

Exhibit 1:

ADMINISTRATIVE DOCUMENTS

Exhibit 1: Administrative Documents

Tab 1 (of 4): Application Summary

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
1				ADMINISTRATIVE DOCUMENTS
1	1			Application Summary
1	1	1		Table of Contents
1	1	2		Abbreviations and Defined Terms
1	1	3		Legal Application
1	1	4		List of Specific Approvals Requested
1	1	5		Statement of Publication
1	1	6		Proposed Issues List
1	1	7		Rate Order Requirement for Implementation
1	1	8		Transmission Assets Deemed as Distribution Assets
1	1	9		Utility Operating Environment
1	1	9	1	Map of LDC's Distribution System
1	1	10		Corporate Organization
1	1	10	1	Corporate Entities Chart
1	1	10	2	Utility Organizational Chart
1	1	11		Board Direction from previous EDR decisions
1	1	12		Procedural Orders, Motions & Correspondence
1	1	13		Accounting Orders and USoA Conformity
1	1	14		Accounting Treatment of non-utility related business
1	1	15		Compliance Orders
1	1	16		Other Board Directions
1	1	17		Conditions of Service
1	2			Overview of Filing
1	2	1		Summary of Application

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
1	2	2		Accounting Standard for Financial Reporting
1	2	3		Budget Directives and Assumptions
1	2	4		Changes in Methodology
1	2	5		Revenue Sufficiency / Deficiency
1	2	6		Approved Revenue Requirement
1	2	7		Revenue Requirement Work Form
1	2	8		Affiliate Transactions
1	2	8	1	Audit Review of Compliance with Affiliate Relationship Code
1	2	8	2	Cost Sharing Agreement - BPRI
1	2	8	3	Cost Sharing Agreement - BPSC
1	2	8	4	Management Service Agreement - GenCo
1	2	8	5	Management Service Agreement - BPRI
1	2	8	6	Management Service Agreement - BPSC
1	2	8	7	Management Service Agreement - Electek
1	3			Financial Information
1	3	1		Historical Financial Statements
1	3	1	1	2011 Audited Statements with 2010 comparative information
1	3	1	2	2010 Audited Statements with 2009 comparative information
1	3	1	3	2009 Audited Statements with 2008 comparative information
1	3	2		Historical Financial Result Filings
1	3	2	1	2009-2011 Account Balances
1	3	3		Reconciliation between Financial Statements and Results Filed
1	3	3	1	Reconciliation between Financial Statements and Results Filed
1	3	4		Financial Projections

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
1	3	4	1	2012 Pro-Forma Financial Statements
1	3	4	2	2013 Pro-Forma Financial Statements
1	3	5		Prospectus and recent debt/share issuance update
1	3	6		Other Financial Matters
1	4			Materiality Threshold
1	4	1		Materiality Threshold
2				RATE BASE
2	1			Overview
2	1	1		Rate Base Overview
2	1	2		Rate Base Variance Analysis
2	1	2	1	Rate Base Variances Table
2	1	2	2	OEB Appendix 2-EB IFRS-CGAAP Transitional PP&E Amounts
2	2			Capital Asset Policies
2	2	1		Capitalization Policy
2	2	2		Bluewater Power Internal Overhead Study
2	2	2	1	Elenchus Overhead Rate Study
2	2	2	2	OEB Appendix 2-D Overhead Expense
2	2	3		Asset Retirement Policy
2	2	4		Depreciation Policy
2	2	4	1	Asset Components and Depreciation Rates
2	2	5		Capital Contribution Policy
2	3			Fixed Assets
2	3	1		Gross Assets
2	3	1	1	Gross Asset Variances Tables

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
2	3	2		Capital Accumulated Depreciation
2	3	2	1	Accumulated Depreciation Tables
2	3	2	2	OEB Appendix 2-B Fixed Asset Continuity Schedule
2	4			Capital Plan
2	4	1		Summary of Capital Expenditures
2	4	2		Asset Management Planning Process
2	4	2	1	Asset Management Review dated December 2010
2	4	2	2	Asset Management Strategy dated November 2011
2	4	3		Capital Projects
2	4	3	1	Table of Capital Expenditures 2009 to 2013
2	4	3	2	5 Year Historical, Bridge and Test Year Capital Summary
2	4	3	3	Asset Management Plan
2	4	3	4	OEB Appendix 2-A Capital Projects Table
2	4	4		Treatment of Smart Meters
2	4	5		Treatment of Stranded Assets Related to Smart Meter Deployment
2	4	6		Harmonized Sales Tax
2	5			Allowance for Working Capital
2	5	1		Derivation of Working Capital Allowance
2	5	1	1	Projected Power Supply Expenses
2	6			Service Quality and Reliability Performance
2	6	1		Service Quality and Reliability Performance
2	7			Green Energy Plan
2	7	1		Green Energy Act Plan
2	7	1	1	Bluewater Power Basic Green Energy Act Plan

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
2	7	1	2	OPA Letter of Comment of Bluewater Power GEA Plan
3				REVENUE
3	1			Load and Revenue Forecast
3	1	1		Historical & Forecast Volumes
3	1	1	1	Average Use per Customer Volumetric Trend Table
3	1	2		Approach to Weather Normalized Load Forecast
3	1	2	1	Load Forecast Report
3	1	3		Approach to Conservation and Demand Management
3	1	3	1	CDM Forecast Calculation
3	1	4		Variance Analysis of Load Forecast
3	1	5		Overview of Distribution Revenue
3	1	5	1	Revenue from Current Distribution Charges
3	1	5	2	Summary of Historical and Proposed Distribution Revenue
3	1	6		Variance Analysis on Distribution Revenue
3	2			Other Revenue
3	2	1		Overview of Other Revenue
3	2	1	1	OEB Appendix 2-F Other Operating Revenue
3	2	1	2	Trend Table of Other Revenue from Service Charges
4				OPERATING COSTS
4	1			Summary of Operating costs
4	1	1		Manager's Summary
4	1	1	1	Total Recoverable Expenses
4	2			Detailed Analysis of Operating Costs
4	2	1		OM&A Expense Tables and Explanations

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
4	2	1	1	OEB Appendix 2-I Summary of OM&A Expenses
4	2	1	2	OEB Appendix 2-G Detailed, Account by Account, OM&A Expenses
4	2	1	3	OEB Appendix 2-L OM&A per Customer and per FTEE
4	2	2		Cost Drivers
4	2	2	1	OEB Appendix 2-J OM&A Cost Drivers
4	2	3		Regulatory Costs
4	2	3	1	OEB Appendix 2-M Regulatory Cost Schedule
4	2	4		One-Time Costs
4	2	5		Monthly Billing
4	2	6		Low-Income Energy Assistance Program (LEAP)
4	2	7		Charges related to the Green Energy and Green Economy Act
4	2	8		CDM Costs
4	2	9		Charitable Donations
4	3			OM&A Variance Analysis
4	3	1		OM&A Variances
4	3	1	1	OEB Appendix 2-H OM&A Variance Analysis
4	4			Employee Compensation
4	4	1		Staffing and Compensation Levels
4	4	1	1	OEB Appendix 2-K Employee Costs
4	4	1	2	Human Resource Strategy
4	4	1	3	Bluewater Power Benefits Summary
4	4	1	4	Retiree Benefits Summary - Hire Date post January 1, 1990
4	4	1	5	Retiree Benefits Summary - Hire Date post January 1, 2006
4	4	1	6	Retiree Benefits Summary - Hire Date post January 1, 2012

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
4	4	1	7	Original Actuarial Report dated November 16, 2011
4	4	1	8	Updated Actuarial Report dated March 23, 2012
4	5			Corporate Cost Allocation
4	5	1		Shared Services & Corporate Cost Allocation
4	5	1	1	OEB Appendix 2-N Shared Services/Corporate Cost Allocation
4	5	1	2	Study of Affiliate Service Costs and Cost Allocation
4	6			Purchase of Non-Affiliate Services
4	6	1		Purchases from Suppliers
4	6	1	1	Procurement Policy
4	7			Depreciation and Amortization
4	7	1		Depreciation Rates and Methodology
4	7	1	1	OEB Appendix 2-CE Depreciation and Amortization Expense - 2011 CGAAP
4	7	1	2	OEB Appendix 2-CF Depreciation and Amortization Expense - 2012 CGAAP
4	7	1	3	OEB Appendix 2-CG Depreciation and Amortization Expense - 2012 MIFRS
4	7	1	4	OEB Appendix 2-CH Depreciation and Amortization Expense - 2013 MIFRS
4	8			Income & Capital Taxes
4	8	1		Overview of Provision In Lieu of Taxes (PILs)
4	8	2		Historical PILs
4	8	2	1	Previously Approved PILs Model
4	8	2	2	Latest Filed Federal and Ontario Tax Return (PILs Return)
4	8	2	3	Tax Assessments and Correspondence
4	8	3		Allowance for PILs
4	8	3	1	Proposed PILs Model
4	8	4		Non-recoverable and Disallowed Expenses

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
5				CAPITAL STRUCTURE AND COST OF CAPITAL
5	1			Capital Structure and Cost of Capital
5	1	1		Capital Structure and Cost of Capital
5	1	1	1	OEB Appendix 2-OA Capital Structure / Cost of Capital
5	1	1	2	OEB Appendix 2-OB Cost of Debt
5	1	1	3	Promissory Notes with Municipal Shareholders
6				REVENUE DEFICIENCY OR SUFFICIENCY
6	1			Utility Revenue
6	1	1		Revenue from Existing Rates
6	1	2		Overview of Revenue Requirement
6	2			Deficiency or Sufficiency
6	2	1		Calculation of Revenue Deficiency
7				COST ALLOCATION
7	1			Cost Allocation Model
7	1	1		Overview of Cost Allocation
7	1	1	1	Elenchus Report on Cost Allocation
7	1	1	2	Large User Cost Allocation Study Report
7	1	1	3	OEB Appendix 2-P Cost Allocation
7	1	1	4	Cost Allocation Model Excerpts
8				RATE DESIGN
8	1			Existing Rates
8	1	1		Overview of Existing Rates
8	1	1	1	Current Rate Schedule
8	2			Proposed Changes to Distribution Rates

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
8	2	1		Overview of Fixed and Variable Charges
8	3			Transmission, Low Voltage and Line Losses
8	3	1		Retail Transmission Service Rates (RTSR)
8	3	1	1	Historical Transmission Costs and Revenues and Projected RTSR Rates
8	3	2		Retail Service Charge
8	3	3		Wholesale Market Service Rate
8	3	4		Specific Service Charges
8	3	5		Low Voltage Charges
8	3	5	1	Calculation of Estimated Low Voltage Charges
8	3	6		Loss Adjustment Factors
8	3	6	1	OEB Appendix 2-R Loss Factors
8	3	7		Transformer Ownership Allowance
8	3	8		Microfit Generator Rate
8	4			Rate Schedules and Bill Impacts
8	4	1		Revenue Requirement Calculations and Reconciliations
8	4	1	1	OEB Appendix 2-V Revenue Reconciliation
8	4	2		Proposed Changes to Conditions of Service
8	4	3		Rate Changes and Bill Impacts
8	4	3	1	Current and Proposed Rates
8	4	3	2	Draft Tariff of Rates and Charges
8	4	3	3	OEB Appendix 2-W Bill Impacts
9				DEFERRAL AND VARIANCE ACCOUNTS
9	1			Status of Deferral and Variance Accounts
9	1	1		Overview of Deferral and Variance Accounts

Table Of Contents

<u>Exh</u>	<u>Tab</u>	<u>Sch</u>	<u>Att</u>	<u>Title</u>
9	1	2		Deferral and Variance Account Description
9	1	3		Stranded Meters
9	1	3	1	OEB Appendix 2-S Stranded Meter Treatment
9	1	4		HST Deferral Account
9	1	5		Deferred PILs Account
9	1	5	1	OEB Appendix 2-T Deferred PILs Account 1592 Balances
9	1	5	2	Continuity Statements for Deferral/Variance Accounts
9	1	5	3	Table of Existing and Proposed Rate Riders
9	2			IFRS Transition
9	2	1		Proposed Recovery of One-Time Incremental IFRS Costs
9	2	1	1	OEB Appendix 2-U One-Time Incremental IFRS Transition Costs
9	3			LRAM and LRAM Variance Account
9	3	1		LRAM and LRAMVA Process
9	3	1	1	OPA Report
9	3	1	2	Third Party Report
10				Transitions to MIFRS
10	1			Overview of Transition to MIFRS
10	1	1		Transition to MIFRS - Manager's Summary
10	1	1	1	2013 Revenue Requirement Difference - MIFRS vs. CGAAP

ABBREVIATIONS AND DEFINED TERMS

Abbreviations

Accounting Procedures Handbook ("APH")
Advanced Metering Communications Device ("AMCD")
Advanced Metering Infrastructure ("AMI")
Affiliate Relationships Code for Electricity Transmitters and Distributors ("ARC")
Arrears Management Plan ("AMP")
Accounting Standards for Private Enterprise ("ASPE")
Base Revenue Requirement ("BRR")
Bluewater Power Distribution Corporation ("Bluewater Power")
Bluewater Power Services Corporation ("BPSC")
Bluewater Power Generation Corporation ("Genco")
Bluewater Power Renewable Energy Inc. ("BPREI")
Canadian Accounting Standards Board ("Canadian AcSB")
Canadian Generally Accepted Accounting Principles ("CGAAP")
Canadian Institute of Chartered Accountants ("CICA")
Canadian Standards Association ("CSA")
Capital Cost Allowance ("CCA")
Conservation and Demand Management ("CDM")
Consumer Price Index ("CPI")
Contribution in Aid of Construction ("CIAC")
Customer Average Interruption Duration Index ("CAIDI")
Customer Information System ("CIS")
Debt Retirement Charge ("DRC")
Distribution Asset Management Plan ("DAMP")
Electricity Distribution Rate ("EDR")
Electricity Distributors Association ("EDA")
Electronic Business Transactions ("EBT")
Enterprise Resource Planning ("ERP")
Enterprise Risk Management ("ERM")
Fair Market Value ("FMV")
Frequently Asked Questions ("FAQs")
Full Time Equivalent ("FTE")
General Service Less Than 50 kW ("GS < 50")
General Service Greater Than 50 kW ("GS > 50")
Geographic Information System ("GIS")
Geographic Positioning System ("GPS")
Global Adjustment ("GA")
Goods and Service Tax ("GST")
Green Energy and Green Economy Act ("GEA")
Harmonized Sales Tax ("HST")
Health, Safety and Environment ("HS&E")
Incentive Regulation Mechanism ("IRM")
Independent Electricity System Operator (the "IESO")

- 1 Information Technology ("IT")
- 2 Input Tax Credit ("ITC")
- 3 International Accounting Standards Board ("IASB")
- 4 International Financial Reporting Standards ("IFRS")
- 5 Kilowatt ("kW")
- 6 Kilowatt hour ("kWh")
- 7 Local Distribution Company ("LDC")
- 8 Long Canada Bond Forecast ("LCBF")
- 9 Long Term Load Transfer ("LTLT")
- 10 Lost Revenue Adjustment Mechanism ("LRAM")
- 11 Low-Income Energy Consumer Program ("LEAP")
- 12 Low Voltage ("LV")
- 13 Meter Data Management/Repository ("MDM/R")
- 14 Modified International Financial Reporting Standards ("MIFRS")
- 15 Monthly Service Charge ("MSC")
- 16 Net Book Value ("NBV")
- 17 Net Present Value ("NPV")
- 18 Non-Regulated Price Plan ("non RPP")
- 19 Occupational Health, Safety and Environment ("OH&S")
- 20 Ontario Energy Board (the "Board" or the "OEB")
- 21 Ontario Energy Board Act ("the OEB Act")
- 22 Ontario Municipal Employees Retirement System ("OMERS")
- 23 Ontario Power Authority ("OPA")
- 24 Ontario Clean Energy Benefit ("OCEB")
- 25 Operational Data Store ("ODS")
- 26 Operations and Maintenance ("O&M")
- 27 Operations, Maintenance and Administration ("OM&A")
- 28 Outage Management System ("OMS")
- 29 Payments in Lieu of Taxes ("PILs")
- 30 Personal Computer ("PC")
- 31 Polychlorinated Biphenyls ("PCBs")
- 32 Property, plant and equipment ("PP&E")
- 33 Provincial Sales Tax ("PST")
- 34 Regulated Price Plan ("RPP")
- 35 Reporting and Record Keeping Requirements ("RRR")
- 36 Request for Proposal ("RFP")
- 37 Retail Settlement Variance Account ("RSVA")
- 38 Return on Equity ("ROE")
- 39 Service transaction requests ("STRs")
- 40 Smart Meters ("SM")
- 41 Smart Meter Initiative ("SMI")
- 42 Smart Meter Disposition Rider ("SMDR")
- 43 Smart Meter Funding Adder ("SMFA")
- 44 Special Purpose Charge ("SPC")
- 45 Storage Area Network ("SAN")
- 46 Supervisory Control and Data Acquisition ("SCADA")
- 47 Systems, Applications and Products ("SAP")

- 1 System Average Interruption Duration Index ("SAIDI")
- 2 System Average Interruption Frequency Index ("SAIFI")
- 3 Third Generation Incentive Regulation Mechanism ("IRM3")
- 4 Time of Use ("TOU")
- 5 Toronto Stock Exchange ("TSX")
- 6 Un-depreciated Capital Cost ("UCC")
- 7 Uniform System of Accounts ("USofA")
- 8 Unmetered Scattered Load ("USL")
- 9 Update to Chapter 2 of the Filing Requirements for Transmission and Distribution
- 10 Applications, June 28, 2012 ("Filing Requirements")
- 11 Virtual Private Network ("VPN")
- 12 Wholesale Market Participant ("WMP")
- 13 Working Capital Allowance ("WCA")
- 14

15 **DEFINED TERMS**

- 16 'Historical Years' means 2009, 2010, 2011
- 17 'Most Recent Board Approved Test Year' means 2009
- 18 'Bridge Year' means 2012
- 19 'Test Year' means 2013

20

LEGAL APPLICATION

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by Bluewater
Power Distribution Corporation for an Order or Orders
pursuant to section 78 of the *Ontario Energy Board Act*,
1998 for 2013 distribution rates and related matters.

