094	53,094	0
1985	Miscellaneous Fixed Assets	0		0	0	0		0.00%	0	0	0
1995	Contributions & Grants	-2,033,600		-2,033,600	-100,000	-2,083,600	25.00	4.00%	-83,343	-83,343	0
etc.				0	0	0		0.00%	0	0	0
				0	0	0		0.00%	0	0	0
	Total	51,073,980	5,413,310	45,660,670	2,100,000	46,710,670			2,037,829	2,037,829	0

Appendix 2-CG
Depreciation and Amortization Expense

Assumes the applicant adopted IFRS for financial reporting purposes January 1, 2013

Year 2012 MIFRS

Account	Description	Opening NBV as at Jan 1, 2012 [5] (a)	Additions (d)	Average Remaining Life of Opening NBV [4] (i)	Years (new additions only) [3] (f)	Depreciation Rate on New Additions (g) = 1 / (f)	Depreciation Expense on Opening NBV (j) = (a) / (i)	Depreciation Expense on Additions [1] (h)=((d)*0.5)/(f)	2012 Depreciation Expense (k) = (j) + (h)	2012 Depreciation Expense per Appendix 2-B Fixed Assets, Column K (l)	Variance [2] (m) = (k) - (l)	Depreciation Expense on 2012 Full Year Additions (n)=((d))/(f)	Less Depreciation Expense on Assets Fully Depreciated during the year (o)	2012 Full Year Depreciation [6] (p) = (j) + (n) - (o)
1611	Computer Software (Formally known as Account 1925)					0.00%	$ -	$ -	$ -		$ -	$ -		$ -
1612	Land Rights (Formally known as Account 1906)					0.00%	$ -	$ -	$ -		$ -	$ -		$ -
1805	Land	158,686	0			0.00%	0	0	0	0	0	0		0
1806	Land Rights	11,305	0	17.66		0.00%	640	0	640	640	0	0		640
1808	Buildings	37,812	0	30.59		0.00%	1,236	0	1,236	1,236	0	0		1,236
1810	Leasehold Improvements	0	0			0.00%	0	0	0	0	0	0		0
1815	Transformer Station Equipment >50 kV	444,369	0	29.91		0.00%	14,857	0	14,857	14,857	0	0		14,857
1820	Distribution Station Equipment <50 kV	1,570,530	0	21.91		0.00%	71,683	0	71,683	71,683	0	0		71,683
1825	Storage Battery Equipment	0	0			0.00%	0	0	0	0	0	0		0
1830	Poles, Towers & Fixtures	5,400,992	515,000	46.08	50	2.00%	117,200	5,150	122,350	122,350	0	10,300		127,500
1835	Overhead Conductors & Devices	4,402,834	305,500	37.37	50	2.00%	117,807	3,055	120,862	120,862	0	6,110		123,917
1840	Underground Conduit	712,931	79,000	46.71	50	2.00%	15,264	790	16,054	16,054	0	1,580		16,844
1845	Underground Conductors & Devices	4,222,942	171,000	20.84	30	3.33%	202,630	2,850	205,480	205,480	0	5,700		208,330
1850	Line Transformers	3,165,512	358,500	29.70	40	2.50%	106,579	4,481	111,060	111,060	0	8,963		115,542
1855	Services (Overhead & Underground)	541,539	34,000	36.10	40	2.50%	15,003	425	15,428	15,428	0	850		15,853
1860	Meters	139,980	0	16.52		0.00%	8,475	0	8,475	8,475	0	0		8,475
1860	Meters (Smart Meters)	2,366,490	12,000	12.89	15	6.67%	183,692	400	184,092	184,092	0	800		184,492
1870	Leased Property Customer Premises	5,128	0	2.00		0.00%	2,564	0	2,564	2,564	0	0		2,564
1905	Land	0	0			0.00%	0	0	0	0	0	0		0
1908	Buildings & Fixtures	1,213,475	275,000	20.96	40	2.50%	57,882	3,438	61,319	61,319	0	6,875		64,757
1910	Leasehold Improvements	0	0			0.00%	0	0	0	0	0	0		0
1915	Office Furniture & Equipment (10 years)	40,715	17,500	4.86	10	10.00%	8,375	875	9,250	9,250	0	1,750	534	9,591
1915	Office Furniture & Equipment (5 years)	0	0			0.00%	0	0	0	0	0	0		0
1920	Computer Equipment - Hardware	83,901	35,000	1.84	4	25.00%	34,751	4,375	39,126	39,126	0	8,750	21,263	22,238
1920	Computer Equip.-Hardware(Post Mar. 22/04)	0	0			0.00%	0	0	0	0	0	0		0
1920	Computer Equip.-Hardware(Post Mar. 19/07)	0	0			0.00%	0	0	0	0	0	0		0
1925	Computer Software	568,656	90,000	4.40	5	20.00%	129,101	9,000	138,101	138,101	0	18,000	8,239	138,862
1930	Transportation Equipment	266,325	0	8.93		0.00%	29,819	0	29,819	29,819	0	0		29,819
1935	Stores Equipment	2,930	0	3.86		0.00%	759	0	759	759	0	0		759
1940	Tools, Shop & Garage Equipment	35,111	13,000	4.70	10	10.00%	7,471	650	8,121	8,121	0	1,300	723	8,048
1945	Measurement & Testing Equipment	4,645	0	3.58		0.00%	1,299	0	1,299	1,299	0	0	131	1,168
1950	Power Operated Equipment	0	0			0.00%	0	0	0	0	0	0		0
1955	Communications Equipment	159,873	0	6.62		0.00%	24,143	0	24,143	24,143	0	0	2,770	21,373
1955	Communication Equipment (Smart Meters)	0	0			0.00%	0	0	0	0	0	0		0
1960	Miscellaneous Equipment	244,811	0	22.00		0.00%	11,128	0	11,128	11,128	0	0		11,128
1975	Load Management Controls Utility Premises	0	0			0.00%	0	0	0	0	0	0		0
1980	System Supervisor Equipment	275,387	27,500	5.68	20	5.00%	48,517	688	49,204	49,204	0	1,375	352	49,540
1985	Miscellaneous Fixed Assets	0	0			0.00%	0	0	0	0	0	0		0
1995	Contributions & Grants	-1,671,125	-100,000	26.95	50	2.00%	-62,000	-1,000	-63,000	-63,000	0	-2,000		-64,000
etc.						0.00%	0	0	0	0	0	0		0
						0.00%	0	0	0	0	0	0		0
	Total	24,367,754	1,833,000				1,148,874	35,176	1,184,050	1,184,050	0	70,353	34,012	1,185,215

Appendix 2-CH
Depreciation and Amortization Expense

Assumes the applicant adopted IFRS for financial reporting purposes January 1, 2013

Year 2013 MIFRS

Account	Description	Additions (d)	Years (new additions only) (f)	Depreciation Rate on New Additions (g) = 1 / (f)	2013 Depreciation Expense [1] (h)=2012 Full Year Depreciation + ((d)*0.5)/(f)	2013 Depreciation Expense per Appendix 2-B Fixed Assets, Column K (l)	Variance [2] (m) = (h) - (l)
1611	Computer Software (Formally known as Account 1925)			0.00%	$ -		$ -
1612	Land Rights (Formally known as Account 1906)			0.00%	$ -		$ -
1805	Land	$ -		0.00%	$ -	$ -	$ -
1806	Land Rights	$ -		0.00%	$ 640.00	$ 640.00	$ -
1808	Buildings	$ -		0.00%	$ 1,236.00	$ 1,236.00	$ -
1810	Leasehold Improvements	$ -		0.00%	$ -	$ -	$ -
1815	Transformer Station Equipment >50 kV	$ -		0.00%	$ 14,857.00	$ 14,857.00	$ -
1820	Distribution Station Equipment <50 kV	$ -		0.00%	$ 71,683.00	$ 71,683.00	$ -
1825	Storage Battery Equipment	$ -		0.00%	$ -	$ -	$ -
1830	Poles, Towers & Fixtures	$ 625,000.00	50.00	2.00%	$ 133,750.00	$ 133,751.00	-$ 1.00
1835	Overhead Conductors & Devices	$ 133,600.00	50.00	2.00%	$ 125,253.00	$ 125,253.00	$ -
1840	Underground Conduit	$ 116,200.00	50.00	2.00%	$ 18,006.00	$ 18,006.00	$ -
1845	Underground Conductors & Devices	$ 192,100.00	30.00	3.33%	$ 211,531.67	$ 211,532.00	-$ 0.33
1850	Line Transformers	$ 317,300.00	40.00	2.50%	$ 119,507.75	$ 119,507.00	$ 0.75
1855	Services (Overhead & Underground)	$ 35,000.00	40.00	2.50%	$ 16,290.50	$ 16,290.00	$ 0.50
1860	Meters	$ -		0.00%	$ 8,475.00	$ 8,475.00	$ -
1860	Meters (Smart Meters)	$ 50,000.00	15.00	6.67%	$ 186,158.67	$ 186,159.00	-$ 0.33
1870	Leased Property on Customer Premises	$ -		0.00%	$ 2,564.00	$ 2,564.00	$ -
1905	Land	$ -		0.00%	$ -	$ -	$ -
1908	Buildings & Fixtures	$ 20,000.00	40.00	2.50%	$ 55,006.50	$ 55,006.00	$ 0.50
1910	Leasehold Improvements	$ -		0.00%	$ -	$ -	$ -
1915	Office Furniture & Equipment (10 years)	$ -		0.00%	$ 9,591.00	$ 9,591.00	$ -
1915	Office Furniture & Equipment (5 years)	$ -		0.00%	$ -	$ -	$ -
1920	Computer Equipment - Hardware	$ 46,000.00	4.00	25.00%	$ 27,988.00	$ 27,988.00	$ -
1920	Computer Equip.-Hardware(Post Mar. 22/04)	$ -		0.00%	$ -	$ -	$ -
1920	Computer Equip.-Hardware(Post Mar. 19/07)	$ -		0.00%	$ -	$ -	$ -
1925	Computer Software	$ 58,500.00	5.00	20.00%	$ 144,712.00	$ 144,712.00	$ -
1930	Transportation Equipment	$ 350,000.00	15.00	6.67%	$ 41,485.67	$ 41,485.00	$ 0.67
1935	Stores Equipment	$ -		0.00%	$ 759.00	$ 759.00	$ -
1940	Tools, Shop & Garage Equipment	$ 5,000.00	10.00	10.00%	$ 8,298.00	$ 8,298.00	$ -
1945	Measurement & Testing Equipment	$ -		0.00%	$ 1,168.00	$ 1,168.00	$ -
1950	Power Operated Equipment	$ -		0.00%	$ -	$ -	$ -
1955	Communications Equipment	$ -		0.00%	$ 21,373.00	$ 21,373.00	$ -
1955	Communication Equipment (Smart Meters)	$ -		0.00%	$ -	$ -	$ -
1960	Miscellaneous Equipment	$ -		0.00%	$ 11,128.00	$ 11,128.00	$ -
1975	Load Management Controls Utility Premises	$ -		0.00%	$ -	$ -	$ -
1980	System Supervisor Equipment	$ 52,500.00	20.00	5.00%	$ 50,852.00	$ 50,852.00	$ -
1985	Miscellaneous Fixed Assets	$ -		0.00%	$ -	$ -	$ -
1995	Contributions & Grants	$ -		0.00%	-$ 64,000.00	-$ 64,000.00	$ -
etc.		$ -		0.00%	$ -		$ -
				0.00%	$ -		$ -
	Total	$ 2,001,200.00			$ 1,228,313.75	$ 1,228,313.00	$ 0.75
	Depreciation expense adjustment resulting from amortization of Account 1575				-$ 146,695.00		
	Total Depreciation expense to be included in the test year revenue requirement				**$ 1,081,618.75**		

Capital Budget - Introduction

Welland Hydro Distribution System:

Welland Hydro owns and operates the electricity distribution system in its licensed service area in the City of Welland, serving approximately 23,000 Residential, General Service, Large Use, Street Light, Sentinel Light, and Unmetered Scattered Load customers.

Welland Hydro is supplied through the Hydro One transmission system at a voltage of 27.6 kV. Electricity is then distributed through Welland Hydro's service area of 86 square kilometres over 131 kilometres of underground cable and 361 kilometres of overhead cable and approximately 8,000 Welland Hydro owned poles (excludes poles owned by Bell, Hydro One, and the City of Welland). Welland Hydro delivers electricity at its supply voltage of 27.6 kV and 4.16 kV. Welland Hydro owns 14 distribution stations stepping voltage down to 4.16 kV. Voltage is further stepped down in order to supply individual customers though approximately 2,600 transformers.

Smart Meters:

Welland Hydro owns and maintains approximately 22,000 smart meters installed on its customers' premises for the purpose of measuring consumption of electricity for TOU billing purposes. Welland began TOU billing to both Residential and GS<50 Commercial customer classes effective with meter reads February 1, 2012 and has completed 100% of the installation of smart meters for these customer classes.

Capital Planning:

In managing its distribution system assets, Welland Hydro's main objective is to optimize performance of the assets at a reasonable cost with due regard for system reliability, safety, and customer service expectations.

Welland Hydro's Asset Management Plan, which sets out Welland Hydro's processes for determining the necessary distribution system investments to ensure safe, reliable delivery of electricity to its customers, accompanies this Exhibit as Appendix A.

Welland Hydro's Budget Process:

The Capital Budget process at Welland Hydro is an integral planning tool and ensures that appropriate resources are available to maintain and grow its capital infrastructure. It is the responsibility of each department to contribute in the preparation of the Capital and Operating budget with the assistance of the Finance department. The responsibility of the Finance Department is to coordinate the capital budget and forecast process and present a preliminary Capital budget to the President & CEO for approval. Once approved by the President, the plan is submitted to the Audit Committee prior to presentation to the full Board of Directors of Welland Hydro.

Capital Budget:

Welland Hydro's capital plan is segregated into the following categories:

- Asset Management Capital Expenditures-Infrastructure and Substations
- Vehicles
- Computer Equipment and Software
- Building Improvements
- Other

This Application incorporates Welland Hydro's 2012 Bridge Year & 2013 Test Year Capital Expenditures in determining the revenue requirement.

Welland Hydro's Capital Budget is based on:

- **Customer Demand**

These are projects that Welland Hydro undertakes to meet customer obligations in accordance with the OEB's Distribution System Code (the "DSC") and Welland Hydro's Conditions of Service. Activities include connecting new residential and general service customers, constructing distribution plant to connect new subdivisions and relocation system plant equipment for roadway reconstruction work. Welland Hydro contributes to the cost of these

projects using the economic evaluation methodology in accordance with the DSC and the provisions of its Conditions of Service for system expansions to determine the level of capital contribution.

- **Replacement**

Replacement projects are completed when it has been determined through proper condition assessment that assets have reached their end of useful life. Welland Hydro completes visual inspections of its plant and performs predictive testing on certain assets where such testing is available, and replaces assets based on inspection and testing results as warranted. In some cases the projects involve spot replacement of assets; in other cases, the projects involve complete asset replacement within a geographic area. When a geographic area is being replaced, consideration is given to converting the distribution system voltage from 4.16 kV to 27.6 kV. Converting voltage levels while replacing the assets delivers added benefits including reductions in substation maintenance and capital expenditures, and reduced system losses.

- **Regulatory Requirements**

These projects are capital investments which are being driven by regulatory requirements. These requirements may include, among others, directions from the OEB, the IESO, the Ministry of Energy & Infrastructure or the Ministry of the Environment. From 2009 to 2011 Welland Hydro expended capital dollars to meet such regulatory requirements such as the installation of Smart Meters, the elimination of load transfers from other LDC's, Wholesale Metering requirements, and investment in a new Customer Information System to produce TOU billings.

- **Substations**

Substation investments are undertaken to improve or maintain reliability to large numbers of customers and to maintain security and safety at the substations.

Summary of Capital Projects

Board Staff have provided Appendix 2A in the Filing Requirements Chapter 2 Appendices to provide an analysis of capital spending from 2007 to 2013. Capital spending from 2007 to 2011 was provided on a CGAAP basis. The 2012 Bridge Year and 2013 Test Year capital spending were provided on a MIFRS basis. Welland Hydro has also provided a CGAAP total comparison for both 2012 and 2013. Capital spending under CGAAP would be $267,000 higher in each of 2012 and 2013. The Capital Projects Table is provided on pages 2 and 3 of this schedule. Welland Hydro would like to point out that capital spending for 2007 to 2011 excludes Smart Meter capital spending of $3,032,864 which was dealt with in Welland Hydro's Smart Meter Rate Application EB-2011-0415. With the exclusion of Smart Meters, Welland Hydro's capital spending has been consistent year over year ranging between $2.0 million and $2.3 million with the exception of 2010. In 2010 Welland Hydro spent additional capital funds ($433,700) on Wholesale Metering points required by the IESO. Without this expenditure 2010 capital spending would have been $2.3 million which is consistent with the other years

For the purposes of this application Welland Hydro will provide descriptions from 2009 which exceed the materiality threshold of $50,000. Year 2009 to 2012 will be presented in this schedule with details of the 2013 Test Year Capital Spending provided in the Asset Management Plan included in Exhibit2, Tab 3, Appendix A.

2009 Asset Management - Substation

Rebuild MS#2 McMaster Ave - $133,385

Since 1976 only $85,000 had been spent on this sub-station which has been in service since the late 1950's. Welland Hydro installed a new pad mounted 3MVA transformer and two pad mounted switchgears. The new equipment was safer to operate and with modern technology which provided additional protection and SCADA functionality. This project was completed in 2010.

Appendix 2-A
Capital Projects Table

Projects	2007	2008	2009	2010	2011	2012 Bridge Year	2013 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS
Wholesale Metering-TS	0	0	5,485	433,700	28,174	0	
Sub-Total TS>50 kV	0	0	5,485	433,700	28,174	0	0
Substations							
Rebuild MS#11 Darby Road	157,516	175,258	24,523	0	0	0	0
Rebuild MS#2 McMaster Ave	0	0	133,385	249,644	0	0	0
Primary Cabling MS#7 Fitch St	0	0	0	0	30,541	0	0
MS#6 Transformer/Underground	0	0	0	0	0	106,634	0
Sub-Total DS<50 kV	157,516	175,258	157,908	249,644	30,541	106,634	0
Overhead/Underground							
Major Street Rebuild	146,419	31,800	0	0	0	0	0
Towline Tunnel Rebuild	177,138	0	0	0	0	0	0
Load Transfer Hydro One	144,267	84,178	0	0	0	0	0
Niagara Street 27.6	243,729	0	0	0	0	0	0
Colbeck Drive 27.6	0	217,031	0	0	0	0	0
Churchhill Ave 27.6	0	76,862	9,982	0	0	0	0
Lincoln to Cartier 4.16	0	52,388	0	0	0	0	0
Cartier Court Underground	0	50,029	0	0	0	0	0
Harold to Major 4.16	0	81,771	0	0	0	0	0
Barrington to Fairlawn Undergrd	0	151,481	0	0	0	0	0
Mill Street Rebuild	0	171,307	186,228	0	0	0	0
Darby Road Rebuild	0	0	64,647	0	0	0	0
Ontario Road 27.6	0	0	67,892	0	0	0	0
Wilton,Oakwood, Elmwood 27.6	0	0	145,132	392,452	0	0	0
Burgar Street Rebuild 4.16	0	0	173,526	0	0	0	0
Shotwell & Church 4.16	0	0	106,635	4,241	0	0	0
Smith Street Rebuild	0	0	72,002	0	0	0	0
Margaret,Nye, Thorold 4.16	0	0	123,222	0	0	0	0
Relocate Poles Thorold & Clare	0	0	82,824	2,155	0	0	0
King Street & Merritt 27.6	0	0	66,713	0	0	0	0
Acadia Ave Underground	0	0	203,172	0	0	0	0
McMaster Ave Rebuild	0	0	0	282,900	0	0	0
Marc Blvd Underground	0	0	0	172,543	112,754	0	0
Pole Replace First Ave	0	0	0	73,458	0	0	0
Pole Replace Wavel Court	0	0	0	64,166	0	0	0
East Main to Centre 27.6	0	0	0	67,183	0	0	0
Rolling Acres Drive Underground	0	0	0	177,533	0	0	0
East Main to Wellington 4.16	0	0	0	0	73,383	0	0
Pole Replacement Scholfield	0	0	0	0	42,966	0	0
Mayfair Estates 27.6 Rebuild	0	0	0	0	228,756	83,778	0
Mayfair Estates Underground	0	0	0	0	238,254	0	0
Pole Replacement East Main	0	0	0	0	40,978	0	0
Federal Road 27.6	0	0	0	0	129,453	0	0
Pole Replacement Cozy/Empire	0	0	0	0	50,587	0	0
Highway 406 Woodlawn/E Main	0	0	0	0	108,735	0	0
Townline Road/Dain City 27.6	0	0	0	0	132,433	0	0
Relocate Poles Rice to Woodlawn	0	0	0	0	0	111,404	0
Champlain Ave Underground	0	0	0	0	0	86,000	0

Appendix 2-A
Capital Projects Table

Projects	2007	2008	2009	2010	2011	2012 Bridge Year	2013 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS
Regent Street 27.6	0	0	0	0	0	209,074	0
PCB Transformer Replacements	0	0	0	0	0	41,534	0
Dennistoun, Maple, Bald Rebuild	0	0	0	0	0	313,610	0
Acqeduct, Beechwood Rebuild	0	0	0	0	0	125,444	0
Wilson, Riverside Drive Rebuild	0	0	0	0	0	0	167,000
McCormick & Dufferin Rebuild	0	0	0	0	0	0	83,000
Garner Ave Rebuild	0	0	0	0	0	0	63,000
Cady Street Rebuild	0	0	0	0	0	0	30,000
Major to Schofield Rebuild	0	0	0	0	0	0	139,000
Southworth Street Rebuild	0	0	0	0	0	0	126,000
Ridge Road Expansion-Solar	0	0	0	0	0	0	84,000
Lancaster Rebuild	0	0	0	0	0	0	84,000
Preston & Wiltshire Underground	0	0	0	0	0	0	172,000
Bettes Avenue Underground	0	0	0	0	0	0	60,000
Claremount Circle Underground	0	0	0	0	0	0	68,000
Change Transformer Inventory	436,139	76,329	-109,366	-399	65,026	0	0
Misc Pole Replacement	172,247	239,746	146,453	90,495	183,201	84,426	116,000
Misc Underground Rebuild	122,131	60,224	85,939	23,022	26,234	25,800	48,000
Misc Overhead Primary	62,950	155,309	15,901	63,531	28,413	29,095	30,000
Misc Transformer Replacement	117,577	190,861	67,514	70,480	33,797	62,301	64,200
Sub-Total Overhead/Underground	1,622,597	1,639,316	1,508,416	1,483,760	1,494,970	1,172,466	1,334,200
Other							
Contributed Capital	137,723	-72,017	11,503	-24,288	58,762	50,000	50,000
Scada Upgrade	84,584	0	0	0	0	0	0
Scada Switches	0	0	0	104,364	0	27,500	52,500
Back Up Generator	24,019	109,380	144,796	0	0	0	0
Single Bucket Truck	0	195,126	29,804	0	0	0	0
Pickup Trucks/Vans	29,551	0	0	25,545	66,729	0	0
Double Bucket Truck	0	0	0	0	0	0	350,000
New CIS/Financial System	0	0	0	330,030	235,589	65,000	0
Atrium Replacement/Building Ext	0	0	0	0	292,812	155,000	0
Conference Room Renovations	0	0	0	0	0	100,000	0
Building & Fixtures	59,294	28,972	29,920	10,200	0	20,000	20,000
Meters	25,511	23,826	16,417	84,374	26,046	12,000	50,000
Furniture & Equipment	59,294	16,527	6,564	0	5,735	17,500	0
Computer Hardware	16,714	11,096	20,314	16,315	20,247	35,000	46,000
Computer Software	41,442	57,068	2,500	2,985	5,345	25,000	58,500
Sub-Total Other	478,132	369,978	261,818	549,525	711,265	507,000	627,000
Miscellaneous	34,779	89,665	81,593	35,555	51,475	46,900	40,000
Total	**2,293,024**	**2,274,217**	**2,015,220**	**2,752,184**	**2,316,425**	**1,833,000**	**2,001,200**
Comparison CGAAP						2,100,000	2,268,200

2009 Asset Management - Rebuild

Mill Street Rebuild - $186,228

An apartment complex (subsidized rent) was built at the intersection of Mill Street and Niagara Street. This area is an older section of Welland and the distribution system in the area was 4160/2400V and required replacement. The system in this area was upgraded to 27600/16000V at a total cost of $357,535 over two years (2008/09).

Darby Road Rebuild - $64,647

The Darby road substation was rebuilt from 2007 to 2009. This expenditure represents the costs to rebuild the 27.6 kV pole line leading into the sub-station.

Ontario Road Rebuild - $67,892

A section of this line was rebuilt in 2009 to upgrade to 27.6 kV to provide service to a new subdivision that could not be connected to the existing 4.16 kV feeder due to capacity restrictions.

Wilton, Oakland, Elmwood Rebuild - $145,132

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life. Work began on replacing and upgrading the distribution plant in this area to 27.6 kV in 2009 and was completed in 2010 at a total cost of $537,584.

Burgar Street Rebuild - $106,635

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. Complications and costs to convert to 27.6 kV would have been extensive.

Shotwell & Church Rebuild - $106,635

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV.

Smith Street Rebuild - $72,002

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. Complications and costs to convert to 27.6 kV would have been extensive.

Margaret, Nye, Thorold - $123,222

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV.

Kings Street & Merritt Rebuild - $66,713

The underground 4.16 kV distribution in this area was at the end of its useful life. The system was converted to a combination of 27.6 kV overhead and underground. No underground primary was required for conversion.

Acadia Ave Underground Rebuild - $203, 172

This area of Welland was serviced with a 4.16 kV underground line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV. The work included replacing all pole-tran transformers with pad mount transformers.

2009 Regulatory Requirements

Relocate Poles Thorold & Clare Ave Intersection - $82,824

The pole lines leading into this intersection were relocated to accommodate roadway improvements/expansion.

2009 Other

Back Up Generator - $144,796

The previous backup generator for Welland Hydro's service centre has been in operation for over forty years. This generator was not large enough to provide power for the entire service centre supplying only enough to keep the control room and engineering operational. In 2007, Welland Hydro's board approved replacement of the current generator with a system large enough to power the entire service centre and meet environmental regulations. During a power outage, the operation of the service centre is crucial for reviewing the status of the distribution system and directing manpower and resources to complete the necessary work. The work on this project was completed in 2009 with a total project cost of $278,195.

2010 Asset Management – Substation

Rebuild MS#2 McMaster Ave - $249,644

Project completed in 2010. See 2009 for description.

2010 Asset Management - Rebuild

Wilton, Oakland, Elmwood Rebuild - $392,452

Project completed in 2010. See 2009 for description.

McMaster Ave Rebuild - $282,900

The plant in this area consisted of both 4.16 kV and 27.6 kV pole lines which were both at the end of their useful lives. Both systems were replaced with new lines at existing voltages.

Marc Blvd Underground Rebuild - $172,543

The 4.16 kV underground system was at the end of its useful life. Construction on a new 27.6 kV underground system started in 2010 and was completed in 2011 at a total cost of $285,207. Work in this area included the replacement of pole-tran transformers with pad mount transformers.

First Ave Rebuild - $73,458

The plant in this area consisted of both 4.16 kV and 27.6 kV pole lines which were both at the end of their useful lives. Both systems were replaced with new lines at existing voltages.

Wavel Court Rebuild - $64,166

The plant in this area is serviced by a 4.16 kV line at the end of its useful life. Replacement included a transformer relocation to make it more accessible.

East Main Rebuild - $67,183

A new medical centre was built on East Main Street in an area serviced by a 4.16 kV line. Due to capacity restrictions Welland Hydro elected to extend a 27.6 kV line in the area to provide service to this facility.

Rolling Acres Underground - $177,533

This area of Welland was serviced with a 4.16 kV underground line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV. The work included replacing all pole-tran transformers with pad mount transformers.

2010 Regulatory Requirements

Wholesale Metering TS Station - $433,700

As previously identified Welland Hydro was required to upgrade wholesale metering to meet the requirements as set out by the IESO. This project began in 2009 and was completed in 2010 at a total cost of $467,359. The capital project was put into service for deprecation starting in 2010 based on an accrual of cost from Hydro One. The accrual was adjusted to actual in 2011.

2010 Other

SCADA Switches - $104,364

SCADA switches were installed at three locations on the 27.6 kV system for outage management improvements.

New CIS/Financial System - $330,030

Welland Hydro's Smart Meter Rate Application EB-2011-0415 identified that a new CIS System was required in order to meet TOU Billing dates as set out by the OEB. The existing CIS and Financial Systems were dated and unique to Welland Hydro. During the Smart Meter Rate Application Welland Hydro elected to defer putting any of the costs associated with the new CIS to Smart Meter costs. Welland Hydro indicated that both the new CIS and Financial software systems and their associated costs would be brought forward to the 2013 COS Application as a distinct item when comparisons were made to 2009 COS OM&A costs. This management decision was supported by the Board in its Decision & Order as it was to the benefit of customers. The new CIS went live February 28, 2011 and Welland Hydro successfully converted to time of use billing in early 2012. The new Financial Software reporting package went live January 1, 2012 and includes a new fixed asset module which will be utilized in the conversion to IFRS. Costs from 2010 to 2012 to complete both systems total $630,619.

Commercial Meters GS>50kW - $84,374

These meters were not included as part of Welland Hydro's Smart Meter Rate Application. A portion of the GS>50 customer based had mechanical meters which required manual meter reads. Welland Hydro purchased these meters with the intent of integrating them into the wireless network. Installation is ongoing but was delayed by the focus to meet TOU billing dates set out by the OEB for Residential and GS<50 customer classes.

2011 Asset Management - Rebuild

Marc Blvd Underground Rebuild - $112,754

Project completed in 2011. See 2010 for description.

East Main to Wellington Rebuild - $73,383

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV. The rebuild included provision for an upgrade to 27.6 kV in the future.

Mayfair Estates 27.6 Rebuild - $228,756

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life. Work began on replacing and upgrading the distribution plant in this area to 27.6 kV in 2011 and was completed in 2012 at a total cost of $312,534.

Mayfair Estates Underground Rebuild - $238,254

The 4.16 kV underground system was at the end of its useful life. Construction on a new 27.6 kV underground system was completed in 2011. Work in this area included the replacement of pole-tran transformers with pad mount transformers.

Federal Road Rebuild - $129,453

An addition to an existing manufacturing facility was built on Federal Road in an area serviced by a 4.16 kV line. Due to capacity restrictions Welland Hydro elected to extend a 27.6 kV line in the area to provide service to this facility.

Townline Road/Dain City Rebuild - $132,433

This expenditure was the rebuild of an existing 27.6 kV line at the end of its useful life.

2011 Regulatory Requirements

Highway 406/Woodlawn Road/East Main Street - $108,735

Highway 406 is the major route between the cities of Welland and St. Catharines. This highway is gradually being converted from a two lane to a four lane highway. Work has begun by the Ministry of Transportation in the area serviced by Welland Hydro. As a result, pole line relocations were required at Woodlawn road to accommodate an overpass and at East Main Street to accommodate a traffic circle.

2011 Other

New CIS/Financial System - $235,589

Project completed in 2012. See 2010 for description.

Atrium Replacement/Building Modifications - $292,812

Building modifications were required to meet Accessibility Standards for Customer Service, Ontario Regulation 429/07 and Accessibility for Ontarians with Disabilities Act, 2005. The Customer Service Representatives were moved into their new locations on the first working day of 2012. An estimated additional $155,000 was required to be spent in 2012 to complete this project bringing total costs for these renovations to $447,812.

2012 Asset Management – Substation

MS#6 Crowther Ave Substation Transformer Replacement - $106,634

The transformer at this station was 1956 vintage and at the end of its useful life. The transformer will be replaced along with the underground primary cable.

2012 Asset Management - Rebuild

Mayfair Estates 27.6 Rebuild - $83,778

Project completed in 2012. See 2011 for description.

Champlain Ave Underground Rebuild - $86,000

The 4.16 kV underground system in this area is at the end of its useful life and replacement is required.

Regent Street Rebuild - $209,074

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life. Work will be completed in 2012 to replace and upgrade the distribution plant in this area to 27.6 kV.

Dennistoun, Maple, Bald Rebuild - $313,610

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life. Work will be completed in 2012 to replace and upgrade the distribution plant in this area to 27.6 kV.

Acqueduct, Beechwood Rebuild - $125,444

This area of Welland was serviced with a 4.16 kV line which was at the end of its useful life and required replacement. There was no source of 27.6 kV in the immediate area to allow for an upgrade to 27.6 kV.

2012 Regulatory Requirements

Relocate Poles Woodlawn Road Rice to First Ave - $111,404

This section of Woodlawn Road is being widened from two to four lanes by the Region of Niagara. As a result, the existing distribution lines will be removed and a new line installed to accommodate the road widening.

2013 Other

New CIS/Financial System - $65,000

Project completed in 2012. See 2010 for description.

Atrium Replacement/Building Modifications - $155,000

Project completed in 2012. See 2011 for description.

Conference Room Renovations - $100,000

Training facilities at Welland Hydro are limited and outdated. The existing conference room required extensive renovations as it was originally built in the 1960's. The floor required replacement from tile to ceramic. There currently is no air conditioning and a ductless air cooling system will be installed. A new ceiling and energy efficient lighting will also be installed. Structural changes will be made to accommodate a bi-folding room divider so the room can be made to accommodate both large and smaller training groups. Audio/Visual Equipment will also be installed.

2013 Capital Expenditures

As previously indicated these expenditures are detailed in Welland Hydro's Asset Management Plan presented in Exhibit 2, Tab 3, Appendix A. With the completion of computer software changes and building modifications in 2012, capital expenditures in 2013 will focus on replacement of plant infrastructure and a double bucket line vehicle.

Asset Management Plan Summary

Welland Hydro has developed an Asset Management Plan which outlines the capital and operating expenditures necessary to ensure that Welland Hydro continues to provide the highest standards for the safe, reliable supply of electricity at a cost which will result in competitive distribution rates.

The Asset Management Plans provides for:

- Replacement and voltage conversion of plant at the end of their useful lives
- Construction of new plant required
- City of Welland, Region of Niagara, and Ministry of Transportation road work
- Inspection and testing of existing plant
- Maintenance of the highest standard of service to the City of Welland's residents and businesses

Welland Hydro's Asset Management Plan has been developed with due regard to the different Acts, Regulations, Codes and Guidelines and the continual updating of good utility practice to ensure the needs of the City of Welland and Welland Hydro's customers are met

The Asset Management Plan presented in Exhibit 2, Tab 3, Schedule 3, Appendix A contains details for major capital projects for the 2013 Test Year along with a high level forecast for 2014 and 2015 capital spending which shows Welland Hydro's commitment to continue to maintain its plant through prudent capital spending.

APPENDIX A

WELLAND HDYRO

ASSET MANAGEMENT PLAN

CONFIDENTIAL

WELLAND HYDRO-ELECTRIC SYSTEM CORP.

ASSET MANAGEMENT PLAN

August 7, 2012

Plan Created By Welland Hydro Electric System Corp.

Derived from Welland Hydro's Asset Management Strategy, Developed with the Assistance of AESI, Acumen Engineered Solutions International Inc.

Table of Contents

1. Welland HydroOverview and Structure

1.1 Utility Overview

Welland Hydro-Electric System Corp. ("Welland Hydro" or "WHESC") is a Local Distribution Company ("LDC"), regulated and licenced by the Ontario Energy Board ("OEB" or the "Board") pursuant to licence ED-2003-0002. The LDC is responsible for the safe delivery of electricity to approximately 22,500 customers in the City of Welland (Figure 1 below) and the maintenance of the local electricity distribution system. The system is divided into two distinct primary voltage levels of 27.6kV and 4.16kV whereby the latter is a subset of the 27.6kV system.

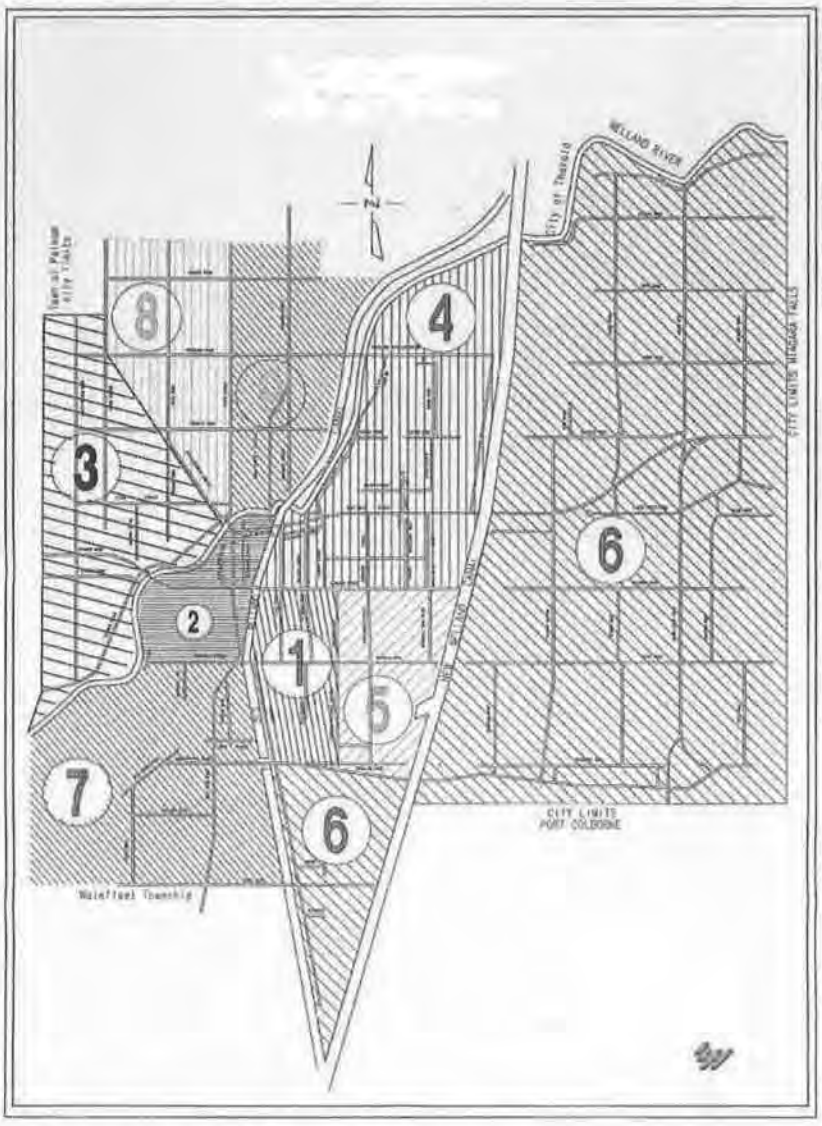

Figure 1: Welland Hydro's Service Territory

1.2 Distribution System Load Growth History

Welland Hydro's Residential Sector has experienced consistent growth over the past several years and the pattern is expected to continue for 2012 through 2015. Approximately 300 new Residential Services are connected each year.

Historically, over the past 50 years, the City of Welland has had moderate growth, averaging just less than one percent per year. Statistics indicate that there was a higher growth rate between 1961 and 1971.

Welland Hydro's Industrial & Commercial Sector has experienced negative growth over the past 5 years. There has been a limited amount of activity in this sector and overall growth is expected to be low.

1.3 External Challenges

1.3.1 Utility Plant Re-location

Welland Hydro's Capital Expenditures have been influenced significantly over the past few years due to Municipal, Regional and Provincial Road Re-construction Activities. Welland Hydro is obligated under the *Municipal Act, 2001* to accommodate these projects. We are not aware of any large projects proposed for the 2012-2015 window but expect that some projects will require Utility Plant Relocation. We expect that any projects will not have a major affect on our Capital Expenditures.

1.3.2 Distributed Generation Connections

Welland Hydro currently has 1 FIT and 15 microFIT connections on its system. There is a high potential for development of renewable generation, solar being the most likely. The area east of the Welland Canal is 33 square kilometres of predominantly rural land, suitable for solar installations. West of the Welland Canal has the potential for solar roof top units as well as some rural land suitable for solar installations.

Welland Hydro is connecting, on average, one microFIT per month.

There are currently 5 FIT projects expected to be connected within the next 6 to 18 months as follows:

- Two 250KW projects that have completed the Connection Impact Assessment ("CIA") process with both WHESC and Hydro One. At this stage there are no further consultations required with Hydro One.
- Two 500KW projects have completed the CIA process with both WHESC and Hydro One. Hydro One will be consulted to address monitoring requirements as and when these projects progress to the next stage.
- A 10MW project which has also completed the CIA process for both WHESC and Hydro One. WHESC, Hydro One and the developer of the 10MW FIT have met to discuss the project in detail including project status, time lines, coordination of activities and testing requirements. WHESC has signed a Generation Facility Connection and Cost Recovery Agreement with Hydro One. Additional consultation will take place as required.

To date there have been no expansion or enhancement costs to accommodate all existing FIT and MicroFIT connections. Of the projects mentioned above, only the 10MW project will require a system expansion. Details of this expansion can be found in section 9.1.3, Project 8.

1.3.3 Smart Grid

Welland Hydro is not considering undertaking any Smart Grid demonstration projects. It will however continuously review any Smart Grid investigations by others, as well as development in feeder automation and substation automation. To fund this activity, an allowance has been made for operating expenses particularly in the later years as the present knowledge base in the province advances. At this moment in time, an investigation of Smart Grid is considered the most cost effective way forward for Welland Hydro.

The aim of investigating Smart Grid technologies is to achieve a balance of service benefits versus a reasonable rate impact.

The work proposed by WHESC includes:

- Review of how other utilities are implementing their Smart Grid initiatives e.g. pilot projects
- Review of the results of pilot projects
- Review of the proceedings of the Smart Grid Working Group
- Establish high level cost estimates and benefits for any promising technology as identified by WHESC
- Review latest Smart Grid technology including smart meters, residential displays, outage management, electric vehicles and energy storage.

There are no plans to spend capital on Smart Grid projects, considering the more pressing need for investment.
Section 6.1 below addresses Welland Hydro's Smart Meter activities.

1.4 Distribution System Infrastructure

Welland Hydro distributes power from the Crowland (Hydro One owned) Transformer Station ("T.S.") at 27.6kV. Welland Hydro has 8 – 27.6kv distribution feeders. Approximately 90% of the loading of Crowland T.S. is distributed to WHESC customers. WHESC also owns 14 Municipal Substations ("M.S.") that supply customers at 4.16kV.