APPLICATION

1. The Applicant is Bluewater Power Distribution Corporation ("Bluewater Power"). Bluewater Power is a licensed electricity distributor operating pursuant to license ED-2002-0517. Bluewater Power distributes electricity to approximately 36,000 customers in the municipalities of the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, the Township of Warwick and the Township of Brooke-Alvinston in south-western Ontario.
2. Bluewater Power hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998*, as amended, (the "OEB Act") approving just and reasonable rates for the distribution of electricity based on a 2013 Test Year.
3. Except where specifically identified in this Application, the Applicant followed Chapter 2 of the *Filing Requirements for Transmission and Distribution Applications* dated June 28, 2012 in preparing this application.

- 1 4. The 2013 distribution rates proposed by the Applicant will result in overall bill
 2 impacts for residential and GS<50 customer classes as detailed in Table 1 below.
 3 A full list of the bill impacts applicable to all customer classes is found at Exhibit 8,
 4 Tab 4, Schedule 3, Attachment 2.

5 **Table 1 – Bill Impacts for Residential and GS<50 Customers**

Customer Class Name	Volume kWh	Distribution Charges		Delivery Charges		Total Bill		Total Bill	
		\$ change	% change	\$ change	% change	Current Bill	Proposed Bill	\$ change	% change
Residential	800	\$3.62	11.55%	\$3.10	7.44%	\$ 121.38	\$ 124.99	\$ 3.61	2.98%
General Service < 50 kW	2,000	\$9.29	14.79%	\$7.98	9.25%	\$ 285.10	\$ 294.35	\$ 9.25	3.25%

6

- 7 5. This Application is supported by written evidence. The written evidence will be pre-
 8 filed and may be amended from time to time, prior to the Board's final decision on
 9 this Application.

- 10 6. The Applicant certifies that the information provided in this application is accurate
 11 at the time of this filing.

- 12 7. Bluewater Power acknowledges that the Board will publish an update to the Return
 13 on Equity and Short Term Debt Rate and that these matters will affect the Revenue
 14 Requirement that Bluewater Power has requested in this Application.

- 15 8. The Applicant requests that a copy of all documents filed with the Board in this
 16 proceeding be served on the Applicant and the Applicant's counsel, as follows:

17

1 The Applicant:

2 Bluewater Power Distribution Corporation
3 855 Confederation Street
4 Sarnia, ON N7T 7L6

5
6 Attention:

7 Mr. Alex Palimaka, VP Corporate Services and General Counsel

8 apalimaka@bluewaterpower.com

9 Telephone: (519) 337-8201 ext. 2292

10 Fax: (519) 332-3878

11
12 And

13
14 Ms. Leslie Dugas

15 Manager of Regulatory Affairs

16 ldugas@bluewaterpower.com

17 Telephone: (519) 337-8201 ext. 2255

18 Fax: (519) 332-3878

19
20

1 The Applicant's Counsel:

2
3 Mr. Andrew Taylor
4 The Energy Boutique

5
6 Mailing Address: 120 Adelaide Street West
7 Suite 2500
8 Toronto, Ontario M5H 1T1
9 Telephone: (416) 664-1568
10 Fax: (416) 367-1954
11 Email Address: ataylor@energyboutique.ca
12

13 DATED at Sarnia, Ontario, this 22nd day of October, 2012

14
15
16 BLUEWATER POWER DISTRIBUTION CORPORATION
17
18

19 

20
21 Alex Palimaka

22 VP Corporate Services and General Counsel
23
24
25

LIST OF SPECIFIC APPROVALS REQUESTED

Bluewater Power is requesting that the Board provide it with an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other charges, as specified in this Application, to be effective May 1, 2013.

In this application, Bluewater Power has proposed, in addition to rate charges, matters which require the Board's consideration and approval. These include the following:

1. The Applicant requests that the Board approve the 2013 Schedule of Rates and Charges as found at Exhibit 8, Tab 4, Schedule 3, Attachment 2.
2. Specifically, the Applicant hereby applies for an order or orders granting approval of:
 - a. its forecasted 2013 service Revenue Requirement of \$22,956,938, which leads to a base distribution Revenue Requirement of \$21,876,690, net of other revenue;
 - b. Distribution rates that allow the Applicant to recover its forecasted 2013 distribution Revenue Requirement, effective May 1, 2013;
 - c. The Applicant's current distribution rates becoming interim commencing May 1, 2013 until its proposed distribution rates are implemented;
 - d. The dispersal of Group 1 and 2 deferral and variance accounts as detailed at Exhibit 9, Tab 1, Schedule 1 and additionally:
 - i. The recovery of stranded meter costs of \$1,926,645 collected through a rate rider over a two year period as described at Exhibit 9, Tab 1, Schedule 3.

- 1 ii. Recovery of an LRAM amount of \$237,247 collected through
- 2 a rate rider over a two year period as described at Exhibit 9,
- 3 Tab 3, Schedule 1;

- 4 e. Updated Retail Transmission Service Charge rates as described at
- 5 Exhibit 8, Tab 3, Schedule 1;

- 6 f. An updated loss adjustment factor based on the most recent five
- 7 year average as described at Exhibit 8, Tab 3, Schedule 6;

- 8 g. Updated Low Voltage Charge rates as described at Exhibit 8, Tab 3,
- 9 Schedule 5;

- 10 h. Updated MicroFIT generator rate as described at Exhibit 8, Tab 3,
- 11 Schedule 8;

- 12 i. The Specific Service Charges, including two new Specific Service
- 13 Charges as described at Exhibit 3, Tab 2, Schedule 1; and

- 14 j. The Retail Service Charges, Transformer Allowance and Primary
- 15 Metering Allowance as they exist today.

1

STATEMENT OF PUBLICATION

2 Bluewater Power will publish the Notice of Application and Hearing upon direction from
3 the OEB in the Saturday edition of The Observer. This is a paid daily circulation
4 newspaper serving Sarnia and Lambton County which includes all the Municipalities that
5 Bluewater Power serves. The Observer has a paid circulation of 14,500 and a
6 readership of approximately 55,000, and has the greatest readership within Lambton
7 County.

PROPOSED ISSUES LIST

Bluewater Power has compiled a list of items that may constitute issues to be considered in this Application. They include the following:

1. Rate Base (Exhibit 2)

1.1 Is the proposed methodology for establishing the Rate Base for the 2013 Test Year appropriate?

1.2 Is the level of capital spending appropriate?

1.3 Is the proposed Working Capital Allowance for the 2013 Test Year appropriate?

2. Operating Revenue (Exhibit 3)

2.1 Is the proposed load forecast methodology appropriate?

2.2 Is the proposed CDM adjustment appropriate?

2.3 Is the proposed forecast of the revenues from other regulated rates and charges appropriate?

3. Operating Costs (Exhibit 4)

3.1 Is the overall 2013 Test Year OM&A forecast appropriate?

3.2 Is the proposed level of the depreciation expense for the 2013 Test Year appropriate?

3.3 Is the 2013 Test Year forecast of PILs appropriate?

4. Cost of Capital (Exhibit 5)

4.1 Is the cost of capital and capital structure appropriate?

5. Revenue Deficiency (Exhibit 6)

5.1 Is the amount of the proposed 2013 Test Year revenue requirement appropriate?

1

2 6. Cost Allocation (Exhibit 7)

3 6.1 Is the cost allocation methodology for the 2013 Test Year appropriate?

4 6.2 Is the revenue to cost ratios in the cost allocation model for the 2013 Test
5 Year appropriate?

6

7 7. Rate Design (Exhibit 8)

8 7.1 Is the schedule of rates as proposed for the 2013 Test Year appropriate?

9 7.2 Is the proposed implementation of a Low Voltage Service Rate appropriate?

10 7.3 Are the proposed Distribution System Loss Adjustment Factors appropriate?

11

12 8. Deferral and Variance Accounts (Exhibit 9)

13 8.1 Is the proposed disposition of the balances of deferral and variance account
14 appropriate?

15 8.2 Is the derivation of the proposed rate riders appropriate?

16 8.3 Is the methodology for the treatment of stranded meter costs appropriate?

1 **RATE ORDER REQUIREMENT FOR IMPLEMENTATION**

- 2 Bluewater Power would require a final rate order by April 30, 2013 in order to implement
3 rates for May 1, 2013.

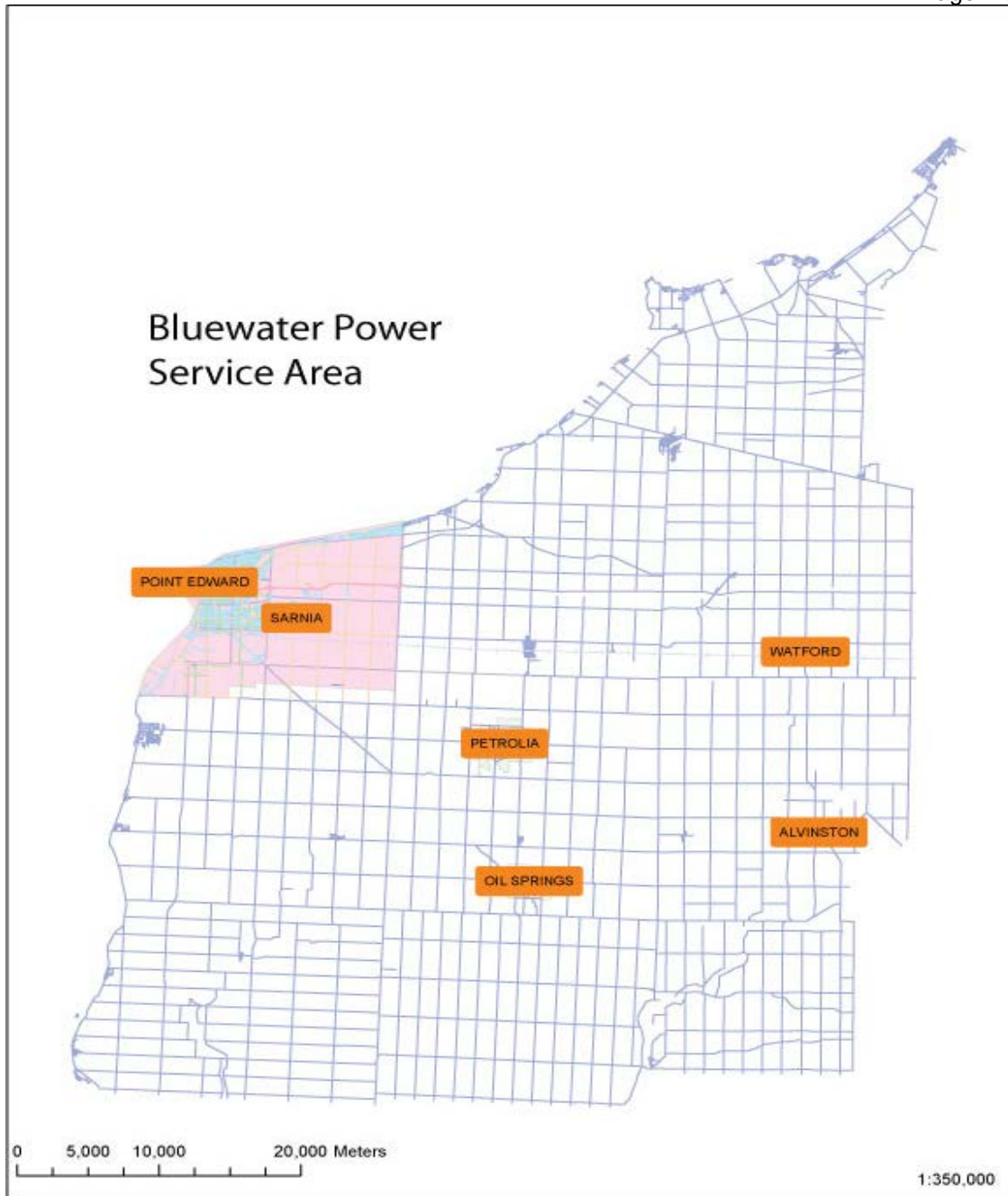
1 **TRANSMISSION ASSETS DEEMED AS DISTRIBUTION**
2 **ASSETS**

3 Bluewater Power confirms that it does not have transmission assets (i.e. assets
4 operating at greater than 50 kV) in its distribution system that had previously been
5 deemed by the Board as distribution assets. Further, Bluewater Power confirms that it is
6 not seeking approval in this Application for any such assets.

UTILITY OPERATING ENVIRONMENT

Bluewater Power was incorporated under the Ontario Business Corporations Act on October 30, 2000 upon the completion of a merger of the Sarnia Hydro-Electric Commission, Petrolia Public Utilities Commission, Point Edward Public Utilities Commission, Watford Public Utilities Commission, Alvinston Public Utilities Commission, and Oil Springs Hydro-Electric Commission. A map of Lambton County and the areas served by Bluewater Power is found at Exhibit 1, Tab 1, Schedule 9, Attachment 1.

Bluewater Power's service territory covers Sarnia, Point Edward, Petrolia, Oil Springs, those portions of the Township of Warwick formerly known as the Town of Watford, and those portions of the Township of Brooke-Alvinston formerly known as the Town of Alvinston. Bluewater Power provides electrical distribution services to over 36,000 residential and commercial customers in its service area throughout Southwestern Ontario as illustrated below.



1
2
3
4
5
6
7

Bluewater Power's overhead distribution system accounts for approximately seventy-five percent of its overall distribution system. This portion of the distribution system is comprised primarily of 15,900 poles, 955 Km of overhead lines and all associated distribution transformers and protective devices.

Bluewater Power's underground distribution system accounts for approximately one quarter of its overall distribution system. This portion of the distribution system is comprised primarily of 546 km of underground conductors and all associated distribution transformers and protective devices.

Electrical power servicing in Bluewater Power territory originates from three Hydro One Networks Inc. ("Hydro One") owned transformer stations ("TS"):

- Modeland TS
- St. Andrews TS
- Wanstead TS

At the Modeland TS, the power is transformed from 230 kV down to Bluewater Power's primary distribution voltages of 16.0/27.6 kV. The distribution voltages of 16.0/27.6 kV are further transformed at Bluewater Power owned Distribution Substations (DS) (also called Municipal Substations (MS)) to primary distribution voltages of 4.8/8.32 kV and 2.4/4.16 kV.

At the St. Andrew TS the power is transformed from 115 kV down to Bluewater Power's primary distribution voltages of 16.0/27.6 kV. The distribution voltages of 16.0/27.6 kV are further transformed at Bluewater Power owned Distribution Substations (DS) (also called Municipal Substations (MS)) to primary distribution voltages of 4.8/8.32 kV and 2.4/4.16 kV.

At the Wanstead TS the power is transformed from 115 kV down to Bluewater Power's primary distribution voltages of 16.0/27.6 kV. The distribution voltages of 16.0/27.6 kV are further transformed at Bluewater Power owned Distribution Substations (DS) (also called Municipal Substations (MS)) to primary distribution voltages of 4.8/8.32 kV and 2.4/4.16 kV.

1 The Bluewater Power distribution system operates at voltages of:

- 2 • 16/27.6 kV
- 3 • 4.8/8.32 kV
- 4 • 2.4/4.16 kV

5
6 Included within the distribution system are eighteen (18) substations with power (as
7 mentioned above) delivered from three (3) Transformer Stations, owned by Hydro One.
8 The eighteen (18) substations on the Bluewater Power distribution system are
9 Distribution Stations or Municipal Stations. These facilities operate at a primary voltage
10 of 27.6kV with secondary transformation to 8.32 kV or 4.16kV, where they supply
11 Distribution feeders owned by Bluewater Power, for wide-area distribution to residential
12 and commercial customers. Of these DSs, five (5) are of the Outdoor Open type, four (4)
13 are Outdoor Enclosed type and nine (9) are Indoor stations.

14
15 To further illustrate the servicing requirements in our territory, our territory is broken
16 down by the City or Towns that are serviced by Bluewater Power:

17
18 Sarnia and Pt. Edward:

- 19
20 • Supplied by 16/27.6 kV Distribution System which is supplied from Hydro One
21 owned Modeland and St. Andrews Transmission Stations
- 22 • The area contains 14 Municipal Stations, where 12 stations distribute power at
23 2.4/4.16 kV and 2 stations at 4.8/8.32 kV
- 24 • All Distribution voltage levels supply residential, commercial and large industrial
25 customers.