Welland Hydro has no embedded distribution and is not a host to any embedded distributors.

Welland Hydro's overhead distribution system accounts for approximately 70% of its overall distribution system. The overhead portion of the distribution system is comprised primarily of poles, conductors, distribution transformers and protective devices.

In detail, Welland Hydro's distribution system consists of the following major components.

Municipal Substations:	27.6kV/4.16kV – 14 stations; average size is 5 MVA
Poles:	8000 – 95% are wood poles
Transformers:	4.16kV – 495 are underground; 2440 are overhead

	27.6kV – 318 are underground; 331 are overhead
High Voltage Switchgear:	16 units
Conductor:	4.16kV – 35km is underground; 88km is overhead
	27.6kV – 52km is underground; 126km is overhead

2. Corporate Priorities

1.5 2.1 Mission Statement

Welland Hydro-Electric System Corp. is our community's proud distributor of safe, reliable electricity to our valued customers.

1.6 2.1 CorporateGoals

Welland Hydro's mission statement is expressed through its corporate goals:

- To incorporate into day to day business, Health and Safety measures that safeguards the public and our employees.
- To enhance the quality, safety, and reliability of our electrical distribution system while meeting or exceeding all statutory, environmental and regulatory requirements.
- To sustain the viability of Welland Hydro-Electric System Corp. through prudent and responsible management of assets and resources, while enhancing the overall value of the organization to the Shareholder, at reasonable electrical distribution rates.
- To promote a dynamic and proactive environment where employees are proud to work and succeed in their careers while pursuing a customer and community focused future.
- To pursue new innovations, partnerships and best management practices in our quest to meet or exceed financial expectations of our community by cost sharing, efficiency gains and cost savings.
- To protect and enhance the environment through energy conservation, demand management and other environmental friendly initiatives.

3 Asset Management Strategy

3.1 Asset Management Strategy

Welland Hydro contracted AESI in 2011 to conduct an Asset Management Review; this review did not include asset condition studies, but led to the development of an Asset Management Strategy document. This document is consistent with Welland Hydro's mission statement and corporate goals.

The Asset Management Strategy outlines Welland Hydro's good utility practices within its inspection and maintenance programs, and its approach to documentation and data analysis, managing information and development of the capital and operations and maintenance budgets.

Implementation of this Asset Management Strategy allows for an organized program for inspection, assessment and remediation of assets within the overhead distribution system, underground distribution system and substations.

3.2 Asset Management Objectives

Prudent capital investment plans and operations and maintenance budgets, reflecting current priorities and in anticipation of spending are required to achieve corporate goals.

Welland Hydro performs many activities, to varying degrees, that are considered good utility practices for managing distribution system assets. Our objective is to utilize the tools available for condition assessments in prioritizing determining capital work.

The Asset Management Strategy prioritizes work to achieve the following objectives:

1. Address significant health and safety issues
2. Address significant environmental risks
3. Meet regulatory and legal obligations (including reliability)
4. Replace end-of-life plant
5. Improve operational efficiency

4 Inspections and Condition Assessments

The OEB has documented its Minimum Inspection Requirements (Appendix C of the Distribution System Code, "DSC") that outlines minimum inspection standards and inspection intervals of the distribution system. The Minimum Inspection Requirements further define Patrol Inspection and provide a list of major assets within an LDC's distribution system to be patrolled. The assets applicable to Welland Hydro include:

- Poles and Supports
- Hardware and Attachments
- Conductors and Cables
- Switching and Protective Devices
- Distribution Transformers and Pad-Mounted Switchgear
- Substations
- Vegetation
- Civil Infrastructure

The following sections describe Welland Hydro's comprehensive inspection programthat is consistent with the DSC. The purpose of such an inspection program is to determine asset condition, identify any risk to safety, reliability and/or the environment, and subsequently address findings through prudent capital, operations and maintenance expenditures, as necessary. Welland Hydro has not undertaken any asset condition studies since its last Cost of Service application.

4.1 Inspection of the Overhead Distribution System

Welland Hydro's overhead distribution system accounts for approximately 70% of its overall distribution system. The overhead portion of the distribution system is comprised primarily of poles, conductors, distribution transformers and protective devices. These assets are inspected, as briefly described in the sections to follow; the inspection program is further described within Welland Hydro's Asset Management Strategy.

4.1.1 Poles

Welland Hydro's current pole inspection program is based on a comprehensive assessment performed between 2003 and 2005. In each year of 2003, 2004 and 2005 all wood poles within three of the nine geographic areas were inspected such that all poles were assessed by 2005 year-end. Welland Hydro engaged a qualified contractor to document the attributes of each pole (e.g. age, height, class, etc), establishing a baseline of attribute information. Additionally, the contractor provided an assessment of each pole's condition and subsequently made recommendations for pole replacements based on these attributes (primarily age) and condition

Today, there are approximately 8,000 poles within Welland Hydro's distribution system, of which the majority is wood and less than 5% is concrete. Approximately one-third of all wood and concrete poles are inspected on an annual basis, thereby completing inspection of all such poles within the distribution service area on a three year cycle.

In 2013 through 2015 Welland Hydro will engage a contractor to conduct a comprehensive assessment of all wood poles within the nine geographic areas

4.1.2 Distribution Transformers

Inspection of overhead distribution transformers is an integral component of Welland Hydro's predictive maintenance practice of thermographic infrared inspection. It identifies conventional deficiencies such as rusted or leaking transformers.

4.1.3 Switches/Protective Devices

Thermographic Infrared Inspection of overhead switches and other protective devices is an integral component of Welland Hydro's predictive maintenance program. It identifies conventional deficiencies such as loose, flashed or old switches, each of which may deteriorate the condition of the asset, pose a risk to safety, or reduce reliability of the overhead distribution system.

4.2 Inspection of the Underground Distribution System

Welland Hydro's underground distribution system accounts for approximately 30% of its overall distribution system. The OEB's Minimum Inspection Requirements, in addition to listing major overhead distribution system assets, also identifies those major assets specific to the underground distribution system; including and applicable to Welland Hydro are: distribution transformers, switches and protective devices, cables, civil infrastructure and vegetation. As with its overhead system, Welland Hydro's inspection cycles of these assets is based, in part, on its geographical areas but also on the category of distribution asset.

Underground assets are inspected as described in the sections to follow.

4.2.1 Distribution Transformers

This category of distribution transformers includes Pole-Tran and pad-mount transformers. Transformers are imaged during the thermographic imaging program. During the inspection, each identified transformer is opened; a picture of the transformer is then taken, attributes confirmed and the transformer's condition is assessed for concerns or deficiencies. As deficiencies may not be identified by visual assessment alone thermal imaging is also performed. Deficiencies or concerns (critical and non-critical) identified through either process are documented as comments on the transformer check list.

4.2.2 Pad-Mounted Switchgear

As with underground distribution transformers, pad-mounted or PMH switchgear are subject to both infrared thermography, performed concurrently with the annual thermographic imaging program, and visual inspection, performed following infrared thermography.

4.3 Inspection of Substations

The Welland Hydro distribution system includes 14 Municipal Stations, as noted in Section1.4 above; power is delivered to these from a single Transformer Station (TS), owned by Hydro One, with 115kV transformation to 27.6kV.

Welland Hydro performs an inspection and condition assessment of all its MSs on an approximate monthly basis. The inspection is performed by a qualified Welland Hydro employee at the beginning of each month and in accordance with the inspection forms. The inspection incorporates an assessment of the following:

- Feeder Readings
  - Amperage on each phase
  - Voltage on each phase
  - Counter Reading
- Substation Monthly Readings
  - Total KWH
  - Maximum KW
  - Maximum KVA
- Transformers
  - Temperature
  - Oil Level
  - Leaks
- Vegetation
- Electrical Panel
- Receptacles and Light Switches
- Indoor & Outdoor Lighting Fixtures
- Battery Chargers and Batteries
- RTUs
- Cooling Fans
- Sump Pump
- Baseboard Heaters
- Station Lights
- Grounding
- Station Security
  - Fence
  - Signs

5 Maintenance

Welland Hydro has recognized the benefits of various maintenance practices for improving reliability, reducing costly emergency expenditures and to preserving the integrity of its distribution system. The LDC has therefore implemented predictive, preventive and condition-based maintenance practices, to varying degrees. These practices are defined[1] and as follows:

A. **Predictive Maintenance** ("PdM"): activities that detect changes in the physical condition of equipment (signs of failure) in order to execute appropriate maintenance (e.g. condition-based maintenance) or capital planning.

B. **Preventive Maintenance** ("PM"): maintenance performed at predetermined intervals or according to prescribed criteria and intended to reduce the probability of failure.

C. **Condition-Based Maintenance** ("CBM"): maintenance performed after indication of impending failure or degradation in performance or condition of the asset. Condition-based maintenance

serves to eliminate opportunity of breakdowns and reduce deviations from optimum asset performance.

Welland Hydro's system of prioritizing deficiencies identified through inspection and some maintenance practices (e.g. infrared thermography) allows for timely and appropriate corrective action. Critical deficiencies (posing a threat to health, safety, the environment or regulatory obligaltions) are remediated expeditiously, often at the time or just following inspection. If remediation cannot be performed at such time (due to material lead times, locates, etc.), the asset is temporarily secured. Non-critical deficiency remediation follows; however, if the concern or deficiency may be resolved through a capital project (such as a pole line rebuild), then the deficiency is monitored until such time or address if it becomes higher proiority.

5.1 Maintenance of the Overhead Distribution System

5.1.1 Predictive Maintenance

Thermographic Infrared Inspection

Infrared ("IR") thermography is performed annually by a contractor engaged by Welland Hydro and trained in this imaging technique. This non-intrusive method measures the temperature across surrounding and similar components of distribution assets on the overhead distribution system thereby allowing for visualization of deficiencies, signifying impending or near failure.

PCB-Contaminated Transformer Removal

In 2007 Welland Hydro began a collecting oil samples from overhead and underground transformers manufactured prior to 1986 to determine the amount of polychlorinated biphenyls ("PCB"s). PCBs, a common dielectric and coolant fluid, are toxic compounds classified as a persistent organic pollutant. As such, the Government of Canada has established PCB Regulations that came into force in 2008 and have since been amended and in force in March 2010.

The PCB Regulations allow for the use of transformers with less than 50mg/kg. However, the PCB Regulations require transformers to be removed from service with concentrations >50mg/kg, according to a schedule based on concentration and location of the transformer. Welland Hydro has complied and continues to comply with the regulations. Twenty-six pole-mount transformers have yet to be removed. Welland Hydro has established a capital expenditure program for ongoing, annual replacement of these transformers, with the replacement of all such transformers according to schedule.

5.1.2 Preventive Maintenance

Vegetation Management

Vegetation management (commonly referred to as 'tree trimming') is performed on the overhead distribution system on a three-year cyclical basis. That is, approximately three of Welland Hydro's nine geographical areas are patrolled and pruned by a qualified contractor engaged by Welland Hydro through a tender process.

5.1.3 Condition-Based Maintenance

Following Pole Inspections

Where deficiencies or concerns exist, a copy of the pole picture, comments, and an overview of the deficiency and/or concern is forwarded to Welland Hydro's Line Department. A Journeyman Lineman

performs an additional inspection, particularly with items that present imminent failure or pose a risk to health, safety, the environment, reliability or Welland Hydro's legal or regulatory obligations. Such critical, high-priority deficiencies are addressed immediately. Non-critical deficiencies, defined as all other deficiencies or concerns, are addressed after high-priority items and through condition-based maintenance or are directed into a capital program, such as a rebuild, if applicable.

Following Thermographic Imaging

Condition-based maintenance to remediate critical deficiencies as identified in memoranda may be one of repair or replacement, depending on the nature of the deficiency, and is generally performed immediately following identification; similarly, non-critical deficiencies are remediated through repair or replacement. The response time is proportional to the condition severity to mitigate continued deterioration of asset performance or complete failure; most deficiencies are remediated within the year of identification with the exception of some that require customer coordination. Condition-based maintenance or asset replacement, as deemed appropriate, is subsequently performed and documented on the memorandum or work order, but may also be documented on a copy of the thermography report.

Following Vegetation Management

Generally, any vegetation growth is managed through the preventive maintenance practice of vegetation management. There are occasions for which vegetation management is required outside of the predetermined intervals, such as following a storm or in response to customer requests for tree or limb removal in proximity to power lines.

5.2 Maintenance of the Underground Distribution System

5.2.1 Predictive Maintenance

Thermographic Infrared Inspection

As previously noted IR thermography of Welland Hydro's distribution system is performed annually although the assets included within the inspection of underground assets vary annually. Assets that are imaged annually include substations, pad mounted switch gear, switches and terminations. Pad Mount and Pole Tran Transformers are imaged on a two year cyclical basis.

Pad-Mount and Pole-Tran Distribution Transformers

During the inspection, transformers are imaged to identify temperature variances, or 'hot spots'. Hot spots, representing deficiencies of the transformer or its peripheral attachments such as bushings, are categorized as minor, intermediate or severe, the latter of which is considered critical and represents a risk to health, safety, the environment or reliability

Pad-Mounted Switchgear

IR thermography of pad-mounted or PMH switchgear units is performed on at least one occasion annually, but may also be performed a second time, if warranted. On the first occasion, PMH units are imaged concurrently with the IR thermography of underground distribution assets and prior to the inspection and condition assessment of the units.

5.2.2 Preventive Maintenance

Pad-Mounted Switchgear Cleaning

Dry-ice cleaning is performed for those PMH switchgear units identified as contaminated, or dirty, during visual inspection. Units that are exposed to dust, dirt or other contamination may be subject to dielectric breakdown which causes tracking and damage to the unit; the result may be an outage on the unit.

5.2.3 Condition-Based Maintenance

Condition-based maintenance on the underground distribution system is performed subsequent to the inspection and condition assessments of underground distribution transformers and PMH units, performed by the System Inspection Journeyman Lineman, or following predictive and preventive maintenance programs.

Following Underground Transformer Inspections

During the inspection of Pole-Tran and pad-mount transformers, all identified deficiencies are documented on a transformer check list. Those deficiencies identified as critical (that is, presenting a risk to health, safety, the environment, or reliability) by the Welland Hydro Journeyman Lineman are reported immediately; examples of critical deficiencies of underground transformers include missing locks or complete corrosion resulting in access to live parts. Condition-based maintenance of critical items is such that Welland Hydro attempts to repair the deficiency or replace the defective component (or unit) at the time of inspection to mitigate continued deterioration of the asset, its performance and prevent complete failure. Remediation may be subsequently noted on the transformer check list.

Following Padmounted Switchgear (PMH) Unit Inspections

Critical deficiencies identified during inspection of PMH units, such as missing or damaged pentahead bolts, are documented and also immediately remedied during inspection, provided materials are on hand at such time.

Following Thermographic Imaging

Critical deficiencies identified during thermographic imaging are reported and remediated during inspection where feasible. After issuance and review of the thermography report, the remaining non-critical PMH unit-related deficiencies or hot spots are addressed through a work order issued to the Lines Department to initiate and complete condition-based maintenance in a timely manner. After remediation by Welland Hydro's Lines Department, the work order is returned to and filed by the Engineering Department.

Padmount Transformer & Switchgear Painting

During the inspection of these devices cosmetic defiencies are also noted on the inspection forms. Cosmetic deficiencies may include fading or peeling paint, graffiti, minor or extensive rusting. Information is gathered and units requiring attention are sorted in order to address the most significant issues first.

5.3 Substation Maintenance

5.3.1 Predictive Maintenance

Transformer Oil Analysis

Oil analysis is performed annually for power transformers at each of Welland Hydro's 14 Municipal Stations and for large customers with Welland Hydro-owned transformers. Completed by a qualified contractor, the scope of gas analysis and oil testing as outlined in the contract includes the following:

Oil Tests:	Dissolved Gas Analysis:	Moisture In Oil:
Acid	Hydrogen	Percentage Moisture by Dry Weight
Relative Density	Oxygen	Aging Factor
Dielectric Breakdown	Nitrogen	Percentage Moisture Saturation
Interfacial Tension	Methane	
Specific Gravity	Carbon Monoxide	
Visual Condition	Carbon Dioxide	
Colour	Ethane	
Water Content	Ethylene	
Power Factor	Acetyline	
Neutralization No.		

Oil samples obtained by the contractor are subsequently sent to a laboratory for testing; the results of individual transformer oil analysis are provided to Welland Hydro. Also provided is an informal report of the results, highlighting any anomalies/concerns that may exist and corresponding recommendations for remediation. Lab results are also compiled electronically into a database that provides historical test results for each transformer such that results may be compared and analyzed year-to-year.

Relay Testing

Testing of both electrical and mechanical relays is performed on a three year cyclical basis by a qualified contractor at each of the Municipal Stations. Welland Hydro provides the relay settings to the contractor and relies on the contractor's expertise in performing the testing. Critical deficiencies are reported immediately and Welland Hydro endeavours to remediate immediately. Non-critical deficiencies are subsequently remediated through condition-based maintenance.

Corona Testing

Corona testing utilizes both infrared thermography and an ultrasonic system to detect corona discharge. Corona discharge is comprised of corrosive materials that reduce the life of various asset components, but in particular insulating materials. The presence of corona discharge may also indicate impending failure of insulating materials that can cause flash-overs and outages, thereby reducing system reliability. Testing is performed by a qualified contractor who is accompanied by a Welland Hydro Journeyman Lineman to provide access to the Municipal Stations. During testing, the Journeyman Lineman is also performing a secondary inspection, observing any non-corona related deficiencies. Critical deficiencies are reported immediately and Welland Hydro endeavours to remediate immediately. Non-critical deficiencies are subsequently remediated through condition-based maintenance described below.

5.3.2 Condition-Based Maintenance

As Identified During Inspections

Condition-based maintenance of Municipal Stationsis performed during or following the monthly inspection and condition assessment or as identified within the predictive maintenance program.

Following Transformer Oil Analysis

Recommendations for remediating anomalies or concerns identified during transformer oil analysis as presented to Welland Hydro may include no action/observing, re-testing or replacing, for example. Welland Hydro generally follows the recommendations and implements those condition-based maintenance recommendations or capital expenditures and within the recommended timeline.

Following Relay Testing

During relay testing, critical deficiencies are reported immediately and Welland Hydro endeavours to remediate at such time. Condition-based maintenance performed to remediate the critical deficiency is documented and maintained within a relay and breaker maintenance record and in the SCADA system records for that station.

Following Corona Testing

After corona testing any non-critical deficiencies or concerns that have been identified (either related to corona discharge or other) are reported to Welland Hydro for remediation. A report is then created summarizing the station and concern, together with pictures, and is subsequently provided with a work order to the Line Department.

6 Information Systems and Innovative Technologies

The following provides an overview of information systems and technologies relevant to Welland Hydro's management of its distribution system assets. These systems and technologies may be used to maintain and/or extrapolate data for the purpose of managing assets and analyzing system reliability.

6.1 Smart Meters

- 1860 Meters

In 2009, Ontario Legislature enacted the Green Energy Act ("GEA") to facilitate renewable energy projects, promote energy conservation and encourage energy efficiency. From a Local Distribution Company's perspective, the GEA could facilitate reliability of the distribution system and reduce peak demand through the use of smart meters.

Welland Hydro began its smart meter program when it joined the Niagara Penninsula group of LDCs and evaluated vendors for smart meter infrastructure. In 2009 a contractor was engaged to begin installation of smart meters that included communications and infrastructure (e.g. the advanced metering regional collector) to support the smart meter initiative. All smart meters have now been installed for Residential and General Service (< 50 kw) customers and have been transferred to time-of-use billing.

The smart metering infrastructure and network require continual support and maintenance to ensure optimum system performance, accuracy and security of data. On going trouble shooting, data management,

field service testing and tuning, and meter replacements are integral to meeting the Regulatory Requirements for providing hourly consumption data and Time of Use billing to customers.

Meter failure rate is typically higher during the initial installation period, flattening out at a lower failure rate during the mid-life of the population, and again ramping up near the end of the expected 15 year life of the infrastructure. During the majority of the in-service life, meter failure rate is expected to be approximately 1% of the population per year; this equates to approximately 200 residential smart meter replacements each year.

One Meter Department employee has been dedicated to addressing on going trouble shooting, data management, field service testing and tuning, and meter replacements

As noted in section 1.2 above, new connections will also require the installation of approximately 300 new smart meters per year. As detailed in **section 9.4, OEB account 1860** includes the material costs for new and replaced smart meters.

6.2 Meter Sampling

Measurement Canada Specification S-S-06 specifies the details of a meter sampling program. These Statistical Methods allow for the testing of the meter population in order to extend the seal life of the meters. Extending the meter seal prolongs the in field life of the meter thereby resulting in cost savings to the LDC and it's customers. A cost model was developed by ERTH Holdings Inc. for WHESC to demonstrate the costs savings of the program.

6.3 Supervisory Control and Data Acquisition

Formerly a VMS-based system, Welland Hydro upgraded its SCADA system to a Windows-based dual-redundant Quindar (Survalent) system for telemetry and control of all its Municipal Stations (except a single station that will be decommissioned) and SCADA-Mate® switches.

The SCADA system models 13 of the MSs, allowing for control of breakers and reclosers and providing real-time status of breakers, reclosers, security and in some cases batteries at those stations. Additionally, analog data such as current, voltage and fault indication are also provided and from which calculations may be performed. Similar status and analog data are also obtained for the SCADA-Mate® switches.

Welland Hydro utilizesHistorian software to record daily 15-minute feeder and main breaker peaks for each station. From these historical data files and daily reports a monthly report and also a yearly report is compiled. The monthly reports are used by Welland Hydro during the substation inspections to verify and investigate unusual readings.

6.4 Geographic Information System (GIS)

Welland Hydro is currently in the process of establishing its GIS, which was built from the transfer of the utility's current CAD drawings combined with a land base, and is now being refined through data received from as-built drawings, work orders, inspection data or field check for verification of asset attributes. Welland Hydro is planning to transition from the use of the CAD drawing program to the GIS as the sole, primary-use system.

Upon completion of the transition from CAD to GIS, Welland Hydro will begin a process to integrate the GIS with its Customer Information System and Smart Metering Network with the intention of developing a fully integrated Outage Management System.

7 Documentation& Data Analyses

7.1 Guidelines for Inspection and Maintenance Programs

There are several inspection and maintenance programs for which Welland Hydro has developed documented guidelines; for example, vegetation management andpadmount transformer inspection. Alternatively, Welland Hydro relies on the expertise of the contractor implementing the program and therefore documented guidelines may not be required. For all other inspection and maintenance programs Welland Hydro is currently developing or has plans to develop documented guidelines to provide direction and ensure consistency in executing the program and allowing for more consistent data reporting, analysis and prioritization of expenditures.

7.2 Information and Document Management

7.2.1 Inspection Records

Inspection results are clear and well-documented, allowing for reliabile information to be obtained on the condition of assets inspected. Welland Hydro is integrating the use of tablets and the GIS to maintain inspection records. An annual summary report of Inspections is used to schedule and track the Inspection Process of the Distribution System Assets.

7.2.2 Maintenance Records

Maintenance is largely driven by work orders, developed in Welland Hydro's work order system, and therefore maintenance records are mostly electronic. As with inspection records, Welland Hydro is intending to use the GIS for maintenance records.

7.3 Reporting

As previously noted, Welland Hydro intends to incorporate all asset inspection and maintenance data within the GIS. This will allow Welland Hydro to query and perform analysis of the data.

Currently, data from the individual reports prepared by Welland Hydro and its contractors are reviewed to facilitate data analyses of the status, condition and operation of the distribution system and its assets. These reports include, but are not limited to, pole replacement report, transformer oil analysis report, PCB contaminated transformer replacement report, transformer/pad-mounted switchgear painting report and thermography reports. A power interruption report is also prepared with each service outage. The report identifies the system voltage, feeder, loading/weather conditions, fault type, cause, effected components and details of the outage such as location, number of customers and duration. Similarly, an outage resulting from a cable fault is documented in the Underground Cable Fault Record, identifying the location, voltage, construction and cause. Data from these reports are then compiled into a database whereby monthly outage reports and cable fault reports are produced. Both reports are reviewed quarterly, as a minimum, by the Director of Engineering and Operations for subsequent analysis.

7.4 Data Analyses

Welland Hydro utilizes the reports prepared from inspection/maintenance programs and outages to perform data analyses. The data analyses frequently substantiates Engineering and Operations staff knowledge and understanding of the condition of the distribution system; alternatively, analyses may reveal asset or system condition previously unidentified by staff but providing supporting evidence.

An analysis is performed, reviewing data from inspections, maintenance and outage records and reports. Repeated deficiencies or concerns that are identified are then analyzed to determine the root cause.

The data analyses performed, facilitated through inspection and maintenance records, reports and awareness of the system, allows for capital projects to be identified and prioritized.

8 Capital Planning

8.1 Project Identification

Capital projects are identified through Welland Hydro's intimate knowledge of the system gained by experience, through inspection of the system and subsequent data analyses, as noted above. Projects are identified for a ten-year period such that they may be prioritized to achieve asset management objectives, noted in Section 8.2 below, within that timeframe.

A project form is completed for each project providing an overview, reasoning and estimate (based on historical costs) for the project. The project form summarizes these items such that they may be prioritized with respect to each other and reviewed during development of the capital budget.

8.2 Project Prioritization

Projects that have been identified are reviewed with respect to Welland Hydro's system of prioritization and objectives, to determine priority placement within its ten-year outlook and annual capital budget.

Following is the prioritization of projects:

1. Address significant health and safety risk
2. Address significant environmental risk
3. Address regulatory and legal obligations, including reliability
4. Replace end of life plant
5. Improve operational efficiency

Projects to address imminent failure or concerns regarding health/safety, the environment, reliability or regulatory/legal obligations (Items 1, 2, 3 above) are regarded as highest priority. Within item 3 above, regional, customer-driven and reliability related projects are also considered. Municipal projects are given high priority, for example a pole line relocation to accommodate road works. Customer-driven projects accommodate customer requests for supply, typically by large commercial or industrial customers, and are also of high priority. Projects concerning reliability are further prioritized as follows:

I. 27.6kV circuitry
II. Substations
III. 4.16kV circuitry

Within the process of prioritizing projects, Welland Hydro evaluates the items above to determine if multiple priorities may be achieved within a single project. For example, Welland Hydro may identify several projects, such as a substation with assets approaching end-of-life, rebuild of a portion of the 27.6kV system and maintenance to the 4.16kV system (a proactive measure dictated by potential safety and reliability issues going forward). Substation failures are much more extensive, costly and difficult to manage on an emergency basis and emergency expenditures (e.g. replacement costs) would likely be too high for a single year. As such, Welland Hydro would assign a high priority to such a project and spread expenditures over several years. The project would then be considered with regards to achieving multiple objectives, replacing end-of-life plant

and improving operational efficiency. A realistic situation may involve a substation rebuild combined with the 27.6kV system and 4.16kV system. New 27.6kV circuitry could then be constructed, converting 4.16kV load to 27.6kV, thereby eliminating aged 4.16kV circuitry and reducing load at the substation. The result of such a project would be new 27.6kV plant and substation and a lower cost.

Following prioritization, the summary forms for each project are all included within a capital planning book, in priority sequence over a ten year period, to provide Welland Hydro's ten-year outlook.

8.3 Development of Annual Capital Budget

The budget development process plays an important role to Welland Hydro as it puts capital (and operational) plans into a financial plan, outlining its goals and asset management objectives.

Welland Hydro budgets for capital expenditures by department of responsibility (lines, engineering, garage, meter). Beginning in October of each year, the management of each department reviews proposed capital expenditures and considers these within the framework of capital budget priorities. With respect to distribution assets, the Director of Engineering and Operations reviews the capital planning book to identify distribution projects that have been previously prioritized and are scheduled to be completed in the upcoming budget year. These projects are reviewed to determine whether priorities have changed. A project may become lower priority due to newly proposed, non-discretionary projects that are required for the upcoming year, for example a regional request to relocate a pole line. Alternatively, a project may become higher priority in light of new information, for example a voltage conversion and rebuild due to changing reliability conditions as observed through outage reports and condition assessments. Following the review, those distribution projects identified as high priority are estimated and proposed within the annual capital budget. The Director of Engineering and Operations also endeavours to include at least one project to address each of the overhead distribution system, the underground distribution system and each of the system voltages. The goal of such an approach is to proactively maintain the system and achieve consistent, level capital expenditures over the long term. While many of the capital expenditures are specific to a project, the departmental budgets may also be broken out into miscellaneous projects (based on asset group), for example pole or PCB-contaminated transformer replacements that are included annually.

9 Capital Expenditure Plan

9.1 Overhead Distribution/Services

This category includes the following OEB Uniform System of Accounts ("USoA") codes:

- 1830 (Poles, Towers and Fixtures)
- 1835 (Overhead Conductors and Devices)
- 1850 (Line Transformers)
- 1855 (Services)

9.1.1 Program: Replacement or Upgrade due to Age or Condition

Replacement of overhead assets in poor condition, as noted in pole-line inspection records, is the primary purpose of this program. This includes the replacement and upgrade of primary and secondary conductor, where applicable, and transformers, where applicable. The replacement of aged assets will improve reliability, a Welland Hydro asset management objective, as noted above. Some projects, where practicable, will include primary voltage conversions, thus improving operational efficiency due to the reduction of line losses. In some cases conductors, such as #6 copper, will be removed during construction. This type of

primary conductor can introduce additional hazards to staff working on or around it. This removal is an industry-wide safety initiative recommended by the Electrical Safety Authority and is a good utility practice.

Within this program, projects are developed for all overhead distribution jobs at locations where a multiple pole replacements are taking place. The Capital Budget also allows for small unplanned/unexpected jobs, such as single pole or single transformer replacements. Such jobs are charged to the same OEB codes but are not accounted for individually during the budgeting process. The categories that account for these one off type jobs are:

1830	**Pole Replacements**	**$87,000**
1835	**Overhead Conductors & Devices**	**$30,000**
1850	**Line Transformers**	**$64,200**
1855	**Services**	**$35,000**

These allocations for general asset replacement are consistent with prior year's expenditures.

Project 1: Wilton Avenue & Riverside Drive – Pole Line Replacement/Voltage Upgrade

Capital Budget Amount $ 167,000.

1830 - $ 117,000. **1835 - $ 17,000.** **1850 - $ 33,000.**

Scope of Work: The project includes the replacement of 21 poles, secondary bus and transformers. The project also include the stringing of 9 spans of primary conductor.

Business Case: This project is the last stage of a project originally started in 2009 to replace aged infrastructure. Included in the rebuild is the conversion of primary voltage from 4.16kV to 27.6kV.

Project 2: McCormick Street &Dufferin Street – Pole Line Replacement/Voltage Upgrade

Capital Budget Amount $ 83,000.

1830 - $ 58,100. **1835 - $ 8,300.** **1850 - $ 16,600.**

Scope of Work: The project includes the replacement of 13 poles, secondary bus and transformers. The project also include the stringing of 4 spans of primary conductor.

Business Case: This project will replace aged infrastructure including 2 poles in very poor condition. Included in the rebuild is the conversion of primary voltage from 2.4kV to 16kV. This project also includes the removal of several spans of #6 copper primary conductor.

Project 3: Garner Avenue – Pole Line Replacement

Capital Budget Amount $ 63,000.

1830 - $ 43,200. **1835 - $ 6,300.** **1850 - $ 13,500.**

Scope of Work: The project includes the replacement of 8 poles, secondary bus and transformers.

Business Case: This project will replace aged infrastructure including 3 poles in very poor condition.

Project 4: Cady Street – Pole Line Replacement

Capital Budget Amount $ 30,000.

1830 - $ 12,500. **1835 - $ 4,200.** **1840 - $ 4,200.** **1845 - $ 2,100.**

1850 - $ 7,000.

Scope of Work: The project includes the replacement of 5 poles, secondary bus and one transformer.

Business Case: This project will replace aged infrastructure including 3 poles in very poor condition. This project also includes the removal of several spans of #6 copper primary conductor.

Project 5: 41M22 Circuit north of Crowland TS – Pole Line Replacement

Capital Budget Amount $ 29,000.

1830 - $ 16,600. **1835 - $ 12,400.**

Scope of Work: The project includes the replacement of 2 poles and the installation of several spans of neutal conductor.

Business Case: This project will replace aged infrastructure including 2 poles and associated hardware. The location of the circuit is difficult to access making it more difficult to repair should a failure occur during inclement conditions. The installation of the neutral conductor is required to provide a full size neutral to the remainder of the circuits in the immediate area.

Project 6: Major Street and Scholfield Avenue – Pole Line Replacement

Capital Budget Amount $ 139,000.

1830 - $ 96,600. **1835 - $ 14,200.** **1850 - $ 28,200.**

Scope of Work: The project includes the replacement of 15 poles, secondary bus and transformers.

Business Case: This project will replace aged infrastructure including 3 poles in very poor condition. The project will improve safety clearances on the structures. Included in the rebuild is conversion/transfer of load from the 4kV system to the 27.6kV system.

9.1.2 Program: System Expansions to accommodate new load.

It is preferred and sometimes necessary, due to system capacity restrictions, to provide service to new or upgraded facilities from our 27.6kV system. Providing service, using our 27.6kV system, to new or upgraded facilities results in better overall efficiency due to reduced line losses. In areas where 4.16kV distribution exists, the 27.6kV system expansion also, where practicable, incorporates the conversion of existing loads from the 4.16kV system to the newly expanded 27.6kV system. Overall, the expansion improves efficiency through Line loss reductions and improves reliability of the existing distribution through the replacement of aged infrastructure.

Project 7: Southworth Street – Pole Line Expansion to new School

Capital Budget Amount $ 126,000.

1830 - $ 81,000. **1835 - $ 20,000.** **1850 - $ 25,000.**

Scope of Work: The project includes the replacement of 10 poles in fair to poor condition, secondary bus and transformers. It will include the extension of a 27.6kV feeder to accommodate both new load and conversion of existing load.

Business Case: This project will replace existing 4.16kV aged infrastructure. Included in the rebuild and expansion is the conversion/transfer of load from the 4kV system to the 27.6kV system. The new feeder will also provide service to a new building scheduled for completion in June 2013. The second stage of the project, which will extend the 27.6kV feeder further south. This will strengthen operational capabilities on the 27.6kV system and will allow for a section of difficult to access circuitry, to be removed from service. This second stage is expected to be completed in the next 5 to 10 years.

9.1.3 Program: System Expansions to accommodate Distributed Generation.

Micro-FIT and some FIT projects can be accommodated by connection to an existing 4.16kV or 27.6kV feeder provided there is capacity and no negative affects created by the connection to an existing feeder. If capacity is not available, 27.6kV system expansions are required.

Project 8: Ridge Road– Pole Line Expansion to new Solar Farm

Capital Budget Amount $ 84,000.

1830 - $ 67,000. **1835 - $ 17,000.**

Scope of Work: The project includes the installation of 8 poles and 3 phase primary conductor and neutral.

Business Case: This project will provide capacity for the connection of a 10MW Solar Farm.

9.1.4 Program: System Expansions to Eliminate a 4.16kV Substation

Where practicable it is to the benefit of the utility to convert load from the 4.16kV system to the 27.6kV system. In some cases, this can allow the utility to eliminate the need for a Substation. These projects elimate the need for large capital spending on a substation project, and improve efficiency due to the reduction of Line losses.

Project 9:Lancaster Drive– Pole Line Expansion to existing 4.16kV load

Capital Budget Amount $ 84,000.

1830 - $ 46,000. **1835 - $ 4,200.** **1850 - $ 33,800.**

Scope of Work: The project includes the replacement of 4 poles and the installation of 3 phase overhead primary conductor and neutral. The project also includes the replacement of 2 transformers and the transfer of the load of 2 sites from the 4.16kv System to the 27.6kV system.

Business Case: This project will reduce load on a 4.16kV feeder. The final stages of the project, expected to be completed over the next 5 years, will transfer the remainder of the 4.16kV load, allowing Welland Hydro to decommission 1 Municipal Substation.

9.2 Underground Distribution

This category includes the following OEB USoA codes:

- 1840 (Underground Conduit), and
- 1845 (Underground Conductors and Devices)
- 1850 (Line Transformers)

9.2.1 Program: Replacement or Upgrade due to Age or Condition

Included within this program is the replacement of underground assets in poor condition. It also includes the replacement and upgrade of primary and secondary cables and transformers, where applicable. The replacement of aged assets should improve reliability. Some projects, where practicable, will include primary voltage conversions, thus improving operational efficiency due to the reduction of line losses. In some cases, replacement of primary cable may include the installation of additional cable to provide a loop feed (back-up feed) to transformers, should a cable failure occur. When practical underground system upgrades include the replacement of Pole Tran transformers. Pole Tran transformers are an obsolete technology and are limited in capacity; these units are generally replaced with conventional mini padmount transformers as good utility practice, providing a safer working environment.

The Capital Budget also allows for small jobs, such as single pole or single transformer replacements. The jobs are charged to the same OEB codes but are not accounted for individually during the budgeting process. The categories that account for these one off type jobs are:

Minor Underground Rebuilds $ 27,000

1840 - $ 13,500. **1845 - $ 13,500.**

Project 10: Champlain, Preston, Wiltshire, McColl–Undergound Primary Rebuild

Capital Budget Amount $ 172,000.

1840 - $ 47,000. **1845 - $ 83,000.** **1850 - $ 42,000**

Scope of Work: This project will include the installation of a duct system and the replacement of aged primary cable, High Voltage Switchgear and Pole Tran Transformers.

Business Case: Underground replacement of aged cable with improve reliability. The projcect will also eliminate an above ground pad mounted HV cubicle improving safety to the public.

Project 11: Dixon Crescent –Undergound Primary Rebuild

Capital Budget Amount $ 21,000

1840 - $ 6,500. **1845 - $ 14,500.**

Scope of Work: This project will include the installation of a duct system and the replacement of aged primary cable.

Business Case: This section of cable has had several failures in the past; replacement will improve reliability.

Project 12: Bettes Avenue –New Undergound Infrastructure

Capital Budget Amount $ 60,000.

1840 - $ 13,000. **1845 - $ 30,000.** **1850 - $ 17,000.**

Scope of Work: This project will include the installation of a duct system, primary and secondary cables and two pad-mounted transformers.

Business Case: This new infrastructure is being installed to eliminate a section or rear lot primary and transformers that have caused reliability issue in the past. Elimination of rear lot primary distribution will also improve safety for workers due to access issues. It will also, in this case, improve safety to property owners due to the proximity of their trees to our primary lines.

Project 13: Claremount Crescent–Undergound Primary Rebuild

Capital Budget Amount $ 68,000.

1840 - $ 17,000. **1845 - $ 34,000.** **1850 - $ 17,000.**

Scope of Work: This project will include the installation of a duct system and the replacement of aged primary cable and two transformers. The new installation will also include a loop feed.

Business Case: Underground replacement of aged cable will reduce future reliability issues. The current installation is a lateral feed. Replacing this infrasture with a loop feed will improve reliability.

9.2.2 Developer Contribution

1840 - $ 15,000. **1845 - $ 15,000.** **1850 - $ 20,000**

9.3 Fleet Replacement Program

This category includes OEB USoA code 1930, Transportation Equipment

This program includes the replacement of Welland Hydro's vehicles that are aged, have had excessive maintenance costs, or are in a condition not condusive to the safety of staff operating the equipment.

Project 14: Replacement of 1991 GMC Double Bucket Truck #4

Capital Budget Amount $ 350,000

1930 - $ 350,000

Business Case: This truck is being replaced to ensure the safety the workers using this type of equipment.

9.4 Other Capital

Other Capital consists of Meters, Building, Computer Hardware & Software, Tools and other smaller expenditure classes. The following classes have significant changes in expenditure levels from 2011 Actual to 2013 Test years.

9.4.1 Buildings

OEB Account 1908

Actual	Bridge	Test
2011	2012	2013
$292,812	**$275,000**	**$20,000**

Business Case: In 2011 and 2012 the WHESC Service Centre underwent significant renovations to address 2 key issues.

Bill 168 – Workplace Violence

Bill 168 came into effect in June 2010. One of the requirements of the Act was to have a Work Site Audit completed to assess risk to workers. The audit, conducted by a Health & Safety Consultant, resulted in a recommendations being made to address security issues, namely to establish barriers between employees and clients to reduce risk to WHESC employees.

Workplace Accessibility

WHESC's Service Centre, which was constructed in the late 1960's, was not completely wheel chair accessable and did not provide adequate facilities for physically handicapped individuals.

The renovations to the Service Centre included the conversion of a former customer entrance solarium to a more accessable customer entrance waiting area, secure meeting room and secure Customer Service Reprentatives Service Wickets. The renovations also included the addition of handicapped facilities and handicapped access to the main levels of the building and an upgrade to the main conference/training facility room.

A significantly smaller capital allotment has been made for 2013 to fund small unplanned capital work on or within the Service Centre building or property to further improve accessability and employee safety.

9.4.2 Computer Hardware & Software

OEB Account 1920 - Hardware

Bridge	Test
2012	2013
$ 35,000	**$ 46,000**

OEB Account 1925 - Software

Actual	Bridge	Test
2011	2012	2013
$240,934	**$90,000**	**$58,500**

Business Case:

Beginning in 2010, WHESC began replacing it's Customer Information System (CIS) with Harris Northstar in preparation for Time of Use billing requirements. Total Capital Cost for the new CIS was $299,000.

At the same time work was underway to replace existing Financials with a Harris Financials (IFRS/Fixed Asset System). The new system was in operation January 1, 2012 at a total cost of $270,000.

Software expenditures will only consist of minor add ons in 2013.

9.4.3 SCADA

OEB Account 1980 **$ 52,500**

Business Case: This cost is to cover the replacement of Aged Remote Terminal Units at Substations and SCADAMate switch locations. This will also cover the cost of upgrading protection systems at substations to incorporate additional SCADA functionality.