26
27 Petrolia:

- 28
29 • Supplied by 16/27.6 kV Distribution System which is supplied from Hydro One
30 owned Wanstead Transmission Station

- The area contains 3 Municipal Stations, where the 3 stations distribute power at 2.4/4.16 kV
- This Distribution voltage level supplies residential, commercial and large industrial customers

Watford:

- Supplied by 16/27.6 kV Distribution System which is supplied from Hydro One owned Wanstead Transmission Station
- The area contains 1 Municipal Station, where the station distributes power at the 2.4/4.16 kV voltage level
- This Distribution voltage level supplies residential, commercial and industrial customers

Oil Springs:

- Supplied by 16/27.6 kV Distribution System which is owned and supplied from Hydro One owned Wanstead Transmission Station
- The area contains 1 Municipal Stations at the 4.8/8.32 Kv voltage level, the station is owned by Hydro One
- The 4.8/8.32 kV Distribution feeders that supply Oil Springs are owned by Bluewater Power
- The area contains primary and secondary conductors which supply residential, commercial and industrial customers

Alvinston:

- Supplied by 16/27.6 kV Distribution System which is owned and supplied from Hydro One owned Wanstead Transmission Station
- The area contains 1 Municipal Stations at the 4.8/8.32 Kv voltage level, the station is owned by Hydro One

- The 4.8/8.32 kV Distribution feeders that supply Alvinston are owned by Bluewater Power
- The area contains primary and secondary conductors which supply residential, commercial and industrial customers

Neighbouring Utilities

Bluewater Power is comprised of six geographically separate service territories and each service territory is bounded by Hydro One Networks Inc.

Host or Embedded Utility

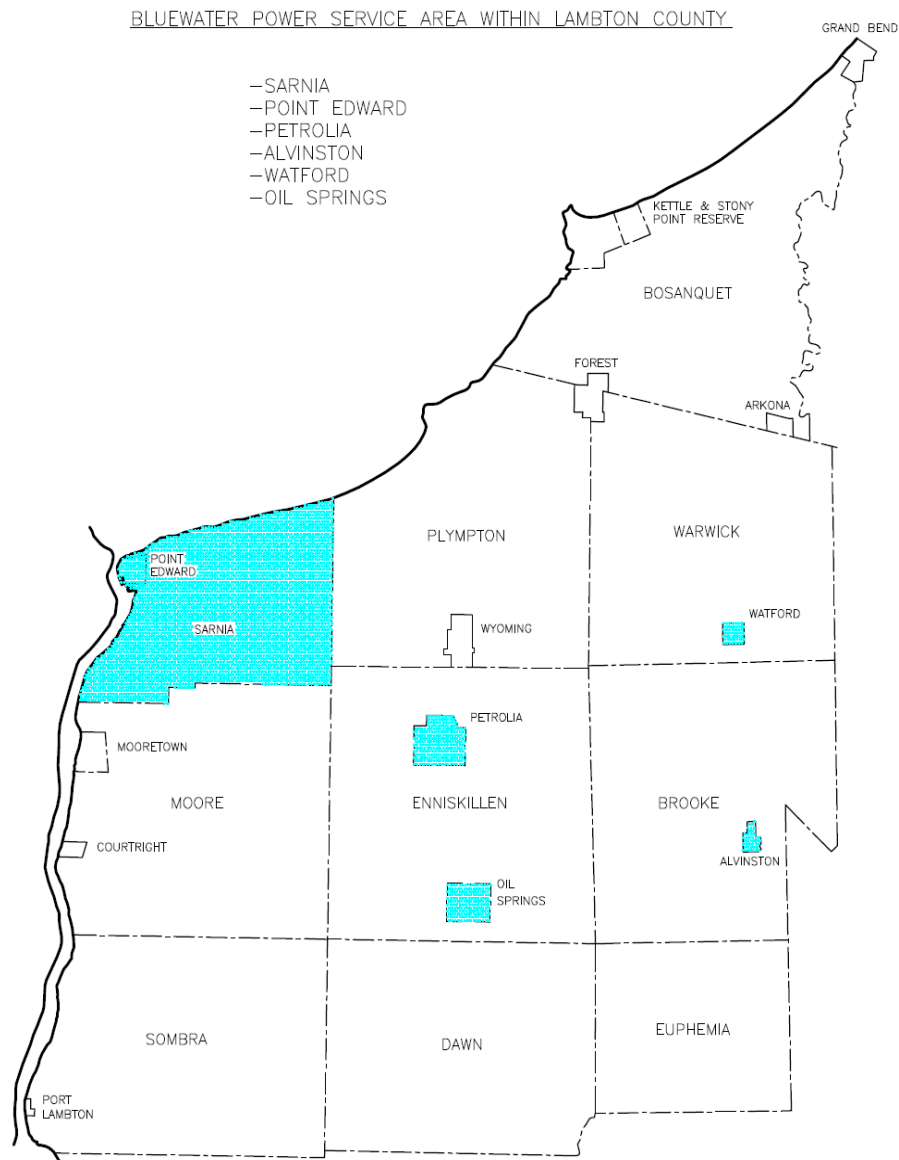
Bluewater Power is partially embedded within Hydro One territory in Petrolia via 3 pole mounted metering units. These units are located on the 41M2 feeder located on Discovery Line at Centre Street, on the 41M3 feeder located on Highway 21 at Discovery Line and on the 41M4 feeder located on Glenview south of First Avenue.

We are also embedded within Hydro One territory in Watford via the Watford Municipal Station which is located on Warwick Street at Gold Street; in Oil Springs via the Oil Springs Distribution Station which is located on Victoria between Elizabeth and Hannah Street; and in Alvinston via the Alvinston Distribution Station which is located on Lorne Street between Lovell and Henry Street.

Attachment 1 (of 1):

Map of LDC's Distribution System

A map of Lambton County is below, showing the service territories of Bluewater Power.



CORPORATE ORGANIZATION

Bluewater Power is a mid-sized distributor and, as is common among Ontario LDCs, Bluewater Power shares employees with, and provides services to, affiliates in order to benefit from economies of scope and thereby control the level of costs of providing services to its customers.

The Corporate Entities Chart provided as Exhibit, 1, Tab 1, Schedule 10, Attachment 1 shows the Bluewater Power family of companies that help to achieve those efficiencies. The Corporate Entities chart provided, as well as the Utility Organization Chart that follows as Exhibit, 1, Tab 1, Schedule 10, Attachment 2 represent the current structure of Bluewater Power. There are no changes to the structure contemplated at this time.

The distribution company is the hub of the Bluewater Power family of companies as the distribution company employs the executive management team that provides guidance for the affiliates, as well as the finance, HR and IT capabilities to assist the affiliates. The following descriptions provide a brief summary of the activities undertaken by the affiliates:

Bluewater Power Services Corporation ("BPSC") - On January 1st, 2009, Bluewater Power responded to OEB Compliance Bulletin #200605 regarding non-core distribution business being carried out within an LDC by moving certain functions to the BPSC affiliate. Those functions included street light and traffic light services, water meter installation and maintenance, as well as contracting for civil construction and miscellaneous on-demand line work outside Bluewater Power's distribution system. Effective January 1, 2009, staff and equipment were transferred to BPSC as described in the Bluewater Power's 2009 Rebasing Application (EB-2008-0221, Exhibit 1, Tab 2, Schedule 6). Subsequent to those changes, Bluewater Power's contract to provide water billing service on behalf of the City of Sarnia and Town of Petrolia expired in 2011 and, as part of the continued effort to divest Bluewater Power of non-core distribution activities, new contracts were entered into between BPSC and the municipalities.

1 Accordingly, in 2011 appropriate staff was transferred from Bluewater Power to BPSC to
2 carry out water-specific functions while Bluewater Power continues to own and operate
3 the shared billing system. As the business of BPSC has grown, BPSC hired its own
4 administrator in 2010 to avoid imposing a burden on the resources of the distribution
5 company. BPSC's current staffing includes one (1) administrator, two (2) traffic light
6 maintenance personnel, two (2) meter readers, one (1) water billing representative, four
7 (4) civil project personnel, one (1) C&DM program delivery coordinator, and three (3)
8 water meter maintenance technicians.

9 **Electek Power Services Inc. ("Electek")**, was acquired by the holding company that
10 also owns Bluewater Power on November 1, 2007. Prior to its acquisition, Electek was
11 an established business in the Sarnia area providing a full line of highly specialized
12 power distribution system services to its customers, including electrical maintenance and
13 commissioning testing, switch gear modifications and retrofits, high/low voltage
14 installations and substation installation turn-key projects. Electek employs one (1)
15 administrator and provides services through its own staff of one (1) professional
16 engineer and eight (8) engineering technologists.

17 **Bluewater Power Generation Corporation ("Genco")** owns two renewable generation
18 projects under contract with the OPA's MicroFit program. It has a wholly-owned
19 subsidiary, **Bluewater Power Renewable Energy Inc. ("BPREI")**, which owns and
20 operates a 1.6 MW landfill gas to energy project and has passive (non-operating)
21 ownership interests in a 2.4MW landfill gas to energy project. Genco has no staff, but
22 BPREI's 1.6MW generator is operated by an employee shared from Bluewater Power.

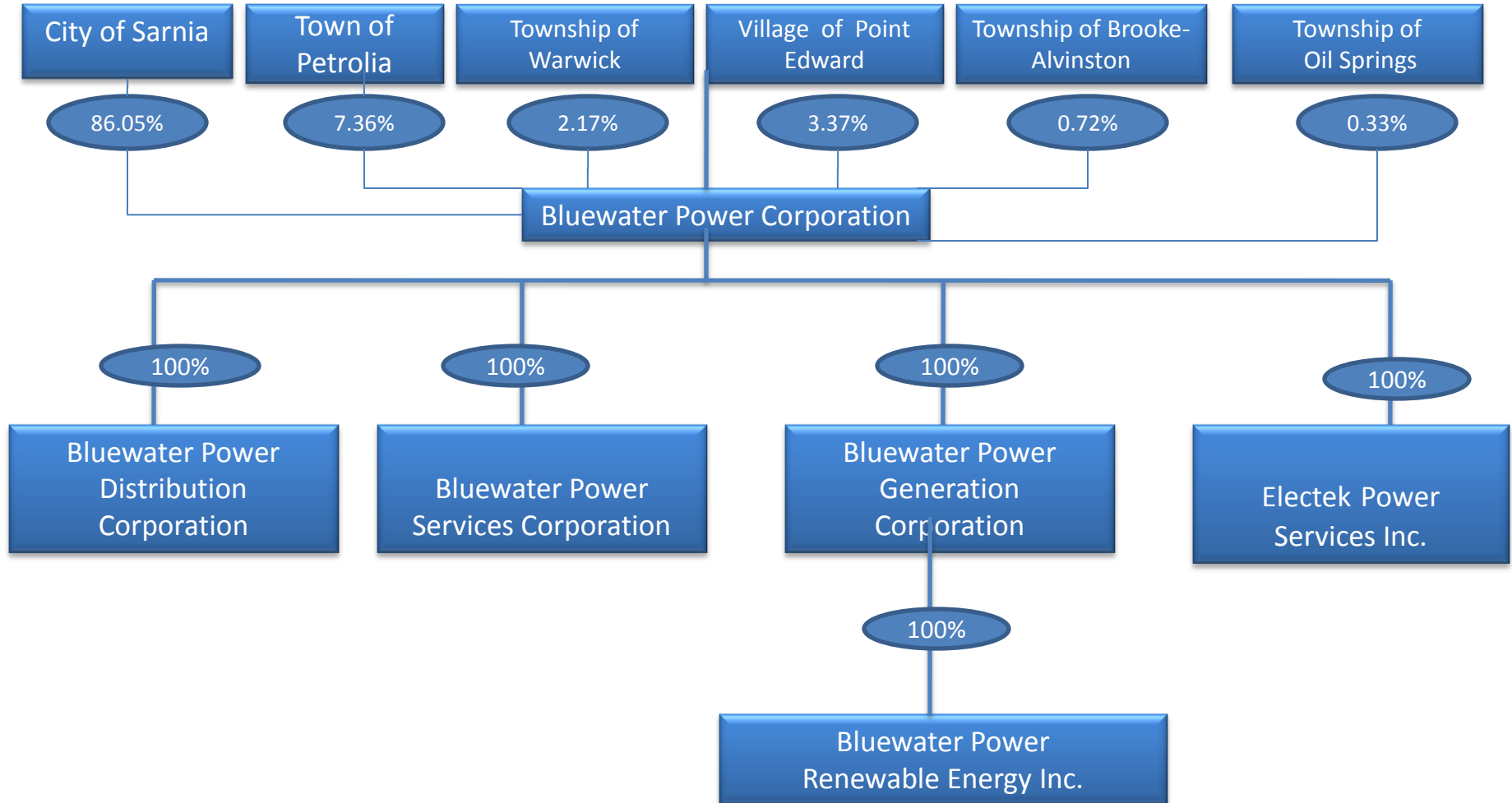
23
24 Bluewater Power provides support to its affiliates and earns revenue from the affiliates
25 for services offered on a fully-allocated cost basis. The affiliates also provide an
26 opportunity for employees to be shared and to allow Bluewater Power and its affiliates
27 flexibility to respond to fluctuations in workload. All such shared employees are shared at
28 the fully-allocate cost.

1 The services provided by Bluewater Power to affiliates, as well as the services received
2 by Bluewater Power from its affiliates were the subject of review leading up to the filing
3 of this Rebasing Application initiated by Bluewater Power utilizing the expert services of
4 BDR North America Inc. ("BDR"). BDR was retained to review the approaches used in
5 the transfer pricing of services provided by Bluewater Power to affiliates, and of the
6 services procured by Bluewater Power from affiliates. The report produced as a result of
7 that review is found at Exhibit 4, Tab 5, Schedule 1, Attachment 2 entitled "Study of
8 Affiliate Service Costs and Cost Allocation".

9
10 The review undertaken by BDR was supportive of methodologies employed by
11 Bluewater Power to allocate costs to affiliates. During the course of the review by BDR,
12 there were ongoing discussions of "best practices" and certain practices of the utility
13 were called into question. As a result of the review, changes in practice and
14 methodologies were developed by Bluewater Power. The BDR review began in the
15 Spring of 2012 and, over the course of the Summer, there were certain practices and
16 methodologies that have changed as a result of the review. It is those revised practices
17 that were ultimately reviewed in the BDR Report issued in October of 2012.

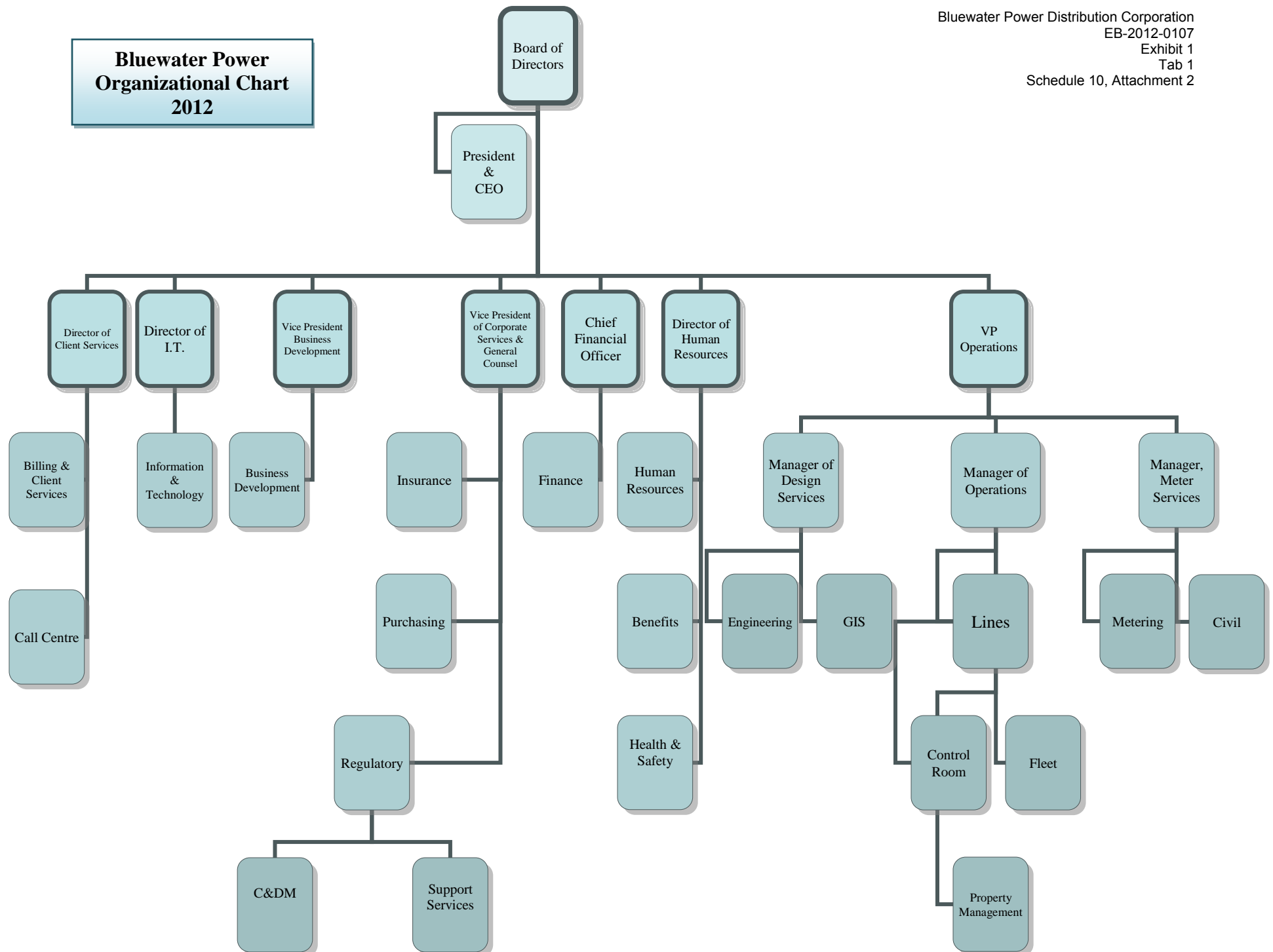
18
19 Accordingly, as a result of the Transfer Pricing Study undertaken by BDR and the
20 ongoing discussions that took place, Bluewater Power and its affiliates have entered into
21 revised Management Service Agreements, as well as revised Cost Sharing Agreements.
22 Those new agreements are to be effective January 1, 2013 to coincide with the Test
23 Year, and beyond.

CORPORATE STRUCTURE



Bluewater Power Organizational Chart 2012

Bluewater Power Distribution Corporation
EB-2012-0107
Exhibit 1
Tab 1
Schedule 10, Attachment 2



BOARD DIRECTION FROM PREVIOUS EDR DECISIONS

Bluewater Power's last rebasing application occurred for rates effective May 1, 2009 under proceeding EB-2008-0221. Bluewater Power proceeded by way of a Settlement Conference and on March 2, 2009 Bluewater Power filed a proposed Settlement Agreement with the Board that represented a complete settlement of all of the issues. The Board accepted the terms of the Settlement Agreement on March 6, 2009.

Within the Settlement Agreement, the following terms were agreed to by all parties:

1. Section 7.1 of the Settlement Agreement detailed two requirements in regard to Cost Allocation and Rate design:

- a. That in Bluewater Power's 2010 Rate Application it will move each of the lighting categories one-third of the way to 0.85; in its 2011 Rate Application it will move each of the lighting categories one-half of the way to 0.85; and in its 2012 Rate Application it will move each of the lighting categories to a R/C Ratio of 0.85. In each year, the excess revenue will be allocated to the class with the highest R/C Ratio until it is no longer the highest, and then proportionately between the two or more classes with the highest R/C Ratio's so that their R/C Ratio's remain equal with each other, and so on, from year to year.

Bluewater Power confirms that the R/C ratio's have been adjusted each year over the IRM period (2010, 2011 and 2012 IRM) to reflect the requirement noted in 1(a) above.

- b. It was agreed that Bluewater Power undertake a study of its costs to serve its customers in the Large Use rate class. The purpose of the study derives from the fact that Bluewater Power did not fully update its 2006 Cost Allocation Model for the 2009 Test year. Instead, Bluewater Power adjusted the Cost Allocation Model to reflect the impact of the loss of two

1 customers. The study will assist both in determining the true costs to
2 serve customers in this rate class and determining the balancing of rates
3 among all rate classes in the future. The study shall be filed as evidence
4 in Bluewater Power's next rebasing rate application.

5
6 As part of this application, Bluewater Power has fully updated its cost allocation model to
7 reflect 2013 data, and have provided an expert opinion on the large use customer study
8 which is included at Exhibit 7, Tab 1, Schedule 1, Attachment 2.

9
10 2. Section 8.1 of the Settlement Agreement in regard to the Loss of Large
11 Customers detailed the following requirement:

12
13 a. That all net distribution revenue from UBE Automotive or Royal Polymers
14 be recorded to Account 1572 during the Test Year and the subsequent
15 incentive regulation period. Net Distribution revenue means all revenue
16 derived from fixed and variable distribution rates, less any direct costs to
17 serve the customers. In the event that a new customer occupies the
18 existing building and/or facilities of either UEB Automotive or Royal
19 Polymers, the revenues related to the new customer will also be recorded
20 to Account 1572 for the same period of time less any direct and
21 incremental OM&A and capital-related costs (i.e. Amortization and Cost of
22 Capital) required to serve the new customer.

23
24 The Parties have further agreed that Account 1572 should be dispersed
25 amongst rate classes in proportion to the extent to which each rate class
26 was impacted by the Updated Application. For the sake of clarity, any
27 amounts recorded to the deferral account should be dispersed to rate
28 classes in the proportions set out in the table below. The proportions set
29 out below have been determined by comparing the original rates
30 proposed in the original Application with the rates proposed in the
31 Updated Application, which demonstrated the change in revenue by rate
32 class due to the update:

Allocation for Disposal of Deferral Accounts Related to the Updated
Application

Residential	14.10%
GS<50 kW	3.74%
GS 50 to 999 kW	26.08%
GS 1000 to 4999 kW	16.63%
Large	38.53%
Unmetered Scattered Load	0.05%
Sentinel Lighting	0.06%
Street Lighting	0.80%

Bluewater Power confirms that as part of the deferral and variance account disposition described and calculated in Exhibit 9, Tab 1, Schedule 2 an amount of \$355,670 has been included as a refund to customers for the distribution revenue received from these two large customers for the period Jan 1, 2009 to April 2013 inclusive.

Bluewater Power confirms that there are no other procedural orders, accounting orders, compliance orders or other Board direction that ought to be considered in this Application.

**PROCEDURAL ORDERS, MOTIONS &
CORRESPONDENCE**

On January 26, 2012, the OEB filed a letter indicating which distributors were expected to file a cost of service application in respect to 2013 rates. Bluewater Power was included on that list for consideration in 2013.

On August 28, 2012 Bluewater Power filed a letter indicating there would be a delay in the filing of the rate application.

Otherwise, as at the date of submitting this application, Bluewater has not been served with any other utility-specific Procedural Orders, Motions or Correspondence on any matters which relate, directly or indirectly, to its application for 2013 COS rates.

1 **ACCOUNTING ORDERS AND USOA CONFORMITY**

2 Bluewater Power does not have any accounting orders nor are we requesting any
3 accounting orders in this Application. Moreover, we confirm that this Application
4 complies with the Uniform System of Accounts.

ACCOUNTING TREATMENT OF NON-UTILITY RELATED BUSINESS

For the years 2009 to 2013, Bluewater Power has recorded the revenues and expenses for non-utility business to OEB Account 4375 'Revenues from Non Rate-Regulated Utility Operations' and to Account 4380 'Expenses of Non Rate-Regulated Utility Operations'. Bluewater Power does not have any non-utility assets or liabilities.

The nature of non-utility related business falls into three categories: water billing, streetlight installation flow-throughs, and OPA C&DM Programs.

Water Billing:

For the full Historic Years of 2009 and 2010, as well as for 2011 up to March 31, 2011, Bluewater Power undertook water billing on behalf of certain municipal shareholders and recorded the related revenues and expenses to non-utility accounts. As of April 1, 2011, the water billing service is undertaken by BPSC for those municipal shareholders (see Exhibit 1, Tab 1, Schedule 10).

For the 2013 Test Year, there are no amounts recorded to non-utility accounts for water billing. All revenues received by Bluewater Power from BPSC for rent of space and equipment are recorded as revenue to Account 4210 'Rent from Electric Property' and all shared costs are allocated directly from Bluewater Power to BPSC (see Exhibit 4, Tab 5, Schedule 1).

Streetlight Flow-throughs:

For the period from 2009 to 2013, streetlight installation work that forms part of new subdivision work for a developer is completed by BPSC. The streetlight installation invoice received from BPSC is added to BPDC's invoice for electrical infrastructure to be paid by the developer. BPSC's invoice has no markup (^{i.e} it is simply a flow through to Bluewater Power) and Accounts 4375 and 4380 are used to record the revenues from developers and the costs to BPSC, respectively.

1 For the 2013 test year, no amounts are budgeted for streetlight installation revenues and
2 expenses due to the unknown nature of this on-demand work, as well as the fact that it
3 has no impact on the Revenue Requirement for the 2013 Test Year.

4 **OPA C&DM programs:**

5 For the period from 2009 to 2013, all Ontario Power Authority (OPA) program revenues
6 and expenses are recorded to Accounts 4375 and 4380, respectively.

7 For the 2013 Test Year, no amounts are budgeted for OPA revenues and expenses.
8 The OPA Programs are designed to cover Bluewater Power expenses on a dollar-for-
9 dollar basis. In the fourth year of the OPA program (which is 2014), there is an
10 opportunity for Bluewater Power to retain a portion of any savings over the Program
11 Administration Budget, but the 2013 Test Year is only year three of the program. As
12 revenues and expenses are matched, there is no impact on the Revenue Requirement
13 for the 2013 Test Year.

1

COMPLIANCE ORDERS

2 Bluewater Power does not have any current or outstanding compliance orders.

1

OTHER BOARD DIRECTIONS

2 Bluewater Power indicated in Exhibit 1, Tab 1, Schedule 11 all directions in respect of
3 the Settlement Agreement resulting from our 2009 COS Application. Bluewater Power
4 has no other Board Directions.

CONDITIONS OF SERVICE

Bluewater Power commenced a joint process of reviewing the Conditions of Service with a number of other utilities in 2011. The purpose of the joint effort was to learn best practices from other utilities, and to bring consistency where appropriate to the Conditions of Service document amongst a group of distributors. There has been progress made on those efforts, but workload and other issues have meant that, as of the time of this filing, a full revision is not available.

Bluewater Power's current Conditions of Service is available for public review at Bluewater Power's office, and is available on our website at www.bluewaterpower.com

Bluewater Power expects to have a full revision completed in 2013 and the document will be filed with the Board accordingly.

Exhibit 1: Administrative Documents

Tab 2 (of 4): Overview of Filing

SUMMARY OF APPLICATION

1.0 Introduction

Bluewater Power Distribution Corporation ("Bluewater Power") is applying to the Ontario Energy Board (the "Board") for distribution rates to be effective May 1, 2013. As illustrated by Table 1 below, the proposed rates will recover Bluewater Power's forecasted base revenue requirement of approximately \$21.9 million. Bluewater Power's proposed distribution rates are necessary to avoid a forecasted revenue deficiency in the amount of approximately \$3.5 million during the 2013 rate year explained at Exhibit 1, Tab 2, Schedule 5.

Table 1 – Summary of Revenue Requirement:

Rate Base		
2012 ending Net Fixed Assets	52,424,917	
2013 ending Net Fixed Assets	<u>53,750,781</u>	
Average Net Fixed Assets		53,087,849
Plus IFRS Adjustment		364,881
Working Capital Allowance Base	102,677,587	
Working Capital Allowance	13.0%	13,348,086
Rate Base		66,800,816
Return On Rate Base		
Deemed Short-Term Debt %	4.00%	2,672,033
Deemed Long-Term Debt %	56.00%	37,408,457
Deemed Equity %	40.00%	26,720,327
Short-Term Interest	2.08%	55,578
Long-Term Interest	4.18%	1,563,588
Return On Equity	9.12%	2,436,894
Return On Rate Base		4,056,060
Distribution Expenses & Taxes		
OM&A	13,302,742	
Amortization	5,011,623	
PILs/Taxes	586,513	18,900,878
Service Revenue Requirement		22,956,938
Revenue Offsets		(1,080,249)
Base Distribution Revenue Requirement		21,876,690

1

2 This application is submitted on a Modified International Financial Reporting Standard
3 (MIFRS) basis. To be specific, the application is filed with 2013 as the adoption year for
4 MIFRS and 2012 is the comparative/transition year. Exhibit 10, Tab 1, Schedule 1
5 provides the overview of the transition to MIFRS, but the nature and quantity of the
6 impacts from the transition to MIFRS are addressed throughout the application.

7

8 The comparison of the Revenue Requirement for the 2013 Test Year compared to the
9 last Board Approved Revenue Requirement, being for the year 2009, can be found in
10 Exhibit 6, Tab 1, Schedule 2. The major components of Revenue Requirement and
11 other factors that impact rates are summarized under the following headings:

- 12 • Rate Base
- 13 • Load Forecast
- 14 • Distribution Expenses and Taxes
- 15 • Cost of Capital
- 16 • Smart Meters
- 17 • Stranded Meters
- 18 • Deferral and Variance Dispositions
- 19 • Rates and Rate Impacts

20

2.0 Rate Base

The Rate Base for the 2013 Test Year and the trends in Rate Base are set out at Exhibit 2, Tab 1 of this Application. By way of summary, Table 2 is provided below to describe Bluewater Power's Rate Base over the period from 2009 to 2013.

Table 2 – Rate Base Summary

	2009 Board Approved	2009 Actual CGAAP	2010 Actual CGAAP	2011 Actual CGAAP	2012 Actual CGAAP	2012 Bridge MIFRS	2013 Test MIFRS
<i>Net Capital Assets in Service:</i>							
NBV - Opening Balance	37,944,815	38,395,064	37,837,572	42,170,784	42,443,130	42,443,130	52,424,917
NBV - Ending Balance	37,853,860	37,837,572	42,170,784	42,443,130	52,789,798	52,424,917	53,750,781
NBV - Average Balance	37,899,337	38,116,318	40,004,178	42,306,957	47,616,464	47,434,023	53,087,849
<i>Working Capital Allowance:</i>							
	9,931,607	7,655,820	8,851,089	8,641,282	11,490,436	11,641,795	13,348,086
Rate Base	47,830,944	45,772,138	48,855,266	50,948,239	59,106,900	59,075,819	66,435,934
IFRS - CGAAP Transitional Adjustment	0	0	0	0	0	0	364,881
Adjusted Rate Base	47,830,944	45,772,138	48,855,266	50,948,239	59,106,900	59,075,819	66,800,816

Bluewater Power's last full rebasing took place as part of the 2009 COS Application. The primary driver for the increase in Rate Base for 2013 relates to Smart Meter capital investment being incorporated in Rate Base. This 2013 Rebasing Application is preceded by Bluewater Power's application for Final Smart Meter Disposition filed on May 30, 2012 (EB-2012-0263). Pending a decision from the OEB on that application, this COS application has been filed assuming the capital expenditures of \$8.6 million in EB-2012-0263 will be approved as filed in that proceeding. Partially offsetting that increase in Rate Base is the reduction attributable to removal of meters from service as old meters were replaced by Smart Meters; this application seeks to recover stranded meter costs through a rate rider applicable to the affected rate classes. The impact of adding Smart Meters and removing stranded meters is a net increase of \$4.7 million to the December 31, 2012 net book value.

Bluewater Power's rate base in the 2013 Test Year is forecasted to be approximately \$66.8 million. This represents an increase of \$19 million from the Rate Base included in

1 the 2009 COS Application, as approved. The increase in that time period can be
2 explained as follows:

- 3 • \$4.7 million increase attributable to the net increase for meters as discussed
4 above;
- 5 • \$4.4 million increase attributable to Working Capital related to the increase in
6 commodity price as well as an increase in the working capital allowance from
7 12% to 13%;
- 8 • \$1.9 million increase attributable to a building addition to the Bluewater Power
9 had office.
- 10 • \$0.4 million related to an adjustment to Rate Base arising by the transition of
11 capital assets on January 1, 2013 from CGAAP to MIFRS
- 12 • The remaining \$7.6 million relates to a consistent increase in Rate Base (i.e.
13 capital additions exceed amortization) of approximately \$2 million per year, an
14 annual increase of approximately 4%.

15
16 As noted, Rate Base is a direct result of capital expenditures. Bluewater Power's capital
17 expenditures are attributable to ongoing capital investment, which are routine
18 investments required every year to maintain systems, and Non-routine capital projects
19 required from time-to-time. Fluctuations in annual capital expenditures are primarily
20 caused by Non-routine capital projects. All such investments are done in accordance
21 with a disciplined asset management process detailed in Exhibit 2, Tab 4, Schedule 2.
22 For a list of Bluewater Power's capital projects for 2009 through to 2013, please refer to
23 Asset Management Plan filed as Exhibit 2, Tab 4, Schedule 3, Attachment 1.

24 25 **3.0 Load Forecasts**

26
27 The Revenue Requirement indicated in Table 1 above is calculated on the basis of load
28 forecasts proposed for the 2013 Test Year. Bluewater Power retained Elenchus
29 Research Associates to prepare a weather normalized forecast for 2012 and 2013 for
30 each class (Exhibit 3, Tab 1, Schedule 2, Attachment 1). In addition, a forecast of

customer numbers was developed based on historic trends and economic signals within Bluewater Power's service territory.

With this rebasing application, we have incorporated a forecast of C&DM into the load forecast. We propose to utilize the LRAM Variance Account to capture over-performance on C&DM goals or shortfalls in those efforts versus the forecast. The result of this treatment will smooth rates to customers more effectively rather than applying retrospectively for LRAM to capture the full impact of C&DM.

Table 3 below provides a numerical summary of Bluewater Power's distribution revenues from 2011 to 2013 based on normalized load forecasts.