9.4.4 Meters

OEB Account 1860 **$ 50,000**

Business Case: See section **6.1**

9.4.5 Tools

OEB Account 1940 **$ 5,000**

Business Case: Minor Tool purchases and Replacements

9.4.6 Summary of Capital Expenditures

OEB	Description	2013	2014	2015
1820	Distribution Stations	$ 0	$ 150,000	$ 0
1830	Overhead Poles & Fixtures	$ 625,000	$ 650,000	$ 550,000
1835	Overhead Conductors	$ 133,600	$ 160,000	$ 130,000
1840	Underground Conduit	$ 116,200	$ 200,000	$ 325,000
1845	Underground Conductor	$ 192,100	$ 250,000	$ 390,000
1850	Line Transformers	$ 317,300	$ 350,000	$ 390,000
1855	Services	$ 35,000	$ 35,000	$ 35,000
1860	Meters	$ 50,000	$ 50,000	$ 50,000
1908	Buildings	$ 20,000	$ 20,000	$ 20,000
1920	Computer Hardware	$ 46,000	$ 10,000	$ 10,000
1925	Computer Software	$ 58,500	$ 10,000	$ 10,000
1930	Fleet Replacement	$ 350,000	$ 60,000	$ 60,000
1940	Tools	$ 5,000	$ 5,000	$ 5,000
1980	SCADA	$ 52,500	$ 52,500	$ 52,500
Total Capital Expenditures		**$ 2,001,200**	**$ 2,002,500**	**$ 2,027,500**

Green Energy Plan Summary

Welland Hydro has prepared a Green Energy Plan in accordance with the Board's May 17, 2012 update to the Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence (EB-2009-0397).

The Green Energy Plan and an OPA Letter of Comment have been presented in Exhibit 2, Tab 3, Schedule 4, Appendix B which follows.

Welland Hydro has not had any Green Energy Act capital expenditures or OM&A expenses to date. However, the 2013 Capital Plan does include a capital system expansion expenditure of $84,000. This has been identified as Project 8 – Ridge Road Pole Line Expansion to new Solar Farm. Welland Hydro submits that the impact of a $84,000 capital expenditure on the 2013 Revenue Requirement would not be material.

APPENDIX B

WELLAND HDYRO

GREEN ENERGY PLAN

OPA LETTER OF COMMENT

Welland Hydro Electric System Corp.

Green Energy Act Plan

June 2012

Private and Confidential

Welland Hydro
ELECTRIC SYSTEM CORP.
POWERING WELLAND'S FUTURE

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Welland Hydro
ELECTRIC SYSTEM CORP.

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Welland Hydro
ELECTRIC SYSTEM CORP.

EXECUTIVE SUMMARY

Welland Hydro Electric System Corp. (WHESC)is a Local Distribution Company (LDC) with a service area of approximately 85 square kilometres and a mix of urban and rural land use area. WHESC is responsible for providing all regulated electrical distribution services within its service area, and has approximately 22,500 residential and commercial customers.

This Plan is the corporation's response to the requirements of the Green Energy Act (GEA) and the Ontario Energy Board's Filing Requirements (EB-2009-0397).The Plan is based on current information and represents a five year perspective of WHESC's plans for its distribution system to connect and integrate renewable generation facilities.

There is a high potential for the development of renewable energy within the service area, and in response WHESC has provided a forward looking Plan that supports the needs of renewable generation in a safe and prudent manner.

The Plan also outlines WHESC's plans to investigate and assess the potential of the Smart Grid and to establish how it could be applied to the distribution system. No expenditures are required at this time for this activity.

In addition, the Plan also has an allowance for Renewable Enabling Improvements, which covers modifications to the distribution system to enable the connection of renewable generation facilities. These improvements include SCADA equipment required to monitor and control renewable generation facilities. Based on the anticipated renewable generation connections, an allowance has been included to upgrade the SCADA system where required.

Customer Engagement and Communication is also included in the Plan to enable WHESC to engage its customers early in the future deployment of Smart Grid technologies.

In support of renewable generation, WHESC continues to invest in solar installations and to date has installed 30 kW of solar, with plans to install an additional 160 kW in the future.

The following table summarizes the forecasted and estimated expenditures for planned connections for renewable generation as well as SCADA, Renewable Enabling Expenditures and Smart Grid investigations.

Table 1. Summary of Capital Expenditures

Description	2012 ($000s)	2013 ($000s)	2014 ($000s)	2015 ($000s)	2016 ($000s)
Renewable connections	$0	$100	$0	$1,000	$1,000+
SCADA/Monitoring/ICCP	$0	$90	$40	$20	$0
Smart Grid	$0	$0	$0	$0	$0
Renewable Enabling Improvements	$0	$0	$0	$0	$0
Total	**$0**	**$190**	**$40**	**$1,020**	**$1,000+**

The Plan does not require any additional operating expenditure over the 5 year period.

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1. WHESC PLAN

The GEA plan is divided into two main sections and an appendix. These sections follow the requirements of the OEB Filing Requirements EB-2009-0397, as follows:

- Section 2 describes the present situation, including the anticipated connections and the ability to accommodate them.
- Section 3 covers the planned development and costs of the system to accommodate renewable generation over the next 5 years, including Renewable Enabling Improvements, such as SCADA and Smart Grid.
- The appendix covers the technical criteria used by WHESC.

2. CURRENT ASSESSMENT

WHESC serves the City of Welland, as well as, surrounding rural areas comprising a service area of approximately 85 square kilometres. WHESC is responsible for providing all regulated distribution services within its service area and supplies approximately 22,500 residential and commercial customers.

WHESC is supplied by Hydro One from its Crowland Transformer Station (TS),which is owned and operated by Hydro One. The TS is shared with other users, although approximately 90% of the loading is supply to the WHESC system. WHESC has eight(8) 27.6 kV distribution feeders emanating from Crowland TS and these supply customers either via the 27.6 kV main feeders, or through Municipal Substations (MS's) that step the voltage down to 4.16 kV for use by local customers. WHESC owns and operates 14 such MS's and forty five (45) 4.16 kV feeders.

All the feeders within the service area belong to WHESC with the single exception of 41M13, which is an embedded Hydro One distribution feeder supplying Wainfleet. Feeder 41M21 is also a Hydro One transformer station position, but is not used and remains dead-ended at the TS.

WHESC does not have any other LDCs embedded within its distribution system.

There is a high potential for development of renewable generation. The area east of the Welland Canal is 33 square kilometres of predominantly rural land, some of which is suitable for solar installations, and possibly a wind turbine site. The west side of the Welland Canal has the potential for solar roof top units, as well as some rural land suitable for renewable generation installations.

Note: FIT2 may impact the number of solar field installations.

2.1. WHESC's Capacity to Accommodate Renewable Generation

WHESC is a summer peaking LDC with a peak load of 101 MW (excluding the Hydro One 41M13 feeder). This peak was set on a record setting summer day, with the previous day peaking at a significantly lower 96 MW. Notwithstanding this single peak, the load is decreasing as industrial/commercial customers have been lost to the area. It is estimated that from April 2011 to April 2012, the load was down by 6 to 7 MW.

2.1.1. Transmission Station

TS Loading

Crowland TS has the following installed transformation:

- Two power transformers of 50/67/83 MVA each

The loading at Crowland does not exceed the Hydro One 10 day Limited Time Rating (LTR) of 107 MW and it is not expected that a new TS will be required in the near future. The Plan for renewable generation is therefore based solely on the present situation with no allowances or costs for changes in the TS status.

TS Constraints

As per Hydro One's website, the current thermal capacity of Crowland TS is 67.6 MW (30th April 2012). Thermal Capacity represents the estimated name plate amount of generation that can be added to that bus or station. Hydro One has advised that they have 36.3 MW of thermal capacity available at present, taking into account the projects that have been allocated capacity as of the 11th May 2012.

According to its website, the TS is short circuit Transmission Constrained. The Short Circuit capacity represents the remaining ability of the station to accept additional short circuit contributions. Because any additional generation must be able to operate within both the station's thermal capacity and the short circuit capacity, the TS cannot accommodate any additional renewable generation at the present time.

Hydro One recently confirmed this situation in writing, namely "there is currently no generation connection capacity at Crowland TS". The cause of the short circuit constraint is apparently due to a short circuit limitation at Allanburg TS. A Hydro One project is in progress to alleviate these constraints and this is expected to be in service in 2013. But until this time, Hydro One will not release any additional capacity at Crowland TS.

Crowland TS itself is not short circuit constrained. Assuming no upstream or downstream distribution limitations, the short circuit capacity at Crowland TS is 82 MVA/73.8MW (Assuming 0.9 power factor).

There are, however, exceptions to the present transmission constraint:

- This constraint does not affect projects that have been previously approved and have a completed Connection Impact Assessment (CIA). Provided they comply with Hydro One's ongoing requirements these projects will be able to proceed. Renewable generation listed in this report, which were previously approved, are noted as such. All other renewable developments will have to wait until Hydro One solves the constraint issue.
- MicroFIT projects are exempt from transmission constraints.

Summary

Until Hydro One completes its work at Allanburg, no new FIT renewable generation projects will be approved. MicroFITs can continue to apply and be connected.

WHESC's plan is to monitor the situation and advise prospective developers once the constraint has been removed.

2.1.2. 27.6 kV Distribution Feeders

Feeder Availability

Table 3 following shows WHESC's 27.6 kV distribution feeders and their potential for renewable generation connections. It does not take into account any transmission system limitations, it relates purely to the feeders under WHESC's ownership and control.

Values in Table 3 are derived from the WHESC Connection Criteria as detailed in the Appendix.

WHESC's customers are supplied by main feeders that meet or exceed present requirements. Table 3 below shows this clearly, the main feeders have excess capacity that can be used to support renewable generation. Reasons for this excess are a declining industrial/commercial base and a main feeder system designed and built consistent with good utility practice.

Summary

The 27.6 kV main distribution feeders are capable and ready to accommodate additional renewable generation.

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Table 3. 27.6 kVFeeders - Available Renewable Generation Capacity

Feeder	Voltage (kV)	Rating (amps)	Max Line Loading (amps) Note 1	Line Loading (MW) Note 1	Existing Generation (MW)	Generation Pending (MW) Note 2	Available Capacity at Breaker (MW)
41M13	27.6	Hydro One	→				
41M14	27.6	600	400	19	None	None	19.00
41M15	27.6	600	400	19	None	None	19.00
41M16	27.6	600	400	19	None	None	19.00
41M17	27.6	600	400	19	None	11.00	8.00
41M18	27.6	600	400	19	0.1	5.25	13.65
41M19	27.6	600	400	19	None	None	19.00
41M20	27.6	600	400	19	None	10.25	8.75
41M21	27.6	Hydro One	Not in use	→			
41M22	27.6	600	400	19	None	None	19.00

Notes

1. Applies to any section of the feeder.
2. Pending means any renewable generation for which there is an application or that WHESC is aware of.
3. Available capacity applies to the main feeder only, it does not apply to radial taps.

2.1.3. 4.16 kV Municipal Substations

MS Availability

Table 4 shows the status of WHESC's 4.16 kV MS's and their potential for renewable generation. It does not take into account any transmission system limitations.

As can be seen from Table 4, there is limited capacity available in the MS's. This capacity however, is not necessarily available for the connection of renewable generation. Each application will have to be reviewed in detail to ensure it can be accommodated on the specified MS, taking into account reverse power limitations, protection, equipment, ability to switch, feeder capability, power quality, reliability and overall condition. It is merely an indication that some capacity exists that may be available for renewable generation, and applications will be handled on a case by case basis.

WHESC does not have any plans to upgrade its MS's. This is an older system that is being phased out over the long term. Adding new capacity to a 4.16 kV system is relatively expensive in comparison with adding equivalent capacity to the 27.6 kV system and is to be avoided if possible. Where feasible FIT applications will be accommodated on the 27.6 kV system using the capacity that is readily available on this voltage system. WHESC will review each application on a case by case basis and make the appropriate decision.

Table 4. 4.16 kV Municipal Substations – Available Generation Capacity

Name	Tx (MVA)	Max Load (MVA)	Max Load (MW)	Existing Generation (MW)	Generation Pending (MW)	Available Generation Capacity at MS (MW)Note 3
MS1	10	8.02	7.54	No FIT's	None	1.45
MS2	3	2.14	1.86	No FIT's	None	1.45
MS3	10	6.11	5.85	No FIT's	None	1.45
MS4	8	6.54	6.14	No FIT's	None	1.45
MS5 – Tx 1	5	2.55	2.40	No FIT's	None	1.45
MS5 – Tx 2	5	3.54	3.33	No FIT's	None	1.45
MS6	3	2.07	1.92[2]	No FIT's	None	1.45
MS7	5	4.26	3.96[2]	No FIT's	None	1.45
MS8	5	3.72	3.46[2]	No FIT's	None	1.45
MS9	5	4.51	4.19[2]	No FIT's	None	1.45
MS10	10	5.85	5.44[2]	No FIT's	None	1.45
MS11	3	1.31	1.22[2]	No FIT's	None	1.45
MS12	3	1.85	1.70	No FIT's	None	1.45
MS14	5	.50	0.46[2]	No FIT's	None	1.45

Note 1. MS13 is not listed and is scheduled for decommissioning.
2. An estimate has been made based on the average power factor.
3. Available capacity does not mean an ability to connect equal to this value.

Summary

The 4.16 kV MS's are limited in their ability to accommodate renewable generation.

Considering the long term obsolescence of the 4.16 kV system, there is no plan for general expansion of the capacity of this system to accommodate new renewable generation. WHESC will continue to maintain the system as required, but will not expand its capability.

Applications for connection to this system will be on a case by case basis.

2.1.4. 4.16 kV Distribution Feeders

Feeder Availability

Table 5 shows the status of WHESC's 4.16 kV distribution feeders and their potential for renewable generation. It does not take into account any upstream limitations; it relates purely to the feeders emanating from WHESC's MS's.

Values in Table 5 are derived from the WHESC Connection Criteria as detailed in the Appendix.

As can be seen from Table 5, the 4.16 kV system is more heavily loaded in comparison to the 27.6 kV system with the average feeder supplying 154 amps.

The "available capacity"does not mean capacity is available for the connection of renewable generation. Each application will have to reviewed in detail to ensure it can be accommodated on the specified feeder, taking into account reverse power limitations, protection, equipment, ability to switch, power quality, feeder capability, reliability and overall condition. It is merely an indication that some capacity exists that may be available for renewable generation, and applications will be handled on a case by case basis.

WHESC does not have any plans to upgrade its 4.16 kV feeders. This is an older system that is being phased out over the long term. Adding new capacity to a 4.16 kV system is relatively expensive in comparison with adding equivalent capacity to the 27.6 kV system and is to be avoided if possible. Where feasible FIT applications will be accommodated on the 27.6 kV

system using the capacity that is readily available on this voltage system. WHESC will review each application on a case by case basis and make the appropriate decision.

Table 5. 4.16 kV Distribution Feeders – Available Capacity

Feeder	Rating (amps)	Max Line Loading (amps)Note 1	Avg. Feeder Loading (amps)	Existing Generation (MW)	Generation Pending (MW)	AvailableCapacity at Breaker(MW)
1F1-1F6	300	200	181	No FIT's	None	1.45
2F1-2F2	300	200	43	No FIT's	None	1.45
3F1-3F6	300	200	133	No FIT's	None	1.45
4F1-4F4	300	200	233	No FIT's	None	1.45
5F1-5F4	300	200	208	No FIT's	None	1.45
6F1-6F3	300	200	112	No FIT's	None	1.45
7F1-7F3	300	200	188	No FIT's	None	1.45
8F1-8F3	300	200	168	No FIT's	None	1.45
9F1-9F3	300	200	211	No FIT's	None	1.45
10F1-10F3	300	200	284	No FIT's	None	1.45
11F1-11F2	300	200	91	No FIT's	None	1.45
12F1-12F2	300	200	153	No FIT's	None	1.45
14F1-14F3	300	200	23	No FIT's	None	1.45

Note 1. Available capacity does not mean an ability to connect equal to this value.

Summary

The 4.16 kV distribution feeders are limited in their ability to accommodate renewable generation.

As noted previously, WHESC does not have any plans to increase the general capability of this system. Applications will be handled on a case by case basis.

2.2. Factors that Limit WHESC's to Connect

The most significant constraint, and the one holding back new renewable generation, is the short circuit constraint on Crowland TS. Until this is addressed, no additional FIT projects will be allowed. Hydro One has advised that the schedule to remove the transmission constraint is 2013. If this happens on schedule, WHESC will be able to accommodate additional renewable generation.

Table 6 summarizes the potential constraints on the 27.6 kV system which is the most likely connection point for any renewable generation. The table indicates the TS short circuit as being a definite constraint, but there are additional constraints that may play a factor in what can be connected. Reverse power, voltage limits, and the specific location may for example, may become constraints on the renewable generation. The extent of the constraints will depend on the size and nature of the renewable development.

Table 6. 27.6 kV Feeders - Factors that May Limit WHESC's Ability to Connect

Feeder	Short Circuit	Reverse Power	Embedded Distributor	Voltage Limits	Feeder Length (3-ph km)	Mainline Sections of Small Conductor Note 2	Connection Location Unsuitable	TS Thermal Capacity	Other
41M14	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M15	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M16	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M17	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	Canal crossing
41M18	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M19	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M20	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	
41M22	Yes - TC	Yes	No	Yes	No	No	Site dependent	No	

Notes:

1. TC means Transmission Constrained.
2. Does not apply to be tap-offs from the main feeder line, these may contain sections of small conductors.

2.3. Expenditures in Approved Plans Related to Renewable Connections

At the present time, WHESC does not have any OEB approved plans and expenditures specifically relating to renewable generation.

2.4. Unique Challenges

WHESC faces a number of unique challenges in accommodating renewable generation, including the geography of WHESC'service and system technical issues.

The Welland canal bisects the service area, and interconnection between the two sections is difficult and expensive. At present, there is only one radial 27.6 kV (M17) feeder crossing the canal and this is an underground feeder in a duct bank tunneled under the canal. There are existing duct banks under the canal that may or may not be able to accommodate main feeders; until they are proven, they cannot be relied on. Considering they have been in place at least 40 years, it is possible they may not be serviceable. Notwithstanding that, the available ducts across the canal may save on tunneling costs, the overall cost of the project will still be substantial. Main feeder 3 phase 28 kV cable with terminal poles and switches either side of the canal will be a significant cost.

If the existing duct banks do not work out, adding to the cross-canal capacity will require either a substantial transmission tower type overhead crossing with clearance as specified by the canal authority or tunneling under the canal once again in a manner approved by the canal authority. Both solutions are costly and will take time to construct. An allowance of $2m plus has been included for this work in the 5 year projection.

The canal crossing is important in that Crowland TS is located on the west side of the canal and the largely rural area with a high potential for renewable generation is located on the east side of the canal. At present, there are two projects with contracts to proceed that would add 11 MW to the 41M17 feeder, using up a significant portion of the ability to accept any further applications east of the canal. Overcoming this unique challenge will require an additional canal crossing at an expense many times that of a typical 27.6 kV overhead feeder.

The distribution system operated by WHESC supplies a mix of rural and urban loads. The rural system is designed for a relatively low load density and depending on where the developer wishes to connect the generation; the system may or may not be able to accommodate the connection without reinforcement of the local feeders. It is not practical to reinforce the whole system to be able to accommodate generation wherever and whenever; the only reasonable

approach is to consider the situation on a case by case basis and reinforce the system as required. While it is appropriate to have a general plan, the future details can, and will, vary. This applies particularly to the 4.16 kV system where WHESC has 5 - 4.16 kV feeders supplying customers within the rural area.

Technical Challenges

There also technical challenges faced by WHESC that are exacerbated by the part rural system. They include:

- Protection systems that have been designed and installed for unidirectional power flow, where two way flows may occur
- Equipment not rated for bi-directional power flow, such as the existing 4.16 kV breakers and relaying
- Special protection arrangements between the generator and the upstream feeder breaker, which may preclude the generator being switched to another feeder
- Short circuit levels which vary depending on how the renewable generator is switched

Reverse Power Flow

Reverse power flow may be an issue for relatively large generators. An example is the reverse power flow expected on the 41M17 feeder following the connection of a 10MW Solar Farm. The protection at the T.S. is owned and operated by Hydro One. Hydro One has identified the issue in their Connection Impact Assessment and will address any metering or bus protection blocking scheme issues.

WHESC will limit renewable generation connections on the 4.16kVsystem to eliminate any possibility of reverse current flow.

4.16 kV System Limitations

Welland Hydro has five (5) 4.16 kV distribution feeders servicing the majority of customers in its rural service area. To date there has been limited connection activity on the 4.16kV rural system, with only four (4) microFITs connected.

Renewable generation connections on the 4.16kV system will be carefully assessed based on a multiple set of criteria, including reverse power, protection, equipment, ability to switch, power quality, feeder capability, reliability, overall condition, the potential to exceed established feeder limits under all circumstances, the impact of any sections of undersized conductor, and the

potential to overload the power transformer. If the proposed connection passes these basic criteria, then the overall effects of the application will be assessed through the Connection Impact Assessment process.

There are two Municipal Substations in the Rural Area. MS11 was refurbished in 2009/2010 and MS14 is expected to be refurbished within the next 5 to 10 years. There have been no FIT project applications for connections to either of these two substations to date.

The 4.16 kV system was designed and built as an interconnected system. With the exception of MS5, all the MSs have only one power transformer. Reliability and operability is achieved by switching feeders and sections of feeders between MS's. The ability to continue this switching unimpeded is a system requirement. Renewable generation on the 4.16 kV system will have to comply with this system capability under all operational circumstances.

3. Planned Development of the System to Accommodate Renewable Generation Connection

3.1. Anticipated Connections and Infrastructure Projects

Current Connections

To date WHESC has connected eighteen (18) MicroFIT solar photovoltaic rooftop and ground mounted renewable generator projects. Only one (1) FIT project, a 100kW Solar Roof Mount, has been connected.

Current WHESC Projects Underway for 2012

Two 250kW Roof Mount Solar Projects are in progress, with an anticipated connection in 2012.

Hydro One

A 10MW wind farm is proposed to be connected to the Hydro One M13 circuit out of Crowland TS. Even though this project may affect the ability of WHESC to connect renewable generation, WHESC is not directly involved in this project.

Consultations

There are currently five (5) FIT projects expected to be connected within the next 6 to 18 months as follows:

- Two (2) 250 kW projects that have completed the CIA process with both WHESC and Hydro One. At this stage there are no further consultations required with Hydro One.
- Two (2) 500 kW projects have completed the CIA process with both WHESC and Hydro One. Hydro One will be consulted to address monitoring requirements as and when these projects progress to the next stage.
- A 10MW project which has also completed the CIA process for both WHESC and Hydro One. WHESC, Hydro One and the developer of the 10MW FIT have met to discuss the project in detail including project status, time lines, coordination of activities and testing requirements. WHESC has signed a Generation Facility Connection and Cost Recovery Agreement with Hydro One. Additional consultation will take place as required.

Table 7 shows the 5-Year outlook and connection costs for renewable generation connections for WHESC. Please note this includes projects that are in the early stages and, may or may not proceed.

Table 7Summary of Anticipated Renewable Generation – 5 year Outlook

Year	Reference	CIA Complete	Feeder	Type	Size (kW)	Expansion Cost	Comment
2012	FIT-FTW5YJC	Yes	41M18	Solar	250	0	
2012	FIT-FWF1GZD	Yes	41M20	Solar	250	0	
2013	FIT-F89J46L	Yes	41M17	Solar	500	0	
2013	FIT-FH2RZ6J	Yes	41M17	Solar	500	0	
2013	FIT-FNDK4TS	Yes	41M17	Solar	10,000	$100,000	
2014	FIT-F0L2M97	No	41M18	Solar	5,000	Expected to be 0	TS capacity not approved
2014	FIT-FXPGUYJ	No	41M20	Solar	10,000	Expected to be 0	TS capacity not approved

2014	East Main Street	No	41M17	Solar	150	0	TS capacity not approved
2015/6	Moyer Road	No	41M19	Solar	10,000	$2m+	TS capacity not approved

3.2. WHESC Owned Renewable Generation Developments

In accordance with Distributor Owned Generation (EB-2009-0411), WHESC owns and operates 30kW of solar renewable generation. Another 160kW is planned within the next 5 years, depending on the prevailing circumstances.

The reasons for the asset are:

- It is a prudent investment with an acceptable ROI.
- It demonstrates to the community that renewable generation is practical and viable.
- It enables WHESC to gain experience in renewable generation and is therefore able to inform the community about their first hand experiences.

So far, all the WHESC assets have been solar PV cell installations. It is not anticipated that this will change –future installations are all likely to be solar.

Funding for the future WHESC owned projects are not included in this Plan.

These projects indicate WHESC's ongoing support for green, renewable generation.

3.3. Smart Grid Investigations

WHESC is not considering undertaking any Smart Grid demonstration projects. It will however, continuously review any Smart Grid investigations by others, as well as development in feeder automation and substation automation. At this moment in time, an investigation of Smart Grids technologies is considered the most cost effective way forward for WHESC.

The aim of WHESC in investigating Smart Grid technologies is to achieve a balance of service benefits versus a reasonable rate impact.

The work proposed by WHESC includes:

- Review of how other utilities are implementing their smart grid initiatives
- Review of the results of pilot projects

- Review of the proceedings of the Smart Grid Working Group
- Establish high level cost estimates and benefits for any promising technology as identified by WHESC
- Review the latest Smart Grid technology including smart meters, residential displays, outage management, electric vehicles and energy storage

There are no plans to spend capital on Smart Grid projects considering the more pressing need for other investment.

The cost of carrying out Smart Grid investigations is not considered significant and will be carried out by a WHESC Engineer as part of their ongoing duties. An operating expenditure for this activity has therefore not been included.

3.4. SCADA –Renewable Generation Impact

WHESC currently has a Survalent SCADA System with a dual redundant hot standby front end. Field equipment includes RTU's or smart IED's at Crowland T.S. and 13 of the Municipal Substations allowing for monitoring and control activities. There are also 24 ScadaMate switches located throughout the 27.6kV distribution system providing monitoring, fault detection and control activities. All switching activities at this stage are under the control of system operators.

Impact of Renewable Generation

At present, WHESC does not have an Inter-Control Center Communications (ICCP) connection to Hydro One at Barrie. Installing this operational link will enable WHESC to gather Hydro One's operational information in real time as it relates to WHESC's system - common practice in the industry. Based on other similar interconnections with Hydro One, the estimated cost of the link is $30,000 and this has been included in the Plan.

The Plan also includes the installation of ION 8600 meters with an expansion module at each renewable facility site ≥ 250 kW. This module is designed for generator monitoring and control and is an effective way to gather the generators output information, especially where metering has to be installed. The estimated cost is $20,000 per installation, including the expansion module. A capital cost allowance has been made in the Plan for each renewable generator installation ≥ 250 kW.

Based on the above estimates and the anticipated renewable generation the annual costs are forecast as:

2012	2013	2014	2015	2016
$0	$90,000	$40,000	$20,000	Incl.

As the addition of this relatively small number of monitoring points to the SCADA system will not materially impact it, no additional operational expenditures for this function have been included in this Plan.

3.5. Renewable Enabling Improvements

Renewable Enabling Improvements (REI) also covers modifications to the distribution system to enable the connection of renewable generation facilities. REI includes:

- Equipment to manage and control bi-directional electrical flows, such as the replacement of breaker protection relays
- Additions to the protection schemes, including the prevention of islanding, and feeder switchability

At present, there is no known requirement to install an advanced MS control and protection scheme. So far all the significant renewable facilities have been connected to the 27.6 kV system and this is likely to continue in the future. The transfer trip schemes on the 27.6 kV system are the responsibility of Hydro One and WHESC has no financial role. Should however, an advanced control and protection be required at an MS for example, costs can be as high as $150,000 per installation. For the purposes of this Plan, no such capital or operational expenditures are envisaged.

3.6. Infrastructure Projects – Direct Benefit Calculation

Under the concept of "Direct Benefit", WHESC will claim the following costs as per the OEB decisions and standards:

- **Capital Investments:** Capital investments enable the connection of renewable generation to WHESC's distribution system while preserving reliability and power quality. In accordance with the Distribution System Code, there is a "renewable energy

expansion cost cap" of $90,000 per MW based on the name plate rating of the generation facility. WHESC will contribute up to this cap and any incremental expansion costs beyond the cap are to be borne by the generator. Up to this threshold the accepted funding split is - provincial ratepayers 83%, WHESC customers 17%.

- **Renewable Enabling Improvements:** REI addresses modifications or additions to the distribution system in order to accommodate increased levels of renewable energy generation. An example of REI would be the modifications or additions to manage and control the 2-way flows or reverse flows, including but not limited to – bidirectional reclosers, tap changer controls or relays, replacement of breaker protection relays. REI projects are typically recoverable under the formula - provincial ratepayers 94%, WHESC customers 6%.
- **SCADA:** SCADA projects follow the same typical funding split as the REI, namely - provincial ratepayers 94%, WHESC customers 6%.
- **Smart Grid:** As yet the OEB does not consider the Smart Grid as a direct benefit and these costs are 100% payable by WHESC customers.

Based on these principles, the Direct Benefits are typically calculated as follows:

Ridge Road 10 MW

Expansion cost estimate	$84,000
Provincial share @ 83%	$69,720
WHESC share @ 17%	$14,280

3.7. Method and Criteria Used to Prioritize Expenditures

Considering the small number of renewable energy projects within the WHESC service area, the prioritizing and scheduling of renewable generation facilities has not been an issue. WHESC has been able to accommodate all applicants. In the future, should there ever be a situation where competing projects are applying for limited distribution resources, they will be connected on a first come first served basis, based on the date of completion of the Connection Impact Assessment and any required agreements, for example a cost recovery agreement. This first come first served decision however assumes that the project would proceed within a reasonable time, failing which and after ample warning, the next FIT Contract would be given priority.

Note: The new FIT2 rules are expected to award contracts based on a point system. This point system may also affect the priority and the sequence of projects to be connected.

3.8. Consultations

Regular meetings and discussions are held with Hydro One and the OPA as follows:

- Regular meetings with the Hydro One Account Representative
- Regular discussions with the OPA
- Regular discussions with the Hydro One generation connection staff
- Ongoing discussions with Hydro One relating to TS capacity
- Threshold applications are submitted to Hydro One to confirm the connection situation

3.9. Customer Engagement and Communication

Recognizing the potential impact of Smart Grid technologies and applications, WHESC may seek comments and insights from its customers as part of its investigation. The aim of the engagement will be to inform, explain and learn. The form of this engagement will be through focus groups as necessary.

As part of its own program of installing renewable energy generation, WHESC will also engage and inform customers about their experiences of buying, installing and operating solar PV facilities. The form of this engagement will be through the WHESC's website and one-on-one contact.

These customer engagement activities are considered part of the normal WHESC operation and no additional funds are required.

Welland Hydro
ELECTRIC SYSTEM CORP.

3.10. Letter of Comment from the OPA

OPA Letter of Comment:

Welland Hydro-Electric System Corp.

Basic Green Energy Act Plan

July 23, 2012

ONTARIO POWER AUTHORITY

Welland Hydro Electric System Corp.
June 2012

Welland Hydro
ELECTRIC SYSTEM CORP.

Introduction

On March 25, 2010, The Ontario Energy Board ("the OEB") issued its Filing Requirements for Distribution System Plans. As a condition of Licence, Ontario Distributors are required to file a Green Energy Act Plan as part of their cost of service application.

The Filing Requirements distinguish between Basic and Detailed Green Energy Act Plans ("Plan" or "GEA Plan") and outline the specific information and level of detail which must be provided for each type of Plan. Recognizing the importance of coordinated planning in achieving the goals of the Green Energy and Green Economy Act, 2009 (the "GEA"), distributors must consult with embedded and host distributors, upstream transmitters and the OPA in preparing their Plans. For both Basic and Detailed Plans, distributors are required to submit as part of the Plan, a letter of comment from the OPA.

The OPA will review distributors' Basic Plans to ensure consistency with regard to FIT and microFIT applications received, as well as with integrated Plans for the region or the system as a whole.

Welland Hydro-Electric System Corp. -Basic Green Energy Act Plan

The OPA has reviewed the Basic GEA Plan from Welland Hydro-Electric System Corp. ("WHESC") dated June, 2012, and has provided its comments below.

OPA FIT/microFIT Applications Received

WHESC's GEA Plan indicates that to date 18 MicroFIT projects and 1 FIT project have been connected in WHESC's service territory. Additionally, 2 Roof Mount Solar Projects and 5 FIT projects have been identified as in progress and as expected to be connected within the next 6 to 18 months respectively, totalling approximately 12 MW. These projects have been itemized in Section 3.1: Anticipated Connections and Infrastructure Projects, starting on page 11 of the Plan.

To date, the OPA has processed 37 microFIT applications totalling approximately 0.37 MW of capacity in WHESC's service territory. Of these, approximately 0.16 MW have been offered a contract as of July 2012. Additionally, the OPA has received and offered contracts to 6 capacity allocation exempt FIT applications and 1 capacity allocation required FIT application, totalling approximately 11.85 MW that have identified themselves as connecting within WHESC's service territory. All of these FIT applications remained active as of July 2012.

Upstream Transmission Constraints

As noted in WHESC's plan, short circuit limitations at Allanburg TS currently limit the ability of additional FIT projects to connect in WHESC's service territory. The OPA understands that Hydro One Networks Inc. has plans in place to relieve this limitation by the end of 2013.

Additionally, the OPA notes that WHESC's service territory is currently constrained by the Niagara area limit. This constraint poses a limitation for FIT applications connecting in the Niagara region, and accordingly the OPA will be unable to award contracts to FIT projects in the region until this constraint has been addressed.

Economic Connection Test

The OPA received a directive dated April 5, 2012 from the Minister of Energy with respect to the Feed-in Tariff Program Review. The directive states that "[g]iven the transmission projects planned through the Long Term Energy Plan and changes to the FIT Program, the OPA shall not run the Economic Connection Test". A link to the full directive is provided on the OPA's website:
http://www.powerauthority.on.ca/sites/default/files/page/FIT-ReviewApril-2012.pdf

Opportunities for Integrated Solutions

There are no known corresponding expansions among neighbouring LDCs that could be addressed through integrated transmission solutions at this time.

Conclusion

The OPA finds that WHESC's GEA Plan is reasonably consistent with the OPA's information regarding renewable energy generation applications to date.

The OPA appreciates the opportunity to comment on Welland Hydro-Electric System Corp.'s Basic GEA Plan.

Ontario Power Authority

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Welland Hydro
ELECTRIC SYSTEM CORP.

Appendix: WHESC Connection Criteria

Feeder Loading

The following criteria are used to evaluate the suitability of any renewable generation connection. The criteria are applied at WHESC's discretion.

Bus voltage for normal operation and contingency circumstances:

- Min allowable bus voltage 0.90 p.u.
- Max allowable bus voltage 1.06 p.u., example: for the 27.6 kV system max allowed is 29.25 kV.

Line loading

- Line loading – not to exceed 66.7% of thermal rating
- For 27.6 kV M class feeder – peak load not to exceed 400A (19 MW).
- M class feeder, generation not to exceed 10% of peak load.
- For 4.16 kV F class feeder – peak load not to exceed 200A.
- F class feeder, generation not to exceed 7% of peak load (1.45 MW).

Short circuit

- For a maximum three-phase symmetrical fault:
- 27.6/16 kV - max 17 kA
- 4.16/2.4 kV – to be advised by WHESC on a case by case basis.

Reverse power

For the 27.6 kV system, reverse power is not to exceed 60% of transformer station capacity to protect the system in a situation where one transformer is out of service as per the Hydro One specification. On the 4.16 kV system, the maximum reverse power will be specified by WHESC on a case by case basis.

Power factor

- Required range 0.95 lag to 0.95 leading.

Basic Impulse Limit

- Min BIL 125 kV (Grd Y) for the 27.6/16 kV system
- Min BIL 60kV for the 4.16/2.4 kV system.
- Where not specifically covered by WHESC's evaluation criteria, the latest version of Hydro One's "Distributed Generation Technical Interconnection Requirements – Interconnections at Voltages 50 kV and Below" will apply.

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Additionally, the OPA notes that WHESC's service territory is currently constrained by the Niagara area limit. This constraint poses a limitation for FIT applications connecting in the Niagara region, and accordingly the OPA will be unable to award contracts to FIT projects in the region until this constraint has been addressed.

Economic Connection Test

The OPA received a directive dated April 5, 2012 from the Minister of Energy with respect to the Feed-in Tariff Program Review. The directive states that "[g]iven the transmission projects planned through the Long Term Energy Plan and changes to the FIT Program, the OPA shall not run the Economic Connection Test". A link to the full directive is provided on the OPA's website:
http://www.powerauthority.on.ca/sites/default/files/page/FIT-ReviewApril-2012.pdf

Opportunities for Integrated Solutions

There are no known corresponding expansions among neighbouring LDCs that could be addressed through integrated transmission solutions at this time.

Conclusion

The OPA finds that WHESC's GEA Plan is reasonably consistent with the OPA's information regarding renewable energy generation applications to date.

The OPA appreciates the opportunity to comment on Welland Hydro-Electric System Corp.'s Basic GEA Plan.

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Capitalization Policy:

The Board requires that all 2013 COS Applications be completed on the basis of MIFRS in relation to both Capitalization and Depreciation. To aid LDC's with the evaluation of asset useful lives, the Board issued an Asset Depreciation Study prepared by Kinetrics within the framework of EB-2010-0178 - Transition to International Financial Reporting Standards.

Welland Hydro has worked with KPMG in developing its fixed asset policies in regards to asset useful lives, componentization of assets, capitalization of overheads, and asset de-recognition. The conclusion documents of Welland Hydro relating to IAS 16 – Property, Plant and Equipment are presented in Exhibit 2, Tab 3, Schedule 5 Appendix C. This appendix sets out Welland Hydro selections of asset useful lives and also makes a comparison to the asset lives as set out in the Kinetrics Report. Welland Hydro will discuss each of these issues within this Exhibit.

Depreciation Expense:

Depreciation expense for 2011 CGAAP is presented in Exhibit 2, Tab 2, Schedule 1 (Pg. 8). This schedule presents actual depreciation expense for 2011 by OEB account and is based upon the current depreciation rates and asset useful lives.

Depreciation expense for 2012 CGAAP and 2012 MIFRS are presented in Exhibit 2, Tab 2, Schedule 1 (Pgs. 9-10). The 2012 CGAAP depreciation expense of $2,037,829 is the continuation of the current method with additions subject to the half year rule.

In order to prepare depreciation expense under 2012 MIFRS for this rate application, an extensive evaluation of the current fixed assets remaining useful lives was performed using the new fixed asset useful lives. As a result, the net book value will be depreciated over the remaining useful lives. The average remaining useful lives of fixed assets by account is found in column I of Exhibit 2, Tab 2, Schedule 1 (Pg. 10). 2012 additions were then depreciated over the new useful life and remains subject to the half year rule. The net result is a decrease in depreciation expense of $853,779 under MIFRS versus GAAP.

As per 2013 COS filing requirements the difference in depreciation expense between 2012 CGAAP and 2012 MIFRS will form part of deferral and variance account 1575 IFRS-CGAAP Transitional PP&E amounts. Account 1575 will be cleared as an adjustment to 2013 depreciation expense.

Depreciation Expense for 2013 MIFRS is presented in Exhibit 2, Tab 2, Schedule 1 (Pg. 11).

Capitalized Overheads:

Under CGAAP Welland Hydro has capitalized indirect overheads as a percentage of direct labor and material. In addition, vehicle time was also capitalized. These overheads will no longer be capitalized under MIFRS which will result in decreased capital expenditures and increased OM&A for Welland Hydro.

In preparation for IFRS Welland Hydro stopped capitalizing Administration & IT overheads in 2010. Both were previously capitalized as 10% of direct labor costs. These costs were included as capital in the 2009 COS application. As a result of the change of policy, Welland Hydro increased OM&A expenses in 2010 compared to the 2009 COS. This change was to the benefit of customers as it increased expense and decreased rate base. The total amount of capitalized administrative and IT overheads included in the 2009 COS application was $28,796. Although Welland Hydro has not included this amount in deferral and variance account 1575 it will include this item when comparing increases in OM&A costs compared to the 2009 COS application.

Welland Hydro capitalized engineering overhead at a rate of 32% of direct labor costs. These costs will no longer be capitalized under MIFRS as an overhead but a small portion of engineering time directly related to capital projects will be capitalized through payroll time sheets. The total amount of engineering overhead transferred from capital to OM&A is $65,954 per year based on actual 2011 amounts.

Welland Hydro capitalized stores overhead at a rate of 25% of direct material costs. These costs will no longer be capitalized under MIFRS and no storekeeper time will be charged to capital

through payroll time sheets as it is not considered material and difficult to identify. The total amount transferred from capital to OM&A is $72,435 per year based on actual 2011 amounts.

Welland Hydro capitalized vehicle time through payroll time sheets at predetermined hourly rates. Although a small percentage may be capitalized under MIFRS Welland Hydro has elected to expense all maintenance and depreciation costs related to vehicles. The total amount transferred from capital to OM&A is $128,252 per year based on actual 2011 amounts.

Welland Hydro has capitalized labor burden amounts under CGAAP and will continue to capitalize them under MIFRS. The only change is the removal of amounts related to safety training and safety programs previously included in the burden accounts. Welland Hydro has identified the amount of capitalized safety related costs as $4,911 per year. Although Welland Hydro has not included this amount in deferral and variance account 1575 it will include this item when comparing increases in OM&A costs compared to the 2009 COS application.

The changes in overhead are presented on page 4 of this schedule in the format provided in Chapter 2 Filing Requirements Appendices Module Appendix 2-D Overhead Expense.

De-Recognition of PP&E

Under CGAAP Welland Hydro was utilizing the pooling of assets method. This method for the most part would not result in a gain or loss on the removal of assets unless they were accounted for individually such as vehicles and computer equipment.

This method is no longer acceptable under MIFRS and Welland Hydro will now recognize losses on fixed assets removed from service prematurely. For IFRS this will be treated as Other Income/Expense. In the July 2012 Frequently Asked Questions Board staff identified a methodology to deal with the impact of premature asset removal within the 2013 COS application. An estimate of the dollar impact of removing assets prematurely is charged to account 4362 Asset Retirement which is treated as a reduction to Other Revenue.

Appendix 2-D
Overhead Expense

The following table should be completed based on the information requested below. An explanation should be provided for any blank entries. The entries should include overhead costs that are currently capitalized on self-constructed assets under MIFRS or an alternate accounting standard.