Table 3 – Operating Revenue Summary

	2011 Actual	2012 Bridge at Current Rates	2013 Test at Current Rates	2013 Test at Proposed Rates
Total Operating Revenue	18,642,816	18,541,473	18,420,657	21,876,690

4.0 Distribution Expenses and Taxes

Bluewater Power's distribution expenses include: operations, maintenance and administration ("OM&A"); depreciation and amortization; capital and property taxes; and income taxes. A summary of Bluewater Power's total distribution expenses, excluding income tax, for 2009 through 2013 is set out in Table 4 that follows.

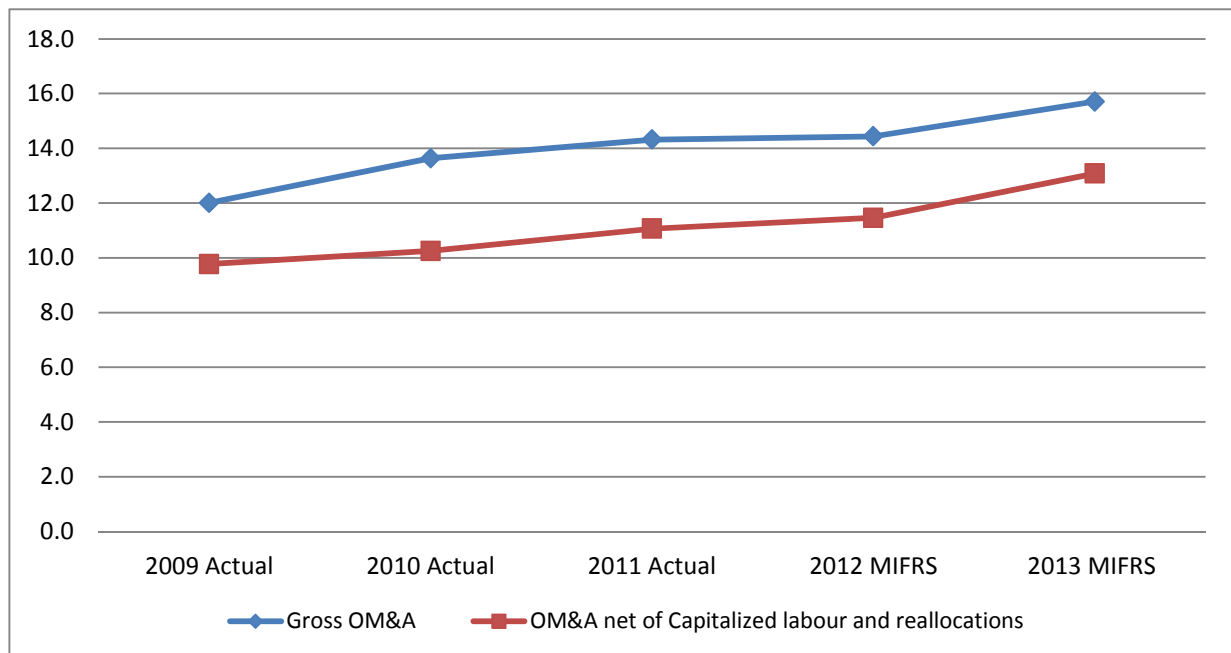
Table 4 – Operating Costs Summary

	2009 Board Approved	2009 Actuals	2010 Actuals	2011 Actuals	2012 CGAAP	2012 MIFRS	2013 Test Year
Total OM&A Expenses	9,991,419	9,772,182	10,254,820	11,063,458	10,196,610	11,457,938	13,078,828
Taxes Other than Income Taxes	262,750	247,231	180,940	189,527	194,128	194,128	223,914
Subtotal	10,254,169	10,019,413	10,435,760	11,252,985	10,390,738	11,652,066	13,302,742
Amortization	4,120,022	3,968,013	3,939,847	4,259,217	4,729,669	3,837,655	5,011,823
Total Distribution Expenses	14,374,191	13,987,426	14,375,607	15,512,202	15,120,407	15,489,721	18,314,565

1 Table 4 demonstrates a steady and smooth increase in OM&A from 2009 to 2013. The
 2 table also demonstrates that amortization has fluctuated during the period from 2009 to
 3 2013, but has generally increased over that time period indicating an increased level of
 4 spending on capital projects.

5 With respect to OM&A, Bluewater Power has experienced a steady upward trend in its
 6 total gross OM&A and net OM&A over the period from 2009 to 2013. This trend is
 7 discussed in detail in Exhibit 4, Tab 1, Schedule 1 and we have reproduced Table 5
 8 below to demonstrate that the proposed Distribution OM&A for the 2013 Test Year is in
 9 line with historical trends.

10 Table 5 - OM&A Trend



11
12

13 A primary driver of the variance in any given year relates to the level of costs capitalized
 14 or reallocated. The influence of these factors is evident in the individual OM&A Variance
 15 Analyses included as Exhibit 4, Tab 3, Schedule 1. As discussed in the Manager's
 16 Summary of OM&A (Exhibit 4, Tab 1, Schedule 1) the level of capitalization and re-
 17 allocation of costs to affiliates and non-core distribution activities is a significant and

1 material contributor to cost efficiencies for Bluewater Power. As a mid-sized distributor,
2 Bluewater Power uses economies of scope and its renewed focus on Asset
3 Management Planning to minimize increases in OM&A.

4 In submitting the level of OM&A included in the 2013 Test Year, Bluewater Power has
5 included efficiencies that we intend to demonstrate are sustainable. The ability to sustain
6 those efficiencies depends upon several factors, some of which are outside of the
7 control of the utility, as follows:

- 8 • the 2013 Capital Budget submitted with this application is approved;
- 9 • we are able to achieve the increased level of capitalized labour with the proposed
10 level of staff;
- 11 • the level of activity and the relationship between Bluewater Power and its
12 affiliates continues as proposed;
- 13 • the continuation of the current OPA C&DM programs.

14 In the event of a change to any of these assumptions prior to, or as part of this approval,
15 then the consequence may be an increase in the level of OM&A to be claimed for
16 recovery through rates.

17 The 2013 Test Year represents an annual increase of 1.5% from the net OM&A for 2011
18 Actuals (CGAAP) of \$11.252M when normalized for the following extraordinary cost
19 items:

- 20 • An adjustment to OM&A is required to the 2013 MIFRS amount to recognize the
21 overhead amount that would have otherwise been capitalized under CGAAP in
22 2013 of \$957k (see Exhibit 10, Tab 1, Schedule 1, Attachment 1)
- 23 • One proposed enhancement to service for the 2013 Test Year which is a move
24 from Bi-monthly Billing to Monthly Billing at an incremental cost of \$322k (see
25 Exhibit 4, Tab 2, Schedule 5)

- 1 • Extraordinary increases in OMERS rates are beyond the control of management
2 and they total an increase of \$159k over the period from 2011 to 2013 (see Cost
3 Drivers for 2012 and 2013 in Exhibit 4, Tab 2, Schedule 2, Attachment 1)
- 4 • One-Time Costs for environmental issues to be recovered as \$67k per year (see
5 Exhibit 4, Tab 2, Schedule 4)
- 6 • Net Incremental OM&A related to Smart Meters (incremental cost of automated
7 meter reads and software maintenance fees, less savings from eliminating
8 manual meter reads) of \$191k (see Exhibit 2, Tab 4, Schedule 4)

9 If one looks to the increase in OM&A compared to the 2009 Board Approved amount,
10 the increase is \$3.05M or a 29.7% increase. Normalizing for the extraordinary costs
11 noted above reveals a \$1.35M increase from 2009 Board Approved, which equates to a
12 13.1% increase (3.2% on a compounded annual basis).

13 In accordance with the OEB Filing Guidelines, annual variance analyses for OM&A are
14 provided at Exhibit 4, Tab 3, Schedule 1. In addition, an analysis of major drivers of the
15 variances in OM&A provides essential context and is detailed at the OEB Appendix 2-J
16 found at Exhibit 4, Tab 2, Schedule 2.

17
18 As would be expected for any company where Payroll represents the majority of OM&A
19 costs, the primary driver of the variance is found in Payroll related costs. A full
20 discussion of the increases in Payroll related costs can be found in Exhibit 4, Tab 4,
21 Schedule 1. That schedule also provides further context to employee related costs as
22 we have included our Human Resources Strategy as Exhibit 4, Tab 4, Schedule 1,
23 Attachment 2.

24

5.0 Cost of Capital

Bluewater Power has followed the Board's *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* in determining its cost of capital. The ROE has been set at the most recently approved OEB rate and the long-term debt costs reflect the weighted average cost of third party debt and deemed debt. A full discussion of this issue is found at Exhibit 5, Tab 1 and the information contained in Table 6 below provides a summary.

Table 6 – Cost of Capital Summary

	2009 Board Approved	2013 Test Year
Rate Base	47,830,944	66,800,816
Equity Component	43.33%	40.00%
Long Term Debt Component	52.67%	56.00%
Short Term Debt Component	4.00%	4.00%
ROE Rate	8.01%	9.12%
Long Term Debt Rate	7.62%	4.18%
Short Term Debt Rate	1.33%	2.08%
Weighted Average Cost of Capital	7.54%	6.07%
Deemed Return on Equity	1,660,212	2,436,894
Deemed Interest Expense	1,944,998	1,619,166
IFRS Adjustment		0
Regulated Return on Capital	3,605,210	4,056,060

6.0 Smart Meters

Bluewater Power filed its Application of Final Disposition of Smart Meter Costs (EB-2012-0263) on May 31, 2012. At the time of writing this 2013 COS Application, Bluewater Power has not received a decision from the OEB. Accordingly, Bluewater Power has filed this 2013 Application on the basis that there will be no adjustments to the smart meter application, as updated by letter dated September 26, 2012.

Table 7 summarizes how Smart Meters have impacted the 2013 COS Application. In the event that the Board's decision in EB-2012-0263 orders changes to Rate Base, Amortization or PILs calculations that are included in this 2013 COS Application, this Application will be updated at the time of Interrogatories so as not to delay this proceeding.

Table 7 - Smart Meter NBV (CGAAP) at December 31, 2012

	Capital Asset Account	2012 Closing Balance	Accumulated Amortization Account	2012 Accumulated Amortization	2012 Closing Net Book Value
Smart Meters	1860	4,661,948	2105	(729,238)	3,932,710
Computer Hardware	1920	330,711	2160	(174,816)	155,895
Computer Software	1925	3,537,240	2160	(1,037,711)	2,499,529
Tools and Equipment	1940	5,934	2160	(1,484)	4,451
Other Equipment	1940	48,153	2160	(11,208)	36,945
		8,583,986		(1,954,457)	6,629,529

7.0 Stranded Meters

Application for recovery of stranded meters of \$1,926,646 has been included in Bluewater Power's 2013 COS Application. Further details regarding this claim for recovery are outlined in Exhibit 9, Tab 1, Schedule 3.

8.0 Deferral and Variance Dispositions

Bluewater Power is proposing a number of rate riders to recover the following items:

Table 8 – Proposed Deferral and Variance Disposition Amounts

Group 1 Accounts	Account	Total Claim
LV Variance Account	1550	(14,693.00)
RSVA - Wholesale Market Service Charge	1580	(1,648,458.00)
RSVA - Retail Transmission Network Charge	1584	(364,059.00)
RSVA - Retail Transmission Connection Charge	1586	(79,800.00)
RSVA - Power (excluding Global Adjustment)	1588	526,708.00
RSVA - Power - Sub-account - Global Adjustment	1588	430,985.00
Disposition and Recovery/Refund of Regulatory Balances (2009) ⁷	1595	(62,052.00)
Disposition and Recovery/Refund of Regulatory Balances (2010) ⁷	1595	(143,852.00)
Group 1 Sub-Total (including Account 1588 - Global Adjustment)		(1,355,221.00)
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		(1,786,206.00)
RSVA - Power - Sub-account - Global Adjustment	1588	430,985.00
Group 2 Accounts		
Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	121,683.00
Other Regulatory Assets - Sub-Account - Incremental Capital Charges	1508	2,966.00
Extra-Ordinary Event Costs (disposition of UBE and Royal Polymers revenue)	1572	(370,742.00)
Group 2 Sub-Total		(246,093.00)
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592	(141,733.00)
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592	(107,497.00)
Total of Group 1 and Group 2 Accounts (including 1562 and 1592)		(1,850,544.00)

In addition to the above noted deferral and variance accounts, Bluewater Power proposes to recover amounts for lost revenue associated with conservation and demand management activities relating to persistence of programs from 2010 into 2011, as well

1 as for programs implemented in 2011. The proposed LRAM recovery amounts to
2 \$237,247. The proposed disposition is discussed at Exhibit 9, Tab 5, Schedule 1.

3
4 The application proposes to dispose of all rate riders over a two year period, and the
5 specific rate riders are found at Exhibit 9, Tab 1, Schedule 5, Attachment 3.

6 7 **9.0 Rates and Rate Impacts**

8
9 Bluewater Power has proposed distribution rates based on an updated cost allocation
10 model. The updated model includes the 2013 Test Year financial information, as well as
11 2013 load forecast.

12
13 The OEB has established target floor and ceiling ranges for the revenue to cost ratios.
14 All rate classes with the exception of the Unmetered Scattered Load (USL) rate class are
15 within the accepted OEB ranges. The results for the USL category indicate the revenue-
16 to-cost ratio at 164.8% meaning we are over-collecting revenue from this class relative
17 to the costs assigned to that class. Bluewater Power therefore proposes to reduce the
18 rates for this rate class in order to meet the established range.

19
20 The rates that are submitted for approval, including the Rate Riders, are the rates
21 reflected in Exhibit 8, Tab 4, Schedule 3, Attachment 1. The Bill Impacts are summarized
22 in Table 9 below.

23
24 A typical residential customer using 800 kWh per month would see an increase of \$3.61
25 or 3.0% on a total bill basis. A customer in the General Service < 50 kW class using
26 2,000 kWh per month would see a \$9.25 per month increase or 3.3%.

27

1

Table 9 – Bill Impacts

Customer Class Name			Distribution Charges		Delivery Charges		Total Bill	
	kWh	kW	\$ change	% change	\$ change	% change	\$ change	% change
Residential	500		\$3.17	12.3%	\$2.85	8.8%	\$3.18	3.9%
	800		\$3.62	11.5%	\$3.10	7.4%	\$3.61	3.0%
	1,500		\$4.67	10.5%	\$3.70	5.8%	\$4.62	2.2%
	2,000		\$5.42	10.1%	\$4.12	5.2%	\$5.33	1.9%
General Service < 50 kW	1,000		\$7.99	17.2%	\$7.33	12.6%	\$8.03	5.1%
	2,000		\$9.29	14.8%	\$7.98	9.3%	\$9.25	3.3%
	5,000		\$13.19	11.8%	\$9.91	5.8%	\$12.94	1.9%
	10,000		\$19.69	10.1%	\$13.12	4.2%	\$19.05	1.5%
General Service > 50 to 999 kW	26,000	60	\$7.28	2.0%	(\$9.49)	(1.5%)	\$6.45	0.2%
	52,000	135	\$16.39	2.6%	(\$21.34)	(1.7%)	\$10.47	0.2%
	165,000	355	\$43.10	3.1%	(\$56.13)	(1.9%)	\$45.06	0.2%
	430,000	860	\$104.40	3.3%	(\$135.97)	(1.9%)	\$127.88	0.2%
General Service 1000 to 4999 kW	605,000	1,360	(\$707.20)	(14.3%)	(\$1,114.38)	(9.6%)	(\$758.86)	(1.0%)
	977,118	2,578	(\$1,340.56)	(20.4%)	(\$2,112.41)	(11.0%)	(\$1,543.53)	(1.2%)
	3,011,152	4,500	(\$2,340.00)	(25.6%)	(\$3,687.30)	(11.8%)	(\$1,886.19)	(0.5%)
Large Use	4,230,083	6,943	(\$5,973.06)	(17.3%)	(\$8,294.80)	(11.4%)	(\$5,817.54)	(1.11%)
	7,340,623	10,492	(\$9,026.27)	(22.8%)	(\$12,534.79)	(12.9%)	(\$8,204.30)	(0.9%)
Unmetered Scattered Load	100		(\$3.08)	(15.3%)	(\$3.15)	(14.8%)	(\$3.15)	(10.2%)
	1,200		(\$11.47)	(17.5%)	(\$12.26)	(15.4%)	(\$11.73)	(5.9%)
	7,000		(\$56.13)	(18.4%)	(\$60.73)	(15.7%)	(\$57.43)	(5.1%)
Sentinel Lighting	182	0.46	\$2.28	16.6%	\$2.19	14.2%	\$2.32	7.1%
	63	0.18	\$1.28	16.8%	\$1.25	15.1%	\$1.29	9.1%
Street Lighting	86	0.18	\$0.85	16.2%	\$0.82	13.8%	\$0.87	6.2%

2

1 **ACCOUNTING STANDARD FOR FINANCIAL REPORTING**

2 Bluewater Power's 2013 COS Application is prepared on a MIFRS basis. 2013 will be
3 the year of 'adoption' for MIFRS, whereas 2012 will be the transition year (or
4 comparative year) under MIFRS.

5

6 Bluewater Power's historical financial statements, including 2012, are prepared on a
7 CGAAP basis.

8

9 Bluewater Power will be taking the additional one-year IFRS deferral granted on March
10 30, 2012 by Canada's Accounting Standards Board and therefore will be adopting IFRS
11 on January 1, 2013.