Nature of the Overhead Costs	(A) [1] Dollar Impact on PP&E Historic Year	(B) Dollar Impact on PP&E Bridge Year	(C) Dollar Impact on PP&E Test Year	(D) Dollar Impact - PP&E Variance Test versus Bridge	(E) [1] Dollar Impact - PP&E Variance Test versus Historic	(F) Directly Attributable? (Y/N)	(G) Reasons why the overhead costs are allowed to be capitalized under MIFRS or an alternate accounting standard given limitations on capitalized overhead
employee benefits		$ 119,154	$ 137,725	$ 18,571	$ 137,725	Y	Employee Benefits excluding safety training are capitalized
costs of site preparation				$ -	$ -		under IFRS
initial delivery and handling costs				$ -	$ -		
costs of testing whether the asset is functioning properly				$ -	$ -		
professional fees				$ -	$ -		
				$ -	$ -		
costs of opening a new facility				$ -	$ -		
costs of introducing a new product or service (including costs of advertising and promotional activities)				$ -	$ -		
costs of conducting business in a new location or with a new class of customer (including costs of staff training)				$ -	$ -		
administration and other general overhead costs				$ -	$ -		Welland stopped capitalizing Adminstrative Overheads in
				$ -	$ -		2010 and General Overheads in 2012
				$ -	$ -		
				$ -	$ -		
Insert description of additional item(s) and new rows if needed.				$ -	$ -		
Total	$ -	$ 119,154	$ 137,725	$ 18,571	$ 137,725		

The following table should be completed based on the information requested below. An explanation should be provided for any blank entries. The entries should include overhead costs that were capitalized on self-constructed assets under CGAAP but are no longer capitalized under MIFRS or an alternate accounting standard and are included in OM&A.

Nature of the Overhead Costs	(A) [1] Dollar Impact on OM&A Historic Year	(B) Dollar Impact on OM&A Bridge Year	(C) Dollar Impact on OM&A Test Year	(D) Dollar Impact - OM&A Variance Test versus Bridge	(E) [1] Dollar Impact - OM&A Variance Test versus Historic	(F) Directly Attributable? (Y/N)	(G) Reasons why the overhead costs are not allowed to be capitalized under MIFRS or an alternate accounting standard given limitations on capitalized overhead
employee benefits				$ -	$ -		Should have small increase in OM&A due to safety training
costs of site preparation				$ -	$ -		no longer included in Burden Overheads
initial delivery and handling costs				$ -	$ -		
costs of testing whether the asset is functioning properly				$ -	$ -		
professional fees				$ -	$ -		
costs of opening a new facility				$ -	$ -		
costs of introducing a new product or service (including costs of advertising and promotional				$ -	$ -		
costs of conducting business in a new location or with a new class of customer (including costs of				$ -	$ -		
administration and other general overhead costs				$ -	$ -		
Material Overhead-Stores		$ 72,435	$ 72,435	$ -	$ 72,435	N	Not directly attributable and mainly building ovhd/storekeeper
Truck Charges		$ 128,252	$ 128,252	$ -	$ 128,252	N	Depreciation amount not material enough to capitalize
Engineering Overhead		$ 65,954	$ 65,954	$ -	$ 65,954	N	Mainly record keeping/GIS. Some hours charged directly
Insert description of additional item(s) and new rows if needed.				$ -	$ -		to Capital Projects By Engineers
Total	$ -	$ 266,641	$ 266,641	$ -	$ 266,641		

Welland Hydro based its amount of $18,932 for account 4362 Asset Retirement in 2013 on a road widening project scheduled for 2012. The 2013 MIFRS continuity schedule on page 7 of Exhibit 2, Tab 2, Schedule 1 shows a net reduction in fixed assets of $18,932 ($66,361 cost disposal less $47,429 accumulated depreciation disposal). Welland Hydro submits that it is next to impossible to estimate the effect of asset retirements based on two years of forecasted capital expenditures and that a deferral account would be a better methodology of dealing with asset retirements until more actual history is available. The road widening project scheduled for 2012 contained poles of various ages including fully depreciated and non-fully depreciated poles.

Welland Hydro submits that any asset retirements in 2012 should be considered part of account 1575 adjustments.

The net result of the changes in depreciation expense and reclassification of overhead expenses from capital to OM&A total $586,779 as shown on page 6 of this schedule in a form provided in Chapter 2 Filing Requirements Appendices Module Appendix 2-EB. Welland Hydro has elected to amortize the balance in account 1575 over a four year period resulting in a reduction of depreciation expense of $146,695 per year which can be seen in the 2013 MIFRS depreciation schedule on page 11 of Exhibit 2, Tab 2, Schedule 1. The other item resulting from account 1575 is the Return on Rate Base Associated with deferred PP&E balance at WACC of $34,524. This amount is treated as a reduction of OM&A in the calculation of Revenue Deficiency presented in Exhibit 1, Tab 2, Schedule 4, Page 1. This amount is subject to change in the final WACC in the decision on this application.

Appendix 2-EB
IFRS-CGAAP Transitional PP&E Amounts
2013 Adopters of IFRS for Financial Reporting Purposes

For applicants that adopt IFRS on January 1, 2013 for financial reporting purposes

Note: this sheet should be filled out if the applicant adopts IFRS for its financial reporting purpose as of January 1, 2013.

	2009 Rebasing Year	2010	2011	2012	2013 Rebasing Year	2014	2015	2016
Reporting Basis	CGAAP	IRM	IRM	IRM	MIFRS	IRM	IRM	IRM
Forecast vs. Actual Used in Rebasing Year	Forecast	Actual	Actual	Forecast	Forecast			
			$	$	$	$	$	$
PP&E Values under CGAAP								
Opening net PP&E - Note 1				24,387,754				
Additions				2,100,000				
Depreciation (amounts should be negative)				-2,037,829				
Closing net PP&E (1)				24,449,925				
PP&E Values under MIFRS (Starts from 2012, the transition year)								
Opening net PP&E - Note 1				24,387,754				
Additions				1,833,000				
Depreciation (amounts should be negative)				-1,184,050				
Closing net PP&E (2)				25,036,704				
Difference in Closing net PP&E, CGAAP vs. MIFRS (Shown as adjustment to rate base on rebasing)				-586,779				
Account 1575 - IFRS-CGAAP Transitional PP&E Amounts								
Opening balance				0	-586779	-440084	-293390	-146695
Amounts added in the year				-586779				
Sub-total				-586779	-586779	-440084	-293390	-146695
Amount of amortization, included in depreciation expense - Note 2					146695	146695	146695	146695
Closing balance in deferral account				-586779	-440084	-293390	-146695	0

Effect on Revenue Requirement

Amortization of deferred balance as above - Note 2	-146695
Return on Rate Base Associated with deferred PP&E balance at WACC - Note 3	-35324
Amount included in Revenue Requirement on rebasing	-182019

WACC	6.02%	
Disposition Period - Note 4	4	Years

Appendix C

Capitalization Policy

Welland Hydro Conclusion Documents

IAS 16 PP&E

WELLAND HYDRO - ELECTRIC SYSTEM CORP.
IFRS CONVERSION PROJECT

Conclusion Document

Standard: IFRS 1 – Elective Exemption, IAS 16 – Property, Plant and Equipment

Topic: Property, Plant and Equipment – Fair Value vs Carrying Value as Deemed Cost

Objective:

To determine the policy on initial measurement of property, plant and equipment (PP&E) on the date of transition to IFRS

Background:

Welland Hydro – Electric System Corp. ("WH") may elect to measure an item of PP&E at its fair value on the date of transition to IFRS. The fair value would then represent deemed cost at that date for purposes of subsequent measurement and amortization ("deemed cost election").

An additional IFRS 1 exemption is available to rate regulated entities. The exemption allows an entity to measure an item of PP&E at its previously recorded carrying value (i.e. net book value) on transition to IFRS. As WH's operations are rate regulated, they are eligible to apply this exemption.

If an Elective Exemption with respect to PP&E is not taken, WH would have to account for PP&E as if the requirements of IAS 16 had always been applied. This would require retrospective restatements of all PP&E balances in accordance with IFRS.

Considerations:

Retroactive restatements will be onerous and impractical as documentation for historical costs are not available.

The fair value exemption is not allowed by the OEB for rate setting purposes.

Fair values are more costly to obtain.

Electing the IFRS 1 exemption for rate regulated entities is more favourable to WH. Regulated Net Book Value ("regulated NBV") as at the date of transition to IFRS would be used for rate setting purposes. The OEB requires the use of regulated NBV as the basis for setting the opening rate base values upon transition to IFRS. Therefore, using the carrying value as deemed cost exemption would more closely align financial reporting with the basis in which regulated cash flows and income are determined by the regulator.

Conclusion:

WH has concluded that it will elect the IFRS 1 Exemption for rate regulated entities and use net book value as at date of transition to IFRS (January 1, 2013) as deemed cost.

Conclusion Document

Standard: IAS 16 – Property, Plant and Equipment

Topic: Property, Plant and Equipment – Measurement after Recognition

Objective:

To determine the policy on measurement of property, plant and equipment (PP&E) after initial recognition

Background:

For all subsequent periods following the initial recognition of an asset, IAS 16 permits a choice of using either the cost model or the revaluation model for valuing PP&E.

Cost Model

After recognition as an asset, an item of PP&E shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

After recognition as an asset, an item of PP&E whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. IAS 16 defines fair value as "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction." It also mentions that, if there is no market-based evidence of fair value because of the specialized nature of a particular PP&E item and the item is rarely sold (except as part of a continuing business), an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of PP&E is revalued, the entire class of PP&E to which that asset belongs shall be revalued.

Ontario Energy Board

In its report of the Board on Transition to International Financial Reporting Standards, the OEB will require the use of historical acquisition cost as the basis for reporting PP&E for regulatory purposes.

Conclusion:

WH has concluded that it will choose the Cost Model to measure PP&E after initial recognition under IFRS.

Conclusion Document

Standard: IAS 16 – Property, Plant and Equipment

Topic: Componentization and Depreciation

Objective:

To document the accounting policy on componentization and depreciation of property, plant and equipment.

Background:

Each part of an item of property, plant and equipment (PP&E) with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity should allocate the amount initially recognized in respect of an item of PP&E to its significant parts to be depreciated separately.

A significant part of an item of PP&E may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

Depreciation is to be computed on a systematic basis over the estimated useful life of the item of PP&E. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors.*

Depreciation of an asset begins when it is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale in accordance with **IFRS 5** and the date that the asset is derecognized.

Considerations:

Significant components of PP&E will be separately accounted under IFRS. Each significant component and the estimated useful lives, for purposes of computing depreciation expense under IFRS, will be set out in Table 1 as attached.

Overhead System

Three components have been identified – poles, overhead switches and conductor, transformers and MS substations.

Welland Hydro has three types of poles: wood, concrete and steel. Approximately 99.9% are wooden, with the remaining immaterial amount being concrete and steel. The cross arms and other materials attached to the poles are considered to be part of the poles since everything is replaced at the same time as the pole is replaced. Therefore, fully dressed poles are considered one component comprising wood, concrete and steel and including cross arms, guy wires, etc. For poles, the Kinectrics report has a minimum life of 35 years, typical of 45 years and maximum of 75 years. According to the OEB report, to achieve the typical useful life, mechanical stress is high, however as Welland is more rural than Mississauga and other urban cities, the mechanical stress would be on the lower end of "high" – therefore, moderate which would suggest a useful life that is longer than the typical life. Welland Hydro is currently using a useful life of 25 years; however the poles are lasting much longer. Therefore, a useful life of 50 years is to be used, which is within the range (35-75 years) of the Kinectrics report.

Management believes that switches and conductors do not need to be separated out as neither are material on their own. Switches however, are normally replaced more often than the conductors. Therefore, switches and conductors have been grouped together and identified as one component. Conductors have the highest dollar value in this group of assets. For conductors, the Kinectrics report has a useful life range of 50-75 years, with a typical useful life of 60 years. According to the OEB report, to achieve a typical life of 60 years, mechanical stress and environmental conditions are moderate while electrical loading is low. Welland's electrical loading is not low (more moderate), mechanical conditions are moderate and environmental conditions include salt corrosion and higher winds, which affect the asset life. Welland is close to the lake, which results in higher winds that can cause trees to take down the wires. These factors would lead to a useful life that is less than the typical useful life. Engineering believes 60 years is an appropriate useful life for conductor. However, as switches are grouped into one component with conductors and have a useful life of approximately 45 years (replaced more frequently than conductors), an average life of 50 years is more appropriate.

Currently, overhead and underground transformers are grouped together as underground transformers. These assets are not considered to be material enough to separate. Therefore, both overhead and underground transformers are to be considered one component. The Kinectrics report shows a useful life range of 30-60 years, with a typical useful life of 40 years for overhead transformers and 25 to 45 years for underground with typical at 40 years. According to the Kinectrics report, in order to achieve the typical useful life, electrical loading, environmental conditions and non-physical factors (technology) need to moderate. Management has concluded there is nothing abnormal that would cause Welland Hydro not to be able to use the typical useful life. Therefore, 40 years is appropriate.

Welland Hydro does not have any transformer stations, only municipal substations (MS). There are currently 14 MS substations, each of which is tracked in its own general ledger account. Three out of the 14 substations are housed in buildings. Two of the buildings have separate accounts and the third is within a substation that is fully depreciated. At this time, there are currently no plans to remove any MS substations from service. Battery banks and chargers do not need to be separated out as they are not significant. The most significant components of an MS substation are:

transformers, switchgear, switches and buildings. For transformers (in substations), the Kinetrics report shows a useful life range of 30-60 years, with a typical useful life being 45 years. To classify as typical, electrical loading and environmental factors need to be moderate. As Welland is a slow growth city, loading would be considered moderate. Also, engineering feels that these transformers can last longer than transformers in city centres. Therefore, 45 years is an appropriate useful life for these assets. For switchgear (in substations), the Kinectrics report shows a useful life range of 30-60 years, with 40 years being the typical useful life. According to the Kinectrics report, environmental factors, operating practices, maintenance practices and non-physical factors need to be moderate to be considered in the typical range. As Welland's technological factors are considered higher than moderate, a 35 year useful life is considered appropriate. For switches (in substations), the Kinectrics report shows a useful life range of 30-60 years with a typical useful life of 50 years. According to the Kinectrics report, to classify as typical, mechanical stress and environmental factors are moderate and electrical loading is low. A 30 year useful life was selected because of the moving parts, which create mechanical stress, and electrical loading is higher than typical. For substation buildings, the Kinectrics report shows a useful life range of 50-75 years. Welland Hydro currently has three substation buildings with brick construction. They are approaching 50 years old and there are currently no plans on changing them as they are being maintained on a timely basis. As a result, the best estimate for useful life would be 60 years.

Underground System

Six components were identified – secondary cable (OH and UG), primary non - tree retardant (TR),, ducts & foundations, switchgear and scada.

In the general ledger, OH and UG secondary cable are grouped in the same account. However, as there is not much OH in the account, they do not need to be split between OH and UG. For both direct buried and in-duct cable, the OEB has a typical useful life of 35-40 years. Management believes that 40 years is the best estimate for useful life because secondary cables are usually repaired and can last longer than the lower range of typical.

The majority of the cable is primary non-TR/XLPE direct buried and primary non-TR XLPE in duct. As the useful lives are similar for both types of cable, there is no need to separate them. Also, as there is an insignificant portion of TR cable, there will only be one component (non-TR). On a go forward basis, the new cable will likely be TR, so two components will be needed (TR & non-TR). For primary non-TR cable, the Kinectrics report has a minimum life of 20 years, maximum of 30 years and a typical useful life of 25 years. According to the Kinectrics report, typical life is achieved with moderate mechanical stress, electrical loading and environmental factors. Welland Hydro is currently pushing them out longer than they should ("band aid approach"), therefore a 25 year useful life is appropriate. For primary TR cable, the Kinectrics report has a useful life range of 25-35 years. As Welland does not have assets in this class yet, and does not have experience with them, a useful life of 30 years was chosen.

UG foundations, UG vaults, ducts and concrete encased duct banks are considered one component as they are not individually significant. The useful life range according to the Kinectrics report vary, however typical is 50-55 years. Mechanical stress is typically high with the loading on top of the ducts and foundations. Welland Hydro is consistent with the OEB's assessment on the factors of these assets, therefore 50 years is the useful life selected.

Switchgear has also been identified as another component going forward. The Kinectrics report shows a useful life range of 20-45 years with a typical useful life of 30 years. For the typical useful

life, the OEB has identified environmental factors as high, with the remaining factors being low. Welland Hydro is consistent with this assessment and therefore 30 years is appropriate for the useful life.

SCADA is to be split into three components: software, devices and computers. For software, a useful life of 10 will be used due to technological obsolescence. A useful life of 5 years will be used for regular computers. Devices can last longer than both software and computers. The best estimate for useful life is 20 years as current SCADA has not yet been replaced.

Minor Assets

These assets are minor and are not significant in relation to total PP&E. As a result, limited componentization is necessary.

Office equipment is considered to be one component and a useful life of 10 years will be used.

Vehicles are to be separated into three components: trucks, trailers and vans/cars. As there are two mechanics on staff, trucks can go on the higher end, and even surpass the top range. Current bucket trucks in use are from 1990/1991 and are at least 10 years old. Therefore, useful life will remain at 15 years. Trailers last longer than trucks, therefore a useful life of 20 years will be used. For vans/cars, current practice of 10 years then replacement will continue.

Administrative buildings are to be considered one component since it is not a significant asset in relation to total PP&E. The building was constructed in 1970 and is approximately 40 years old. There are no plans to rebuild or move, therefore a useful life of 60 years will be used. This is consistent with substation buildings.

Substation buildings (MS) are considered to be one component separate from the equipment. See above for discussion on useful life.

Computer hardware and computer software are to each be considered a component. Current practice is to replace hardware after 4 years and software licenses are for a 5 year period.

Equipment is to be separated into three components: major tools, store and measurement & testing. All three components have a useful life of 10 years.

Communication is to be split into towers and wireless (radio). Towers will have a useful life of 60 years as they will likely last as long as the building they are attached to. Wireless will have a useful life of 5 years.

The back-up generator is to be separated as a component given its large dollar value. It is only a few years old currently and a 25 year life is expected.

Residential meters are stranded meters and will continue to be depreciated using current and OEB practices of 25 years.

Industrial meters (interval) are currently fully depreciated so there are no CTs or PTs to split out on conversion as the NBV of the group is currently zero at the transition date. Going forward, they will be one component. A useful life of 15 years will be used as technological obsolescence is an issue.

Wholesale meters will need to be split into two components – meters and metering transformers. Meters will have a useful life of 15 years and metering transformers, which last longer than regular meters, will have a useful life of 35 years.

For smart meters, technological obsolescence is a factor, therefore 15 years was chosen as the useful life.

CT/PTs do not need to be a separate component out as only seven or eight is done per year.

Conclusion:

The new levels of componentization and the corresponding useful lives will be applied beginning January 1, 2013. The net book value as deemed cost exemption (available to rate regulated entities) will be applied so that the opening values at January 1, 2013 do not need to be restated and therefore, componentization does not need to be applied retroactively.

Table 1: Welland Hydro – PP&E Components and Estimated Useful Lives

Component	Previous Component	Proposed Useful Life	Existing Useful Life
Overhead poles	1830	50	25
Overhead conductor and switches	1835	50	25
Overhead Transformers	1850	40	25
MS Substations – transformers	1820	45	30
MS Substations – switchgear	1820	35	30
MS substations – switches	1820	30	30
MS Substations – buildings	1808	60	50
Underground secondary cable	1855	40	25
Underground primary TR cable	1845 (2006 and after)	30	25
Underground primary non-TR cable	1845 (prior to 2006)	25	25
Underground switchgear	1840 (2012 forward)	30	25
Underground ducts and foundations	1840 (prior to 2012)	50	25
SCADA - software	1980	10	25
SCADA – devices	1980	20	25
SCADA - computers	1980	5	25
Office Equipment	1915	10	10
Vehicles - trucks	1930	15	10
Vehicles – trailers	1930	20	10
Vehicles – vans/ cars	1930	10	10
Administrative buildings	1908	60	40
Station buildings	1908	60	40
Computer hardware	1920	4	5
Computer software	1925	5	5
Equipment – major tools	1940	10	10
Equipment - store	1935	10	10
Equipment - measurement & testing	1945	10	10
Communication - towers	1855	60	10
Communication – wireless (radio)	1855	5	10
Communication – collectors	1855	10	10
Generator	1960	25	25
Industrial meters	1860 (fully depreciated)	25	25

Wholesale meters	1815	15	30
Wholesale metering transformers	1815	35	30
Smart meters	1860	15	15

Stranded Conventional Meters have been excluded as they will be transferred into a rate rider affective with the 2013 rate application.