BUDGET DIRECTIVES AND ASSUMPTIONS

Bluewater Power provides below the directives in relation to four major components of the budget process: revenue forecast, operating and maintenance expense forecast, payroll labour expense forecast and capital forecast.

Bluewater Power completed the operating and capital budgets with the senior management team through the spring and summer of 2012. The final budgets that are the basis for this application was approved by the Board of Directors at the September 27, 2012 Board Meeting.

The economic assumptions by Bluewater Power in filing this 2013 COS Application are found in the Load Forecast at Exhibit 3, Tab 1, Schedule 2, Attachment 1, as well as the considerations outlined in the asset management planning process described in Exhibit 2, Tab 4, Schedule 2. The OM&A budget process is described below as a zero-based methodology, which requires consideration of all current circumstances. Each of these issues is discussed further below.

Revenue Forecast

The revenue budget is comprised of three components: energy revenue, distribution revenue and other revenue.

The energy revenue for 2013 was forecast using the weather normalized load forecast as presented by the Elenchus Research Associates ("ERA") *2012-2013 Weather Normalized Load Forecast for Bluewater Power*, and is discussed in Exhibit 3, Tab 1, Schedule 2. A weighted average commodity price of \$0.0810 per kWh has been assumed for the forecast based on the OEB *Regulated Price Plan Report* dated April 2, 2012.

1 Distribution revenue was forecast using the same weather normalized volumes
2 multiplied by proposed rates in order to project distribution revenue for the 2013 Test
3 Year.

4
5 Other revenue was reviewed on an item-by-item basis. In each case, we reviewed the
6 three year trend in revenues and, if there was no known reason to deviate from that
7 direction, the trend was applied to the 2013 Test Year.

8 9 **Payroll Labour Forecast**

10
11 While payroll is ultimately included as an integral part of the operating and maintenance
12 expense forecast, the payroll budget was completed separately due to its significance to
13 the overall budget. The payroll labour was calculated by position, by pay period, and by
14 the rate/hours expected to be realized during that pay period. We applied the 3%
15 increase required by our Collective Agreement to both union and non-union positions. A
16 payroll accrual adjustment was made to ensure that the budgeted costs fall within the
17 applicable forecast year. These issues are addressed in detail in Exhibit 4, Tab 4,
18 Schedule 1 entitled "Staffing and Compensation Levels"

19 20 **Operating and Maintenance Expense Forecast**

21 The operating and maintenance expenses for the Bridge Year and Test Year were
22 forecast using a zero based methodology. Prior year experiences for many items
23 strongly influence the budget after considerations of trending and one-time factors are
24 taken into account. There was no assumption for inflation and each expense item was
25 reviewed account by account for each of the forecast years. The O&M forecast can be
26 found at Exhibit 4, Tab 2, Schedule 1.

1 **Capital Budget**

2 The capital budgeting process begins with a review of all ongoing capital projects,
3 followed by consideration of any non-routine multi-year projects already underway. Any
4 new non-routine projects are considered individually as justified by the department
5 proposing the project. Each capital project is reviewed on its own merit and special
6 consideration is given to maintaining system reliability and accommodating future
7 growth. Bluewater Power's Asset Management Planning process, as discussed at
8 Exhibit 2, Tab 4, Schedule 2, is an integral part of the capital budgeting process. The
9 current Asset Management Plan is also included as Exhibit 2, Tab 4, Schedule 3,
10 Attachment 3.

11
12 The Planning and Design Department ("Design Services" or "Engineering") holds bi-
13 weekly meetings to review on-going capital projects, operations and maintenance
14 projects, and regular system reports. The meetings include staff representatives from the
15 Lines Group, Purchasing Department ("Purchasing" or "Materials Management"), Meter
16 Department and Field Technicians. The continuing dialogue helps to inform field and
17 management staff regarding future system improvements and helps to form the basis of
18 Bluewater Power's budget preparation on an ongoing basis.

19
20 The approach in the Information Technology Department ("IT") follows a similarly
21 disciplined process. The focus of capital spending is with maintaining the hardware and
22 software infrastructure. Process improvements are driven either internally by the IT
23 department or through request for changes from the operating groups.

CHANGES IN METHODOLOGY

The only changes in methodology relate to Bluewater Power's Capitalization Policy. With Bluewater Power's 2009 COS Application, the utility changed its Capitalization Policy. As set out at EB-2008-0221, Exhibit 1, Tab 2, Schedule 11 *"The purpose of the change in policy was to bring the capitalization practice more in line with the methodology employed broadly in the utility sector and to be compatible with methodologies approved previously by the OEB."* The capitalization policy was described by Bluewater Power in the proceeding as *"conservative"* based on review of other utilities in Canada.

Accordingly, Bluewater Power undertook to complete an Overhead Rate Study based on 2011 actuals to verify its own specific overhead rate. Included with this application is the review conducted by Elenchus Research Associates (see Exhibit 2, Tab 2, Schedule 2, Attachment 1) which was completed in August of 2012 based on 2011 actuals and it recommended an Overhead Rate of 16.6% for 2011 year. Unfortunately, the study was not complete in time for incorporation in the 2011 financial statements, so a more conservative rate of 12% was used for the year 2011 based on the direction of the overhead study.

For the year 2012, Bluewater Power followed the methodology reviewed by Elenchus Research Association in the Overhead Rate Study and updated the study for 2012 budget information. The resulting Overhead Rate was determined to be 13.8% for 2012.

For the Test Year of 2013, International Financial Reporting Standards (IFRS) does not permit the capitalization of overhead. The result of that change in methodology is to increase OM&A by approximately \$957k that would have otherwise been capitalized had the Overhead Rate from 2012 been applied to the 2013 Test Year.

REVENUE SUFFICIENCY / DEFICIENCY

Bluewater Power's net revenue deficiency under MIFRS is \$2,618,482 and when grossed up for PILs the resulting gross revenue deficiency is \$3,456,032. This deficiency is calculated based on the difference between the 2013 Forecast Test Year base revenue requirement of \$21,876,690 and the 2013 Forecast Test Year load forecast and customer count based on the current 2012 approved rates of \$18,420,657.

Table 1 below presents the Schedule of Deficiency and a discussion of the revenue deficiency is found at Exhibit 6, Tab 2, Schedule 1.

1

Table 1 – Schedule of Revenue Deficiency

Description	2013 Test (MIFRS) at Current Rates and 2103 Load Forecast	2013 Test (MIFRS) at Proposed Rates and 2013 Load Forecast
Revenue Deficiency from Below		\$3,456,032
Distribution Revenue	\$18,420,657	\$18,420,658
Other Operating Revenue Offsets - net	\$1,080,249	\$1,080,249
Total Revenue	\$19,500,906	\$22,956,939
OM&A	\$13,078,828	\$13,078,828
Depreciation and Amortization	\$5,011,623	\$5,011,623
Taxes other than Income Tax	\$223,914	\$223,914
Total Operating Expenses	\$18,314,365	\$18,314,365
Deemed Interest Expense	\$1,619,166	\$1,619,166
Total Cost and Expenses	\$19,933,531	\$19,933,531
Utility Income Before Income Taxes	(\$432,625)	\$3,023,408
Tax Adjustments to Accounting	(\$892,023)	(\$892,023)
Taxable Income	(\$1,324,648)	\$2,131,385
Income Tax Rate	24.23%	24.23%
Income Tax on Taxable Income	(\$321,021)	\$516,529
One Time PILs adjustment	\$69,984	\$69,984
Utility Net Income	(\$181,588)	\$2,436,895
Utility Rate Base	\$66,800,816	\$66,800,816
Deemed Equity Portion of Rate Base	\$26,720,327	\$26,720,327
Income/(Equity Portion of Rate Base)	-0.68%	9.12%
Target Return - Equity on Rate Base	9.12%	9.12%
Deficiency/Sufficiency in Return on Equity	-9.80%	0.00%
Indicated Rate of Return (WACC)	2.15%	6.07%
Requested Rate of Return on Rate Base	6.07%	6.07%
Deficiency/Sufficiency in Rate of Return	-3.92%	0.00%
Target Return on Equity	\$2,436,894	\$2,436,894
Revenue Deficiency/(Sufficiency)	\$2,618,482	
Gross Revenue Deficiency/(Sufficiency)	\$3,456,032	

2

APPROVED REVENUE REQUIREMENT

Bluewater Power's last rebasing application (EB-2008-0221) was for rates effective May 1, 2009. Bluewater Power received a final rate order on April 27, 2009. Table 1 below indicates the last Board Approved Revenue Requirements along with the 2013 Test Year Revenue Requirement.

Table 1 – Last Board Approved and 2013 Test Year Revenue Requirement

	2013 Test Year	2009 Board Approved
OM&A Expenses	13,302,742	10,254,169
Amortization Expense	5,011,623	4,120,022
Total Distribution Expenses	18,314,365	14,374,191
Regulated Return On Capital	4,056,060	3,605,210
PILs (with gross-up)	586,513	1,409,808
Service Revenue Requirement	22,956,938	19,389,209
Less: Revenue Offsets	1,080,249	728,598
Base Revenue Requirement	21,876,690	18,660,611
Add: Transformer ownership allowance	501,229	543,581
Add: Low Voltage		189,602
Total Gross Revenue Requirement	22,377,919	19,393,794



Revenue Requirement Workform



Version 3.00

Utility Name	Bluewater Power Distribution Corp.
Service Territory	
Assigned EB Number	EB-2012-0107
Name and Title	Leslie Dugas, Manager of Regulatory Affairs
Phone Number	519-337-8201 Ext 2255
Email Address	ldugas@bluewaterpower.com

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

While this model has been provided in Excel format and is required to be filed with the applications, the onus remains on the applicant to ensure the accuracy of the data and the results.



Revenue Requirement Workform

[1. Info](#)

[2. Table of Contents](#)

[3. Data Input Sheet](#)

[4. Rate Base](#)

[5. Utility Income](#)

[6. Taxes PILs](#)

[7. Cost of Capital](#)

[8. Rev Def Suff](#)

[9. Rev Req](#)

Notes:

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



Revenue Requirement Workform

Data Input ⁽¹⁾

	Initial Application	(2)		(6)		Per Board Decision
1	Rate Base					
Gross Fixed Assets (average)	\$60,605,808	13		\$ 60,605,808		\$60,605,808
Accumulated Depreciation (average)	(\$7,153,078)	(5)		(\$7,153,078)		(\$7,153,078)
Allowance for Working Capital:						
Controllable Expenses	\$13,302,742			\$ 13,302,742		\$13,302,742
Cost of Power	\$89,374,845			\$ 89,374,845		\$89,374,845
Working Capital Rate (%)	13.00%	(9)		13.00%	(9)	13.00% (9)
2	Utility Income					
Operating Revenues:						
Distribution Revenue at Current Rates	\$18,420,657					
Distribution Revenue at Proposed Rates	\$21,876,690					
Other Revenue:						
Specific Service Charges	\$571,199					
Late Payment Charges	\$232,694					
Other Distribution Revenue	\$180,257					
Other Income and Deductions	\$96,099					
Total Revenue Offsets	\$1,080,249	(7)				
Operating Expenses:						
OM+A Expenses	\$13,078,828			\$ 13,078,828		\$13,078,828
Depreciation/Amortization	\$5,011,623	(10)		\$ 5,011,623		\$5,011,623
Property taxes	\$223,914			\$ 223,914		\$223,914
Other expenses						
3	Taxes/PILs					
Taxable Income:						
Adjustments required to arrive at taxable income	(\$892,023)	(3)				
Utility Income Taxes and Rates:						
Income taxes (not grossed up)	\$444,375	(12)				
Income taxes (grossed up)	\$586,513					
Federal tax (%)	15.00%					
Provincial tax (%)	9.23%					
Income Tax Credits	\$69,984	(14)				
4	Capitalization/Cost of Capital					
Capital Structure:						
Long-term debt Capitalization Ratio (%)	56.0%					
Short-term debt Capitalization Ratio (%)	4.0%	(8)		(8)		(8)
Common Equity Capitalization Ratio (%)	40.0%					
Preferred Shares Capitalization Ratio (%)	100.0%					
Cost of Capital						
Long-term debt Cost Rate (%)	4.18%					
Short-term debt Cost Rate (%)	2.08%					
Common Equity Cost Rate (%)	9.12%					
Preferred Shares Cost Rate (%)						
Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS (\$)		(11)		(11)		(11)

Notes:

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I
- (2) Net of addbacks and deductions to arrive at taxable income.
- (3) Average of Gross Fixed Assets at beginning and end of the Test Year
- (4) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (5) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (6) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
- (7) 4.0% unless an Applicant has proposed or been approved for another amount.
- (8) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (9) Depreciation Expense should include the adjustment resulting from the amortization of the deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.
- (10) Adjustment should include the adjustment to the return on rate base associated with deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.
- (11) See Exhibit 4, Tab 8, Schedule 1 for full explanation. The Income taxes (grossed up) value of \$586,517 includes a one-time adjustment of \$92,369.
- (12) Increased gross fixed assets by the IFRS adjustment of \$364,881
- (13) Note: An adjustment to gross fixed assets of \$364,881 was made in order to accommodate the IFRS rate base adjustment. The effect on regulated return on capital is \$22,153. The amount of \$22,153 was not included in cell E67 because the adjustment was made to the gross fixed assets instead as this was determined to lead to a more accurate representation of the effect on deemed interest expense and deemed return on equity.
- (14) This is not actually an income credit, but rather had to use this cell to adjust for the one-time PILs adjustment of \$92,369 (grossed-up)



Revenue Requirement Workform

Rate Base and Working Capital

Rate Base											
Line No.	Particulars		Initial Application		Per Board Decision						
1	Gross Fixed Assets (average)	(3)	\$60,605,808		\$ -		\$60,605,808		\$ -		\$60,605,808
2	Accumulated Depreciation (average)	(3)	(\$7,153,078)		\$ -		(\$7,153,078)		\$ -		(\$7,153,078)
3	Net Fixed Assets (average)	(3)	\$53,452,730		\$ -		\$53,452,730		\$ -		\$53,452,730
4	Allowance for Working Capital	(1)	\$13,348,086		\$ -		\$13,348,086		\$ -		\$13,348,086
5	Total Rate Base		\$66,800,816		\$ -		\$66,800,816		\$ -		\$66,800,816

Allowance for Working Capital - Derivation

(1)

6	Controllable Expenses	\$13,302,742	\$ -	\$13,302,742	\$ -	\$13,302,742
7	Cost of Power	\$89,374,845	\$ -	\$89,374,845	\$ -	\$89,374,845
8	Working Capital Base	\$102,677,587	\$ -	\$102,677,587	\$ -	\$102,677,587
9	Working Capital Rate % (2)	13.00%	0.00%	13.00%	0.00%	13.00%
10	Working Capital Allowance	\$13,348,086	\$ -	\$13,348,086	\$ -	\$13,348,086

Notes

(2)

Some Applicants may have a unique rate as a result of a lead-lag study. Default rate for 2013 cost of service applications is 13%.

(3)

Average of opening and closing balances for the year.



Utility Income

Line No.	Particulars	Initial Application					Per Board Decision
	Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)	\$21,876,690	(\$21,876,690)	\$ -	\$ -	\$ -	
2	Other Revenue (1)	\$1,080,249	(\$1,080,249)	\$ -	\$ -	\$ -	
3	Total Operating Revenues	\$22,956,939	(\$22,956,939)	\$ -	\$ -	\$ -	
	Operating Expenses:						
4	OM+A Expenses	\$13,078,828	\$ -	\$13,078,828	\$ -	\$13,078,828	
5	Depreciation/Amortization	\$5,011,623	\$ -	\$5,011,623	\$ -	\$5,011,623	
6	Property taxes	\$223,914	\$ -	\$223,914	\$ -	\$223,914	
7	Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -	
8	Other expense	\$ -	\$ -	\$ -	\$ -	\$ -	
9	Subtotal (lines 4 to 8)	\$18,314,365	\$ -	\$18,314,365	\$ -	\$18,314,365	
10	Deemed Interest Expense	\$1,619,166	(\$1,619,166)	\$ -	\$ -	\$ -	
11	Total Expenses (lines 9 to 10)	\$19,933,531	(\$1,619,166)	\$18,314,365	\$ -	\$18,314,365	
12	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	\$ -	\$ -	\$ -	\$ -	\$ -	
13	Utility income before income taxes	\$3,023,408	(\$21,337,773)	(\$18,314,365)	\$ -	(\$18,314,365)	
14	Income taxes (grossed-up)	\$586,513	\$ -	\$586,513	\$ -	\$586,513	
15	Utility net income	\$2,436,895	(\$21,337,773)	(\$18,900,878)	\$ -	(\$18,900,878)	
Notes							
Other Revenues / Revenue Offsets							
(1)	Specific Service Charges	\$571,199		\$ -		\$ -	
	Late Payment Charges	\$232,694		\$ -		\$ -	
	Other Distribution Revenue	\$180,257		\$ -		\$ -	
	Other Income and Deductions	\$96,099		\$ -		\$ -	
	Total Revenue Offsets	\$1,080,249	\$ -	\$ -	\$ -	\$ -	



Revenue Requirement Workform

Taxes/PILs

Line No.	Particulars	Application				Per Board Decision	
<u>Determination of Taxable Income</u>							
1	Utility net income before taxes	\$2,436,894		\$ -		\$ -	
2	Adjustments required to arrive at taxable utility income	(\$892,023)		\$ -		(\$892,023)	
3	Taxable income	<u>\$1,544,871</u>		<u>\$ -</u>		<u>(\$892,023)</u>	
<u>Calculation of Utility income Taxes</u>							
4	Income taxes	<u>\$444,375</u>		<u>\$444,375</u>		<u>\$444,375</u>	
6	Total taxes	<u>\$444,375</u>		<u>\$444,375</u>		<u>\$444,375</u>	
7	Gross-up of Income Taxes	<u>\$142,138</u>		<u>\$142,138</u>		<u>\$142,138</u>	
8	Grossed-up Income Taxes	<u>\$586,513</u>		<u>\$586,513</u>		<u>\$586,513</u>	
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$586,513</u>		<u>\$586,513</u>		<u>\$586,513</u>	
10	Other tax Credits	\$69,984		\$69,984		\$69,984	
<u>Tax Rates</u>							
11	Federal tax (%)	15.00%		15.00%		15.00%	
12	Provincial tax (%)	9.23%		9.23%		9.23%	
13	Total tax rate (%)	24.23%		24.23%		24.23%	

Notes



Revenue Requirement Workform

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Initial Application			
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$37,408,457	4.18%	\$1,563,588
2	Short-term Debt	4.00%	\$2,672,033	2.08%	\$55,578
3	Total Debt	60.00%	\$40,080,490	4.04%	\$1,619,166
	Equity				
4	Common Equity	40.00%	\$26,720,327	9.12%	\$2,436,894
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$26,720,327	9.12%	\$2,436,894
7	Total	100.00%	\$66,800,816	6.07%	\$4,056,060
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	0.00%	\$ -	0.00%	\$ -
2	Short-term Debt	0.00%	\$ -	0.00%	\$ -
3	Total Debt	0.00%	\$ -	0.00%	\$ -
	Equity				
4	Common Equity	0.00%	\$ -	0.00%	\$ -
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	0.00%	\$ -	0.00%	\$ -
7	Total	0.00%	\$66,800,816	0.00%	\$ -
		Per Board Decision			
		(%)	(\$)	(%)	(\$)
	Debt				
8	Long-term Debt	0.00%	\$ -	4.18%	\$ -
9	Short-term Debt	0.00%	\$ -	2.08%	\$ -
10	Total Debt	0.00%	\$ -	0.00%	\$ -
	Equity				
11	Common Equity	0.00%	\$ -	9.12%	\$ -
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	0.00%	\$ -	0.00%	\$ -
14	Total	0.00%	\$66,800,816	0.00%	\$ -

Notes

(1) Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I



Revenue Requirement Workform

Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$3,456,032		(\$299,246)
2	Distribution Revenue	\$18,420,657	\$18,420,658	\$18,420,657	\$22,175,936
3	Other Operating Revenue	\$1,080,249	\$1,080,249	\$ -	\$ -
	Offsets - net				
4	Total Revenue	\$19,500,906	\$22,956,939	\$18,420,657	\$21,876,690
5	Operating Expenses	\$18,314,365	\$18,314,365	\$18,314,365	\$18,314,365
6	Deemed Interest Expense	\$1,619,166	\$1,619,166	\$ -	\$ -
7		\$ - (2)	\$ -	\$ - (2)	\$ -
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS				
8	Total Cost and Expenses	\$19,933,531	\$19,933,531	\$18,314,365	\$18,314,365
9	Utility Income Before Income Taxes	(\$432,625)	\$3,023,408	\$106,292	\$3,562,325
10	Tax Adjustments to Accounting Income per 2013 PILs model	(\$892,023)	(\$892,023)	(\$892,023)	(\$892,023)
11	Taxable Income	(\$1,324,648)	\$2,131,385	(\$785,731)	\$2,670,302
12	Income Tax Rate	24.23%	24.23%	24.23%	24.23%
13		(\$321,021)	\$516,529	(\$190,417)	\$647,133
	Income Tax on Taxable Income				
14	Income Tax Credits	\$69,984	\$69,984	\$69,984	\$69,984
15	Utility Net Income	(\$181,588)	\$2,436,895	\$226,725	(\$18,900,878)
16	Utility Rate Base	\$66,800,816	\$66,800,816	\$66,800,816	\$66,800,816
17	Deemed Equity Portion of Rate Base	\$26,720,327	\$26,720,327	\$ -	\$ -
18	Income/(Equity Portion of Rate Base)	-0.68%	9.12%	0.00%	0.00%
19	Target Return - Equity on Rate Base	9.12%	9.12%	0.00%	0.00%
20	Deficiency/Sufficiency in Return on Equity	-9.80%	0.00%	0.00%	0.00%
21	Indicated Rate of Return	2.15%	6.07%	0.34%	0.00%
22	Requested Rate of Return on Rate Base	6.07%	6.07%	0.00%	0.00%
23	Deficiency/Sufficiency in Rate of Return	-3.92%	0.00%	0.34%	0.00%
24	Target Return on Equity	\$2,436,894	\$2,436,894	\$ -	\$ -
25	Revenue Deficiency/(Sufficiency)	\$2,618,482	\$1	(\$226,725)	\$ -
26	Gross Revenue Deficiency/(Sufficiency)	\$3,456,032 (1)		(\$299,246) (1)	\$18,314,365 (1)

Notes:

- (1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)
(2) Treated as an adjustment pre-tax to avoid an impact on taxes/PILs and hence on revenue sufficiency deficiency
(3)



Revenue Requirement Workform

Revenue Requirement

Line No.	Particulars	Application				Per Board Decision			
1	OM&A Expenses	\$13,078,828		\$13,078,828		\$13,078,828			
2	Amortization/Depreciation	\$5,011,623		\$5,011,623		\$5,011,623			
3	Property Taxes	\$223,914		\$223,914		\$223,914			
5	Income Taxes (Grossed up)	\$586,513		\$586,513		\$586,513			
6	Other Expenses	\$ -							
7	Return								
	Deemed Interest Expense	\$1,619,166		\$ -		\$ -			
	Return on Deemed Equity	\$2,436,894		\$ -		\$ -			
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	\$ -		\$ -		\$ -			
8	Service Revenue Requirement (before Revenues)	<u>\$22,956,938</u>		<u>\$18,900,878</u>		<u>\$18,900,878</u>			
9	Revenue Offsets	\$1,080,249		\$ -		\$ -			
10	Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment)	<u>\$21,876,689</u>		<u>\$18,900,878</u>		<u>\$18,900,878</u>			
11	Distribution revenue	\$21,876,690		\$ -		\$ -			
12	Other revenue	\$1,080,249		\$ -		\$ -			
13	Total revenue	<u>\$22,956,939</u>		<u>\$ -</u>		<u>\$ -</u>			
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	<u>\$1</u>	(1)	<u>(\$18,900,878)</u>	(1)	<u>(\$18,900,878)</u>	(1)		

Notes

(1) Line 11 - Line 8

AFFILIATE TRANSACTIONS

Bluewater Power Corporation is the holding company to the distribution company and its affiliates. The holding company is the sole shareholder for Bluewater Power Distribution Corporation (referred to in this Application as "Bluewater Power"), as well as the sole shareholder of the three affiliates described in Exhibit 1, Tab 1, Schedule 10 as Electek, BPSC, and Genco (which, in turn, is the sole shareholder of BPRI). Each of Electek and BPSC employ a full-time administrator, as well as appropriate staff and supervisors to deliver the service offerings by the corporations. Genco and its wholly owned subsidiary, BPRI, own one passive investment in Landfill Gas Generation, two passive investments in MicroFIT solar, and one active investment in Landfill Gas Generation that is managed by BPRI with an employee shared from Bluewater Power.

Staff and resources are shared from Bluewater Power to both BPSC and BPRI under Cost Sharing Agreements. The Executive, Finance, Human Resource and IT functions are performed by employees of Bluewater Power under Management Services Agreements with each affiliate. At the risk of repeating that evidence in Exhibit 1, Tab 1, Schedule 10, Bluewater Power shares employees with, and provides services to, its affiliates in order for the utility to benefit from economies of scale and thereby control the level of costs incurred by the utility to provide services to customers.

The nature of sharing and the services provided by Bluewater Power to its affiliates was voluntarily subjected to review by outside consultants, BDR North America Inc. ("BDR"). The Transfer Pricing Study is included with this Application as Exhibit 4, Tab 5, Schedule 1, Attachment 2 and the detailed analysis of Shared Services and Corporate Cost Allocation is discussed in Exhibit 4, Tab 5, Schedule 1.

Bluewater Power's transactions with affiliates were also subject to a Regulatory Compliance Audit by the Regulatory Audit and Accounting division of the OEB over the summer of 2012. The Report resulting from the Audit is included as Exhibit 1, Tab 2, Schedule 8, Attachment 1 and, as stated in the Cover Letter to that report:

1 *"Per letter dated July 17, 2012, the objective of this audit is to review and assess*
2 *Bluewater's loans, guarantee of indebtedness to and from its affiliates, and*
3 *investment in securities of its affiliates (collectively "subject financial*
4 *transactions") for the period of 2009 to 2011. The review will determine whether*
5 *the terms and conditions, the interest rates etc. of the subject financial*
6 *transactions are compliant with Section 2.4 Financial Transactions with Affiliates*
7 *of the ARC and any other provisions in the ARC, as applicable. Regulatory Audit*
8 *will also assess Bluewater's compliance with Section 2.7 Compliance Measures*
9 *of the ARC."*

10
11 The results of the Regulatory Compliance audit were generally favorable in that those
12 items that were noted as being non-compliant were relatively minor in nature and have
13 been readily addressed by Bluewater Power. As set out in the report, the actions taken
14 by Bluewater Power relating to transactions with affiliates have been addressed as
15 follows:

- 16 • A Promissory Note between Bluewater Power and BPRI was noted to be non-
17 compliant even though the interest rate charged to the affiliate was less favorable
18 to the affiliate than the Infrastructure Ontario rate. The non-compliance will be
19 addressed in the future through better documentation. The loan in question,
20 however, will be terminated by December 31, 2012 as noted in Exhibit 3, Tab 2,
21 Schedule 1, as reflected in Account 4405 Interest and Dividend Income.
- 22 • Guarantees by Bluewater Power of affiliate loans will either be revoked, if
23 acceptable to the lender, or the relationship will be fully documented to ensure
24 the responsibilities of Bluewater Power and the affiliates are clear.

Ontario Energy
Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie
de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



August 30, 2012

Mr. Alex Palimaka
VP, Corporate Services & Legal Counsel
Bluewater Power Distribution Corporation
855 Confederation St.
Sarnia, ON, N7T 7L6

Dear Mr. Palimaka:

Re: Audit Review of Compliance with the Affiliate Relationships Code

The Ontario Energy Board (the "Board") has determined that an audit review of Bluewater Power Distribution Corporation's ("Bluewater") financial transactions with affiliates, and compliance measures relating to the Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC") would be appropriate. This review was conducted by the Board's Regulatory Audit and Accounting group ("Regulatory Audit") during July and August 2012.

Per letter dated July 17, 2012, the objective of this audit is to review and assess Bluewater's loans, guarantee of indebtedness to and from its affiliates, and investment in securities of its affiliates (collectively "subject financial transactions") for the period of 2009 to 2011. The review will determine whether the terms and conditions, the interest rates etc. of the subject financial transactions are compliant with Section 2.4 *Financial Transactions with Affiliates* of the ARC and any other provisions in the ARC, as applicable. Regulatory Audit will also assess Bluewater's compliance with Section 2.7 *Compliance Measures* of the ARC.

A final report based on Regulatory Audit's review ("the Report") has now been completed. The report outlines the review's objectives, scope, criteria, procedures used, findings, basis of findings and areas of non-conformity requiring actions for Bluewater. It also includes responses and action plans of Bluewater's management.

The findings in the Report represent the views of Regulatory Audit and are not

necessarily the views of the Board as a whole. Regulatory Audit provides no assurances that addressing the areas of non-conformity requiring actions alone will resolve the issues identified in the audit review.

The findings of the audit review will be reported to the Board and may also ultimately be used as evidence in a future Bluewater proceeding before the Board.

The Management Action Plans indicated by Bluewater's management in response to the findings in the Report will be subject to a follow up at a later date.

We thank the staff of Bluewater for the assistance and support provided to us during this review.

Yours truly,

A handwritten signature in black ink, appearing to read 'D. Babaie', with a stylized, cursive script.

Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting
Phone: (416) 440-7614
Fax: (416) 440-7656
Daria.Babaie@ontarioenergyboard.ca

Cc : Janice McMichael-Dennis, President and CEO
Mark Hutson, CFO
Firman Bentley, Chairman of the Board of Directors
Leslie Dugas, Manager, Regulatory Affairs

**Audit Review of Compliance with the Affiliate Relationships Code
Bluewater Power Distribution Corporation
August 2012**

Executive Summary

The Ontario Energy Board (the "Board") authorized an audit review ("Audit Review") of Bluewater Power Distribution Corporation's ("Bluewater") financial transactions with affiliates, and compliance measures relating to the Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC" or the "Code"). This review was conducted by the Board's Regulatory Audit and Accounting group ("Regulatory Audit") during 2012 and the audit review report ("Audit Review Report") was issued in August 2012.

This Audit Review examined Bluewater's compliance with Section 2.4 *Financial Transactions with Affiliates* of the ARC and any other provisions in the ARC as applicable, for the period of 2009 to 2012. Regulatory Audit also assessed Bluewater's compliance with Section 2.7 *Compliance Measures* of the ARC.

Within the scope of this Audit Review, Regulatory Audit reviewed five loans from affiliates, one promissory note receivable to an affiliate, one guarantee for an affiliate, one letter of credit on behalf of affiliates and cash advances for three affiliates. Regulatory Audit identified four findings regarding potential non-compliance with the ARC. For the promissory note receivable, Regulatory Audit noted that Bluewater does not seem to be in compliance with ensuring provisions of the ARC requiring that the terms of a loan provided to an affiliate be no more favourable than what the affiliate could obtain on its own in the market. There is also a lack of Services Agreements between Bluewater and affiliates relating to the guarantee and letters of credit. Regulatory Audit also identified a lack of inclusion of all relevant terms in the promissory note receivable agreement. In addition, compliance reviews and communication of the Code to employees were not performed on a periodic basis as required by the Code.

Regulatory Audit did not note any issues with loans from affiliates. Furthermore, Regulatory Audit noted that in the 2008 Reporting and Record Keeping Requirements ("RRR") 2.2.1 certification, Bluewater has appropriately disclosed non-compliance to section 2.1.2 of the ARC, which requires a utility to ensure that at least one-third of its Board of Directors is independent from any affiliate. In the fall of 2008, one of Bluewater's independent directors was no longer on the Board due to unforeseen events. Plans were immediately put in place to replace the independent director, but the position was not filled by the end of the year and was disclosed as such.

The audit findings and the observation of this Audit Review are found in Sections 8 and 9 of this Audit Review Report.

1. Background

Bluewater is a utility providing electrical distribution and related services to over 35,000 customers in Southwestern Ontario. Bluewater was incorporated on October 30, 2000 upon completion of a merger of the utilities from the City of Sarnia, Town of Petrolia, Village of Point Edward, Village of Alvinston, Township of Warwick and Village of Oil Springs. Bluewater distributes electricity in these municipalities and the beneficial ownership of Bluewater is held by these municipalities. Bluewater is held through the holding company Bluewater Power Corporation.

In addition to shareholders and the holding company, other affiliates of Bluewater include:

- Bluewater Power Services Corporation – activities include excavation and civil work installing underground electrical and streetlight infrastructure for Bluewater and water billing for affiliates
- Electek Power Services Inc. – provides services for high voltage maintenance, commissioning and testing, switchgear modification, relay calibration and testing
- Bluewater Power Generation Corporation - holding company of Bluewater Power Renewable Energy Inc.
- Bluewater Power Renewable Energy Inc. – owns and operates a 1.6MW landfill gas generation site and owns a 50% interest in a 2.4MW landfill gas generation site operated by Waste Management

2. Authority for review

To the extent that this Audit Review required Bluewater to provide documents, records or information, Regulatory Audit acted under its inspection powers under Part VII of the *Ontario Energy Board Act, 1998*.

3. Reason for Audit Review

The Board's audit review function is a regulatory instrument of the Board to ensure that the regulated entities conform to the Board's codes, guidelines and policies.

The Board requires electric utilities to report certain information to the Board at specific intervals. The Board relies on this information for industry monitoring, replying to stakeholders' requests, assisting in the review of applications and many other purposes. It is important that distributors file information that is complete, accurate and on time.

4. Objectives

The objective of this Audit Review is to assess Bluewater's compliance to Section 2.4 *Financial Transactions with Affiliates* of the ARC and any other provisions in the ARC, as applicable. Regulatory Audit also assessed Bluewater's compliance with Section 2.7 *Compliance Measures* of the ARC.

Any potential non-compliance with the ARC as identified through the Audit Review will be reported to the Board in the form of audit findings and observations in the Audit Report. This may ultimately be used as evidence in a future Bluewater proceeding before the Board.