Welland Hydro Electric System Corp.
Components List and useful lives

CGAAP Account	IFRS	Useful Life MIN	Useful Life TYP	Useful Life MAX	Utilization Factors	Welland Hydro
	Overhead system:					
1830	Poles		35	45	75 MC, EN	50
1835	OH Conductors and Switches		50	60	75 MC, EL, EN	50
1850	Transformers (includes OH and UG)		30	40	60 EL, EN	40
	MS Substations					
14 different accounts	Transformers - already a component		30	45	60 EL, EN	45
14 different accounts	Switchgear - already a component		30	40	60 EL, EN, OP	35
14 different accounts	Switches - already a component		30	50	60 MC, EL, EN	30
14 different accounts	Buildings - already a component		50		75	60
	Underground system:					
1855	Secondary Cables (includes both OH and UG)		25-35	35-40	40-60 MC, EL, EN	40
	Primary Non-TR		20	25	30 MC, EL, EN	25
	Primary TR		25	30	35 MC, EL, EN	30
1840	Switchgear		20	30	45 EN	30
	Ducts & foundations		30	50	80 EN	50
1980	Scada					
	software		15	20	30 NPF	10
	devices		15	20	30 NPF	20
	computers		15	20	30 NPF	5
	Minor Assets					
	-Office Equipment		5		15	10
	-Vehicles					
	trucks		5		15	15
	trailers		5		20	20
	vans/cars		5		10	10
	-Administrative Buildings		50		75	60
	-Station Buildings		50		75	60
	-Computer Hardware		3		5	4
	-Computer Software		2		5	5
	Equipment					
1940	Major Tools		5		10	10
1935	Store		5		10	10
1945	Measurement & testing		5		10	10
	Communication					
	Towers		60		70	60
	Wireless (Radio)		2		10	5
1960	Generator					25
	Residential Meters - stranded		25		35	25
	Industrial Meters		25		35	15
1815	Wholesale Meters		15		30	15
	Wholesale Metering Transformers					35
	Smart meters		5		20	15

Conclusion Document

Standard: IAS 16 – Property, Plant and Equipment

Topic: Property, Plant and Equipment – Derecognition of PP&E

Objective:

To document the accounting policy on derecognition of property, plant and equipment.

Background:

The carrying amount of an item of property, plant and equipment (PP&E) shall be derecognized:

(a) On disposal; or

(b) When no future economic benefits are expected from its use or disposal (eg. the item is removed from use).

When a part of an item of PP&E is replaced and that replacement is capitalized under the recognition principle in IAS 16, then the replaced part is derecognized regardless of whether the replaced part has been identified as a separate component and depreciated separately.

The gain or loss arising from the derecognition of an item of PP&E shall be included in profit or loss when the item is derecognized. Gains shall not be classified as revenue, and instead should be presented as other income or expense.

The disposal of an item of PP&E may occur in a variety of ways (e.g. by sale, by entering into a finance lease, by donation, etc.) In determining the date of disposal of an item, an entity applies the criteria in IAS 18 for recognizing revenue from the sale of goods. Under IAS 18.14, revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

(a) The entity has transferred to the buyer the significant risks and rewards of ownership of the goods

(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) The amount of revenue can be measured reliably;

(d) It is probable that the economic benefits associated with the transition will flow to the entity; and

(e) The costs incurred or to be incurred in respect of the transactions can be measured reliably.

The gain or loss arising from derecognizing of an item of PP&E shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Considerations:

Currently the pooled method of accounting for capital assets for Utility companies is applied and is an approved method by the Ontario Energy Board ("OEB").

The pooled method of accounting pools like assets together based on the year of addition as the pooling method assumes that each asset will last, on average, their full useful life.

Under the pooling method, if an asset does not last the full useful life, as anticipated, there is no change to the accounting to remove the one asset which does not last the full life. It is not derecognized and remains in the general ledger.

It is assumed that there are assets within the same asset pool which will last longer or shorter than the estimated useful life and therefore, in the end everything balances out on average. However, the assumption does not always hold true, especially if assets are removed from service before the end of their useful life, for example, when a road is widened.

Currently, WH records their capital assets using the pooling method of accounting.

Under IFRS, the pooling method of accounting is acceptable as long as the estimated useful life still holds true and assets are not removed from service before the end of their useful life. If not, then WH must derecognize the cost of the asset which was removed/disposed. A write-off would be recorded in the amount of the remaining NBV of the asset removed/disposed. Any proceeds on the disposal of the asset would offset the write-off.

In order to properly account for assets that are removed from service under IFRS, a process needs to be developed which alerts the accounting department at WH to write-off the asset (long-term issue).

WH uses work orders to populate the GIS system, which details the work to be completed. For example, replace pole A with pole B. As a result, all work orders are currently being provided to accounting. Accounting will need to keep track which assets are being decommissioned and when. They will need to reflect the transaction in the general ledger.

Conclusion:

For IFRS purposes a process will need to be developed and implemented which notifies the accounting department of changes which occur in the field which require accounting for the removal of the fixed assets and recording the loss in the income statement.

Conclusion Document

Standard: IAS 23 – Borrowing Costs

Topic: Borrowing Costs – Property, Plant and Equipment

Objective:

To determine the policy on accounting for borrowing costs for property, plant and equipment.

Background:

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time is not defined in the IFRS standard. Guidance provided by KPMG suggests that a substantial period of time would be considered to be a period well in excess of 6 months.

For all subsequent periods following the initial recognition of an asset, IAS 16 permits a choice of using either the cost model or the revaluation model for valuing PP&E. WH has chosen to use the cost model in accordance with the OEB requirement.

IAS 23 requires that borrowing costs be expensed as they are incurred unless they relate to "qualifying assets", in which case they must be capitalized if certain conditions are met. When interest is capitalized, IAS 23 requires the following steps:

- Begin capitalization when borrowing costs and expenditures are incurred and activities to develop a qualifying asset for its intended use are in progress;
- Suspend capitalization when development is interrupted for extended periods; and
- Cease capitalization when a qualifying asset is ready for its intended use or sale and all activities related thereto are complete.

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognized as interest expense.

The borrowing costs capitalized must reflect the weighted average of the actual borrowing costs incurred. The OEB requires the actual interest rate on the debt to be used if the related debt was acquired in an arm's length basis. If the debt is acquired in a non-arm's length basis then the interest rate used cannot exceed the Board's published rates for CWIP for rate setting purposes.

Definitions:

Qualifying asset – WH defines a qualifying asset as one that takes in excess of 12 months to construct or get ready for its intended use.

Considerations:

WH currently does not have any qualifying assets as the average time frame of constructing an item of PP&E typically does not exceed 12 months.

Conclusion:

Eligible borrowing costs will be capitalized as part of PP&E for all qualifying assets. Interest rate to be used for capitalization will be the actual cost of borrowing when debt is borrowed specifically to obtain the asset or the weighted average cost of borrowing when general borrowings are used to obtain the asset.

Stranded Meters

As of December 31, 2011 Welland Hydro had a net book value of $555,909 relating to stranded conventional meters included in account 1860 Meters. As per the Decision and Order relating to Welland Hydro's Smart Meter Rate Application EB-2011-0415 these amounts were transferred to account 1555 effective January 1, 2012. This can be seen in the 2011 CGAAP continuity schedule on page 4 in Exhibit 2, Tab 2, Schedule 1. As per the Decision and Order depreciation will continue in 2012 as a reduction to the amount in account 1555. The 2012 CGAAP and 2012 MIFRS on pages 5 and 6 of Exhibit 2, Tab 2, Schedule 1 show depreciation expense of $75,669 relating to stranded meters. Chapter 2 of the Filing Requirements Appendices Appendix 2-S deals with Stranded Meters and is presented on page 2 of this Schedule.

As part of the 2013 COS application, Welland Hydro is requesting a Rate Rider to dispose of the balance in 1555 as at December 31, 2012 in the amount of $480,240. The 2012 Smart Meter EB-2011-0415 identified the split between customer classes as $441,084 Residential and $39,156 General Service <50kW. Welland Hydro is requesting recovery of these amounts over a four year period as a monthly rate rider. Recovery over a four year period is consistent with the disposition of account 1575 which are similar offsetting total dollar amounts. This will help to reduce any fluctuations in distribution rates from these two items. The calculation of the rate riders can be seen on page 2 of this Schedule.

As a result, Welland Hydro is requesting the Board approve monthly rate riders of $.45/mth Residential and $.48/mth General Service <50kW effective from May 1, 2013 and expiring on April 30, 2017 as part of this application.

Appendix 2-S
Stranded Meter Treatment

Year	Notes	Gross Asset Value	Accumulated Amortization	Contributed Capital (Net of Amortization)	Net Asset	Proceeds on Disposition	Residual Net Book Value
		(A)	(B)	(C)	(D) = (A) - (B) - (C)	(E)	(F) = (D) - (E)
2006					$ -		$ -
2007					$ -		$ -
2008					$ -		$ -
2009					$ -		$ -
2010	Actual	$ 2,194,968	$ 1,555,042		$ 639,926	$ 2,128	$ 637,798
2011	Actual	$ 2,194,968	$ 1,635,495		$ 559,473	$ 3,564	$ 555,909
2012	Actual	$ 2,194,968	$ 1,711,164		$ 483,804	$ 3,564	$ 480,240

Note: For 2010 and 2011 Stranded Meters were recorded in 1860 and transferred to 1555 Effective January 1, 2012
Depreciation Expense will continue in Account 1555 in 2012 and totals $75,669
No Carrying Charges have been included in Account 1555 for Stranded Meters in 2012
Welland is requesting disposition of the $480,240 Related to 1555 Smart Meters in this Rate Application
As per response to Board Staff Interogatory 2b in EB-2011-0415 these charges will be split by class as follows:

		# Customers	# Months	Rate Rider/Mth
Residential	$441,084	20,432	48	$0.45
GS<50	$39,156	1,696	48	$0.48
Total	$480,240	22,128		

Harmonized Sales Tax:

The Provincial Sales Tax ("PST") and the Federal Goods and Services Tax were harmonized in Harmonized Sales Tax ("HST") effective July 1, 2010. Welland Hydro has recorded Capital and OM& A expenses net of the HST since July 1, 2010.

The Board directed LDC's to record in account 1592 amounts related to Incremental HST Input Tax Credits since July 1, 2010 with an offsetting contra account. Guidance was provided by Board Staff relating to the HST Incremental Input Tax Credits accounting in the December 2010 Frequently Asked Questions. In the answer to Question 4 Board Staff suggests an alternative method to track the impact of the Incremental HST Input Tax Credit which would provide administrative cost savings. This alternative method requires a distributor to complete a detailed one-time analysis of its most recent historic year (prior to the implementation of the HST). This analysis of the 2009 historic year would serve to identify the PST included in OM&A costs and capital spending that would be removed by the elimination of the PST and would be eligible to receive incremental Input Tax Credit effective July 1, 2010.

Welland was unable to perform the one time analysis of the 2009 PST paid until 2012 in preparation for this rate application. As a result, prior to 2012 Welland Hydro was accruing into account 1592 based on HST paid without any analysis as to whether or not the PST portion was incremental (subject to PST prior to the HST). Welland Hydro considered this a conservative approach until a detailed analysis was performed. The principal amount in 1592 PST Capital and OM&A Expense Savings was ($157,307) as at December 31, 2011. Chapter 2 of the Filing Requirement Appendices Module Appendix 2-T dealing with account 1592 balances is shown in Table 2.4 below:

Table 2.4
Appendix 2-T
Deferred PILs Account 1592 Balances

The following table should be completed based on the information requested below, in accordance with the notes following the table. An explanation should be provided for any blank entries.

Tax Item	Principal as of December 31, 2011
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4/12ths of the approved grossed-up proxy), if not recorded in PILs account 1562	
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2006	
Capital Cost Allowance class changes from 2006 EDR application for 2007	
Capital Cost Allowance class changes from 2006 EDR application for 2008	
Capital Cost Allowance class changes from 2006 EDR application for 2009	
Capital Cost Allowance class changes from 2006 EDR application for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2011	
Capital Cost Allowance class changes from any prior application not recorded above. Please provide details and explanation separately.	
PST Capital and OM&A Expense Savings	-$ 157,307
PST Capital and OM&A Expense Savings - Contra	$ 157,307
Insert description of additional item(s) and new rows if needed.	
Total	$ -

The detailed evaluation of Welland Hydro's 2009 PST shows expenditures of $26,634 relating to OM&A and $36,760 related to capital expenditures. The $26,634 in annual OM&A will be used as a proxy for monthly savings to April, 2013. The PST related to capital expenditures was 1.86% of total capital expenditures which will be used as a proxy for calculating PST related to capital spending from 2010 to 2013 to determine the PST savings in depreciation expense as shown in the following tables:

Table 2.5

2010 Capital Savings PST

2010 Capital Savings PST

Account	HST Paid	Capital Spend 2009 Inc HST	Capital Spend 2010 Inc HST	Capital Spend 2010 No Hst	% Dep	Dep Expense With HST	Dep Expense Excl HST
1815	0	5,485	441,758	433,700	3.33%	14,725	14,457
1820	4,514	164,711	447	439	3.33%	15	15
1830	12,704	1,019,194	983,140	965,206	4.00%	39,326	38,608
1835	1,899	152,334	206,150	202,390	4.00%	8,246	8,096
1840	1,255	100,369	232,974	228,724	4.00%	9,319	9,149
1845	2,159	171,940	261,146	256,382	4.00%	10,446	10,255
1850	6,026	130,919	210,644	206,802	4.00%	8,426	8,272
1855	871	69,887	84,842	83,294	4.00%	3,394	3,332
1860	1,359	16,417	85,942	84,374	4.00%	3,438	3,375
1908	0	29,920	10,390	10,200	2.50%	260	255
1915	606	6,564	0	0	10.00%	0	0
1920	1,421	20,314	16,618	16,315	20.00%	3,324	3,263
1925	0	2,500	339,202	333,015	20.00%	67,840	66,603
1930	2,208	29,803	26,020	25,545	10.00%	2,602	2,555
1940	557	7,521	11,915	11,698	10.00%	1,192	1,170
1945	0	0	0	0	10.00%	0	0
1955	1,181	15,938	0	0	10.00%	0	0
1960	0	144,796	0	0	4.00%	0	0
1980	0	0	106,303	104,364	6.67%	7,087	6,958
1995	0	-73,392	-214,171	-210,264	4.00%	-8,567	-8,411
	36,760	2,015,220	2,803,320	2,752,184		171,071	167,951
Excl HST		1,978,460				2010	3,121
HST%		1.86%					

Table 2.6

2011 Capital Savings PST

2011 Capital Savings PST

Account	Capital Spend 2011 Inc HST	Capital Spend 2011 No Hst	% Dep	Dep Expense With HST	Dep Expense Excl HST
1815	28,697	28,174	3.33%	957	939
1820	31,108	30,541	3.33%	1,037	1,018
1830	886,423	870,254	4.00%	35,457	34,810
1835	117,088	114,952	4.00%	4,684	4,598
1840	113,012	110,951	4.00%	4,520	4,438
1845	411,540	404,033	4.00%	16,462	16,161
1850	265,286	260,447	4.00%	10,611	10,418
1855	150,491	147,746	4.00%	6,020	5,910
1860	26,530	26,046	4.00%	1,061	1,042
1908	298,252	292,812	2.50%	7,456	7,320
1915	5,842	5,735	10.00%	584	574
1920	20,623	20,247	20.00%	4,125	4,049
1925	245,411	240,934	20.00%	49,082	48,187
1930	67,969	66,729	10.00%	6,797	6,673
1940	0	0	10.00%	0	0
1945	2,042	2,005	10.00%	204	201
1955	0	0	10.00%	0	0
1960	0	0	4.00%	0	0
1980	0	0	6.67%	0	0
1995	-310,851	-305,181	4.00%	-12,434	-12,207
	2,359,464	2,316,425		136,623	134,130
Excl HST				2011	2,492
HST%				2010	3,121
					5,613

Table 2.7

2012 Capital Savings PST

2012 Capital Savings PST

Account	Capital Spend 2012 Inc HST	Capital Spend 2012 No Hst	% Dep	Dep Expense With HST	Dep Expense Excl HST
1815	0	0	3.33%	0	0
1820	0	0	3.33%	0	0
1830	524,569	515,000	4.00%	20,983	20,600
1835	311,176	305,500	4.00%	12,447	12,220
1840	80,468	79,000	4.00%	3,219	3,160
1845	174,177	171,000	4.00%	6,967	6,840
1850	365,161	358,500	4.00%	14,606	14,340
1855	34,632	34,000	4.00%	1,385	1,360
1860	12,223	12,000	4.00%	489	480
1908	280,110	275,000	2.50%	7,003	6,875
1915	17,825	17,500	10.00%	1,783	1,750
1920	35,650	35,000	20.00%	7,130	7,000
1925	91,672	90,000	20.00%	18,334	18,000
1930	0	0	10.00%	0	0
1940	0	0	10.00%	0	0
1945	13,242	13,000	10.00%	1,324	1,300
1955	0	0	10.00%	0	0
1960	0	0	4.00%	0	0
1980	28,011	27,500	6.67%	1,867	1,833
1995	-101,858	-100,000	4.00%	-4,074	-4,000
	1,867,057	1,833,000		93,463	91,758
Excl HST				2012	1,705
HST%				2011	2,492
				2010	3,121
					7,318

Table 2.8

2013 Capital Savings PST

2013 Capital Savings PST

Account	Capital Spend 2013 Inc HST	Capital Spend 2013 No Hst	% Dep	Dep Expense With HST	Dep Expense Excl HST
1815	0	0	3.33%	0	0
1820	0	0	3.33%	0	0
1830	636,613	625000	4.00%	25,465	25,000
1835	136,082	133600	4.00%	5,443	5,344
1840	118,359	116200	4.00%	4,734	4,648
1845	195,669	192100	4.00%	7,827	7,684
1850	323,195	317300	4.00%	12,928	12,692
1855	35,650	35000	4.00%	1,426	1,400
1860	50,929	50000	4.00%	2,037	2,000
1908	20,372	20000	2.50%	509	500
1915	0	0	10.00%	0	0
1920	46,855	46000	20.00%	9,371	9,200
1925	59,587	58500	20.00%	11,917	11,700
1930	356,503	350000	10.00%	35,650	35,000
1940	5,093	5000	10.00%	509	500
1945	0	0	10.00%	0	0
1955	0	0	10.00%	0	0
1960	0	0	4.00%	0	0
1980	53,475	52500	6.67%	3,565	3,500
1995	0	0	4.00%	0	0
	2,038,383	2,001,200		121,382	119,168
Excl HST				2013	2,214
HST%				2012	1,705
				2011	2,492
				2010	3,121
					9,532

The total savings relating to Account 1592 OM&A and Capital are shown in Table 2.9 below:

Table 2.9

Summary of PST Savings from 2009 Historic Year Analysis

2009 Historic Year PST Analysis	2010	2011	2012	2013
OM&A Expenses PST Savings	26,634	26,634	26,634	26,634
Capital Items PST Savings	3,121	5,613	7,318	9,532
Total Annual PST Savings	29,755	32,247	33,952	36,166
Monthly PST Savings	2,480	2,687	2,829	3,014
Number of Eligible Month in Year	6	12	12	4
Total Eligible Yearly Savings	14,878	32,247	33,952	12,055
Total Cumulative Savings	14,878	47,125	81,077	93,132

Service and Quality Reliability:

Welland Hydro monitors and relies on its Service Quality Indicators and Service Reliability Indices as a means of measuring system performance. Welland Hydro's commitment to stakeholders is to ensure "highest standards of performance and business excellence for safe, reliable provisions of service". The Service Quality Indicators are shown below:

WELLAND HYDRO'S SERVICE QUALITY INDICATORS 2009-2011

Appointments Met – at the appointed time		
SQI Standard: 90% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
100.00%	99.9%	100.00%
Telephone Accessibility – answered in person within 30 seconds		
SQI Standard: 65% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
99.9%	99.9%	99.9%
Underground Cable Locates – within 5 working days		
SQI Standard: 90% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
99.9%	99.8%	100.00%
Connection of New Services –within 5 working days		
SQI Standard: 90% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
100.0%	100.00%	100.00%
Emergency Response – Urban within 60 minutes and Rural within 120 minutes		
SQI Standard: 90% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
100.00%	100.00%	100.00%
Written Responses to Inquiries – within 10 working days		
SQI Standard: 80% of the time		
2009 Actual	**2010 Actual**	**2011 Actual**
100.0%	100.00%	100.00%

Welland Hydro's Board of Directors has set targets for Service Reliability Indices as follows:

SAIDI-Annual <2

SAIFI-Annual <2

CAIDI-Annual <1

Actual Service Reliability Indices 2009 to 2011

	2009	2010	2011
SAIDI	1.04	0.85	2.87 (1.66 Storm Adjusted)
SAIFI	1.16	1.66	1.92 (0.97 Storm Adjusted)
CAIDI	0.90	0.51	1.49

Actual Loss of Supply Adjusted Service Reliability Indices 2009 to 2011

	2009	2010	2011
SAIDI	1.04	0.77	2.84
SAIFI	1.16	0.96	1.92
CAIDI	0.90	0.81	1.47

There were two storms of significance in 2011 that adversely affected outage statistics. The first was on April 28, 2011 in which the province experienced a severe wind storm. Wind gusts in the Niagara Region were recorded in the 140km/hr range, causing outages throughout our entire overhead distribution system. The second was on September 4, 2011. A severe lightning storm hit the Welland area causing damage to several Welland Hydro feeders. During this storm, the lightning also caused the phone service in the City of Welland to go down, prohibiting customers from being able to contact the answering service and emergency response crews. A large number of customers were without power for 1.5 hrs before being able to communicate the outage to our answering service.

Summary:

Welland Hydro has provided explanations to address its actual capital investments for 2009 to 2011 and provided details in support of its 2012 Bridge Year and 2013 Test Year capital and working capital requirements as required in the Filing Requirements. This includes the changes to Capital Expenditures and Depreciation Expense related to MIFRS.

Welland Hydro submits that its historical capital investment in its distribution system has been consistent year over year and has been required to improve the efficiency and reliability of its distribution system to ensure the safe and reliable supply of electricity that Welland Hydro's customers have come to expect.

As a result, Welland Hydro is requesting the Board to approve a 2013 Test Year Rate Base of $31,884,331.