5. Scope

This Audit Review covered Bluewater's loans, guarantee of indebtedness to and from its affiliates, and investment in securities of its affiliates and from its affiliates (collectively "subject financial transactions") for the period of 2009 to 2012. The Audit Review also covered documentation relating to compliance reviews and communication of the ARC for the period of 2009 to 2012.

6. Criteria

This Audit Review relied on the following documents to establish the criteria:

1. Affiliate Relationships Code for Electricity Distributors and Transmitters – March 15, 2010
2. Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (EB-2009-0084) dated December 11, 2009

7. Procedures Used

Regulatory Audit used procedures that consisted primarily of enquiry, observation, analytical procedures, and discussion related to information and materials provided by Bluewater's management or available to the Board from filings made under the Board's Electric Utilities RRR filings.

8. Findings

8.1.1 Finding 1

There is a lack of evidence that the terms of the agreement are no more favourable than what the affiliate would be able to obtain on its own from the capital markets.

8.1.2 Basis for Finding

Per section 2.4.2 of the ARC

A utility shall ensure that any loan, investment or other financial support provided to an affiliate is provided on terms no more favourable than what that affiliate would be able to obtain on its own from the capital markets and in all cases at no more favourable terms than the utility could obtain directly for itself in capital markets.

Bluewater issued a promissory note receivable to an affiliate in 2011. The rate in the agreement is based on the Infrastructure Ontario rate, which was the rate that Bluewater was able to obtain on its own from the markets. However, Bluewater has not formally confirmed that the rate in the agreement is no more favourable than what the affiliate would be able to obtain on its own from the markets.¹

In addition, although Bluewater based the rate in the agreement on the Infrastructure Ontario rate, the rate in the agreement does not correspond to the Infrastructure Ontario rate effective on the date the agreement was signed. Though the difference in interest from the rate in the agreement and the Infrastructure Ontario rate, may be immaterial, the evidence provided by Bluewater does not support the specific rate used in the agreement.²

8.1.3 Area of Non-Conformity Requiring Action

Bluewater has not formally confirmed that the rate in the agreement is no more favourable than what the affiliate would be able to obtain on its own in the markets. The Infrastructure Ontario rates Bluewater has supplied as evidence also does not support the specific rate used in the agreement. Bluewater is encouraged to improve its internal review and control processes to ensure that all new agreements comply with the ARC.

¹ As per Bluewater email dated Aug. 15, 2012

² As per Bluewater email dated August 27, 2012

8.1.4 Management Responses

Bluewater agrees with the finding. We note that the rate selected was what we understood to be the then current Infrastructure Ontario (IO) rate, but we were unable to locate the documentation to support that position during the course of the audit. The interest rate selected was marginally less favourable to the affiliate than the interest rate applicable at the time so the utility and its customers were protected at all times.

8.1.5 Management Action Plan

The practice of tying the interest rate to the Infrastructure Ontario rate is a reasonable and sound practice for a LDC loaning money to its affiliates. In this one particular case, the rate chosen was appropriate (in fact, marginally higher than the market rate). Bluewater intends to continue the approach that it took with this loan, however we will better document the rationale for decisions made in the course of establishing the terms of a loan. We will increase the formality of the loan by establishing separate "Closing Books" for each loan, including back-up documentation, in much the same manner as commercial loans are documented.

8.2.1 Finding 2

There is a lack of Services Agreements between Bluewater and affiliates with regards to a guarantee and letters of credit facilities on behalf of affiliates.

8.2.2 Basis for Finding

Bluewater is a guarantor of a credit facility for an affiliate. Bluewater also has letters of credit in favour of OMERS as security on behalf of its affiliates for their pension plan contributions. Per section 2.2.1 of the ARC:

While a utility provides a service, resource, product or use of asset to an affiliate or receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Service Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code.

Though no amounts have been drawn on the guarantee or letters of credit, there are no formal Services Agreements between Bluewater and its affiliates regarding this particular service Bluewater has provided with respect to the

guarantee of a credit facility and the availability of the letters of credit for its affiliates.

8.2.3 Area of Non-Conformity Requiring Action

Bluewater has provided affiliates with a service with regards to providing affiliates with a guarantee of a credit facility and the availability of the letters of credit. As such, the lack of a Services Agreement between Bluewater and its affiliates appears to be non-compliant with the ARC. Bluewater is encouraged to formally develop Services Agreements for all services to and from affiliates.

8.2.4 Management Responses

Bluewater agrees with the finding. Given that none of the guarantees have ever been acted upon and, further, that there is no reason to suspect they will ever be acted upon, it was not allotted priority by management.

8.2.5 Management Action Plan

The guarantee was required by our commercial lender on the basis that the affiliates did not have sufficient history to justify granting the company a Letter of Credit on its own merit. Given the passage of time and the ensuing activity within the affiliates, Bluewater intends to negotiate with our commercial lender for the obligation to provide a guarantee and letters of credit from Bluewater to be lifted. Failing that, we will document the guarantee obligation between Bluewater and Bluewater Power Service Corporation/Electek as suggested by Board Staff. We intend to have the matter resolved by December 31, 2012.

8.3.1 Finding 3

The promissory note receivable agreement does not include the term in which the agreement is in effect.

8.3.2 Basis for Finding

Per section 2.2.1 of the ARC:

The Services Agreement shall include:

- a) the type, quantity and quality of service;
- b) pricing mechanisms;
- c) cost allocation mechanisms;
- d) confidentiality arrangements;

- e) the apportionment of risks (including risks related to under or over provision of service); and
- f) a dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.

The pricing mechanism in a Services Agreement should include all relevant aspects relating to pricing, including the term of the agreement. Review of the promissory note receivable agreement Bluewater provided to an affiliate has revealed that the term in which the agreement is in effect is not included in the agreement. Bluewater has indicated the term of the agreement is 20 years³. However, the actual terms of the agreement allow Bluewater to demand repayment with three days written notice on any anniversary date of the note. Without written documentation, evidence of the reported 20 year term of the agreement is not clear.

8.3.3 Area of Non-Conformity Requiring Action

Bluewater is encouraged to ensure that all relevant terms of the agreement is included in the written agreement to ensure that there is no confusion or misunderstanding relating to the terms and conditions of the agreement.

8.3.4 Management Responses

Bluewater agrees with the finding. We note that the loan documentation was prepared by outside legal counsel and the format of the loan is on terms and condition common to the commercial market. Bluewater provided Board Staff with the 20 year payments terms agreed to between Bluewater and the affiliate, as well as evidence of payments in compliance with the agreed terms. However, we acknowledge that the language in the loan document should have referenced the payment terms agreed to by the parties.

8.3.5 Management Action Plan

The loan in question is intended to be repaid before year end 2012.

8.4.1 Finding 4

There is a lack of periodic compliance reviews and communication of the Code to employees.

³ Per discussion with Bluewater management and 2011 Bluewater's Audited Financial Statements Note 16

8.4.2 Basis for Finding

Per section 2.7.1 of the ARC:

A utility shall be responsible for ensuring compliance with this Code and shall:

- a) Perform periodic compliance reviews;
- b) Communicate the Code to its employees; and
- c) Monitor its employee's compliance with this Code

Bluewater has indicated that ARC compliance is addressed on an ongoing case by case basis as ARC issues arise. Communication and education of the ARC is done on a verbal basis for employees working on particular projects or with the employees of the affiliates. Bluewater has cited multiple instances of Senior Management Team meetings from 2006 to 2012 in which ARC issues were discussed.⁴ Bluewater has also provided excerpts pertaining to the ARC from an Employee Town Hall meeting, Regulatory Report and slide presentations to the Board for the period of 2006 to 2008.⁵

Regulatory Audit acknowledges that Bluewater filed an annual RRR ARC self-certification with the Board. However, the documentation provided by Bluewater in carrying out the annual self-certification is insufficient. The ARC is also not communicated to employees on a periodic basis.

8.4.3 Area of Non-Conformity Requiring Action

Bluewater is encouraged to perform compliance reviews and communicate the Code to employees on a periodic basis.

8.4.4 Management Responses

Bluewater agrees with the finding that ARC education was not carried out on a periodic basis. We acknowledge that our current practice of addressing ARC education on a case-by-case basis could be improved by periodic communication to all employees.

Bluewater agrees with the finding that periodic compliance reviews require improved documentation by the utility.

⁴ Per Bluewater email dated Aug 10, 2012 and Aug. 17, 2012

⁵ Per Bluewater email attachments from Aug. 17, 2012

8.4.5 Management Action Plan

Bluewater will take immediate steps to add language to its Employee Handbook concerning the ARC and the obligations that it imposes on both the employer and the employees. Those changes will be addressed with all new employees and current employees will be provided with notice of the update to the Employee Handbook. In addition, Bluewater does engage its staff through Town Hall meetings from time-to-time and we will ensure that each such meeting includes a topic of relevance concerning the ARC.

Compliance reviews will continue to be performed on an annual basis. The documentation of those reviews will be improved.

CONFIDENTIAL

COST SHARING AGREEMENT

THIS AGREEMENT made as of the 27th day of September, 2012, (to be effective January 1, 2013),

BETWEEN:

BLUEWATER POWER RENEWABLE ENERGY INC.,
an Ontario corporation
("BPREI")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

- A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;
- B. BPREI carries on the business of operating a landfill gas generation project at Blackwell Landfill in Sarnia, Ontario.
- C. BPREI requires, from time to time, the services of additional persons, and use of certain equipment; and
- D. BWP Distribution has agreed to make available to BPREI certain of its personnel on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;

- (c) "Claim" has the meaning ascribed to it in Section 4.4;
- (d) "Default" has the meaning ascribed to it in Section 8.1;
- (e) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (f) "Effective Date" means January 1, 2013;
- (g) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (h) "Equipment" has the meaning ascribed to it in Section 3.2;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency or governmental authority of competent jurisdiction;
- (k) "Leased Premises" has the meaning ascribed to it in Section 3.3;
- (l) "Party" means a party to this Agreement and "Parties" refers to both BPREI and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" has the meaning ascribed to it in Section 3.1; and
- (o) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;
- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;

- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2 TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3 SERVICES, EQUIPMENT, LEASED PREMISES AND COVENANTS

3.1 Personnel Services

Subject to the terms, covenants and conditions contained in this Agreement, upon request, BWP Distribution will provide, or cause to be provided, to BPREI the services of employees listed by title under the heading "Services" in Schedule "A" employed by BWP Distribution ("Personnel").

3.2 Equipment

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will also provide to BPREI certain equipment owned by BWP Distribution ("Equipment") for use by BPREI.

3.3 Use of Premises

Not applicable.

3.4 BWP Distribution Covenants

- (a) BWP Distribution shall, when requested, provide BPREI with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution's Personnel shall, while providing services to BPREI, comply with all the rules and regulations of BPREI from time to time in force, which are brought to their notice or of which they should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and BPREI appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 BPREI Covenants

- (a) BPREI shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use the Equipment and the Leased Premises.
- (b) BPREI shall pay for and maintain for the benefit of BPREI and BWP Distribution appropriate insurance concerning the operations and liabilities of BPREI relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BPREI to any employees of BPREI and public liability and property damage insurance.
- (c) BPREI shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the Equipment and shall, while using the Equipment, use reasonable care and skill.
- (d) Notwithstanding any other provision of this Agreement, BPREI shall be fully responsible for any damage to or loss of any of the Equipment or any portion thereof while the Equipment is in its possession, reasonable wear and tear excepted.
- (e) BPREI shall not part with possession of, sell, assign, lease, sublease, rent or otherwise transfer any of the Equipment.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days

with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to BPREI of any changes or prospective changes in circumstances that would materially affect the resources required for the Personnel, Equipment or Leased Premises provided to BPREI, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, the equipment of BWP Distribution or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third parties.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to BPREI, and BPREI shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or BPREI (whether or not any such Claim is covered by insurance) in respect of its own operations of which any of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Personnel and Equipment provided, BPREI shall pay to BWP Distribution the fees and charges set out in Schedule "A". BWP Distribution shall render a monthly invoice for all Personnel and Equipment provided to BPREI.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses actually and properly incurred by BWP Distribution in connection with the provision of Personnel and/or Equipment.

5.3 Taxes

BPREI shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Personnel and/or Equipment provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to BPREI as follows and acknowledges that BPREI is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by BPREI in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of BPREI

BPREI represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) BPREI is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of BPREI, enforceable against BPREI by BWP Distribution in accordance with its terms

except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) BPREI shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnitee relating to, or in connection with, or resulting from or arising out of the provision of services of the Personnel provided hereunder, use of the Equipment by BPREI and/or possession, occupation and/or use of the Leased Premises by BPREI.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnitees that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason outside of the Indemnity under Section 7.1 (a), BPREI agrees that BWP Distribution's liability to BPREI or any third party in connection with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Personnel, Equipment and/or the Leased Premises, whether arising in contract, tort, equity or otherwise, shall be limited to actions or liabilities resulting solely from the fraud or wilful misconduct of BWP Distribution in the provision of the Personnel, Equipment and/or the Leased Premises and shall not exceed an amount equal to the total amount paid by BPREI to BWP Distribution under this Agreement for Personnel, Equipment and Leased Premises over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.
- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Personnel, Equipment or Leased Premises referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on BPREI, and BPREI agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.
- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and BPREI in respect of or

under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and
- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by BPRI and the third shall be appointed by the two arbitrators selected by BWP Distribution and BPRI. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to BPRI,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Kathy Gadsby
Fax: 519-344-7303

- (b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Alex Palimaka
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement constitutes the entire Agreement between the Parties with respect to the subject matter hereof, and there are no other representations, understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and BWP Distribution shall not be considered to be an agent of BPREL. It is further understood and agreed that this Agreement does not constitute a partnership or joint venture agreement between the Parties.

IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

**BLUEWATER POWER RENEWABLE ENERGY
INC.,**

Per: 

Name: Tim Vanderheide

Title: C.O.O. & Secretary

Per: _____

Name:

Title:

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: _____

Name: Janice McMichael-Dennis

Title: President & C.E.O.

Per: _____

Name:

Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Shared employee	Cost	
2.	Equipment	Cost	

Terms & Conditions		
1.	Prices	Subject to Applicable Taxes
2.	Payment	Monthly invoice, Net 30 days
3.	Cost	BWP Distribution's fully allocated cost

COST SHARING AGREEMENT

THIS AGREEMENT made as of the 27th day of September, 2012, (to be effective January 1, 2013),

BETWEEN:

BLUEWATER POWER SERVICES CORPORATION,
an Ontario corporation
("BPSC")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

- A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;
- B. BPSC carries on the business of water meter billing, water meter installation and maintenance, street light installation and maintenance, traffic light installation and maintenance and miscellaneous on demand line work, as well as civil work and ad hoc maintenance services;
- C. BPSC requires, from time to time, the services of additional persons, use of certain equipment and use of certain physical space; and
- D. BWP Distribution has agreed to make available to BPSC certain of its linemen and its equipment and other resources on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;

- (c) "Claim" has the meaning ascribed to it in Section 4.4;
- (d) "Default" has the meaning ascribed to it in Section 8.1;
- (e) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (f) "Effective Date" means January 1, 2013;
- (g) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (h) "Equipment" has the meaning ascribed to it in Section 3.2;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency or governmental authority of competent jurisdiction;
- (k) "Leased Premises" has the meaning ascribed to it in Section 3.3;
- (l) "Party" means a party to this Agreement and "Parties" refers to both BPSC and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" has the meaning ascribed to it in Section 3.1; and
- (o) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;
- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;

- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2 TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3 SERVICES, EQUIPMENT, LEASED PREMISES AND COVENANTS

3.1 Personnel Services

Subject to the terms, covenants and conditions contained in this Agreement, upon request, BWP Distribution will provide, or cause to be provided, to BPSC the services of employees listed by title under the heading "Services" in Schedule "A" employed by BWP Distribution ("Personnel").

3.2 Equipment

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will also provide to BPSC certain equipment owned by BWP Distribution ("Equipment") for use by BPSC.

3.3 Use of Premises

BWP Distribution will permit BPSC exclusive use of such portion of the property known as "Main Substation No. 1" as may, from time to time, be agreed by BWP Distribution and BPSC for storage, office space and change-room facilities. BWP Distribution will also permit BPSC exclusive use of such portion of the property municipally known as 855 Confederation Street, Sarnia, Ontario as may, from time to time, be agreed by BWP Distribution and BPSC for storage of inventory owned by BPSC. In addition, BWP Distribution will also permit BPSC access to common areas of Main Substation No. 1 and 855 Confederation Street, Sarnia, including washrooms, cafeteria, parking, meeting rooms and change rooms. The portion of Main Substation No. 1 and 855 Confederation Street, Sarnia, used by BPSC, together with the common areas to which BPSC is given access, are collectively referred to as the "Leased Premises".

3.4 BWP Distribution Covenants

- (a) BWP Distribution shall, when requested, provide BPSC with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution's Personnel shall, while providing services to BPSC, comply with all the rules and regulations of BPSC from time to time in force, which are brought to their notice or of which they should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and BPSC appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 BPSC Covenants

- (a) BPSC shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use the Equipment and the Leased Premises.
- (b) BPSC shall pay for and maintain for the benefit of BPSC and BWP Distribution appropriate insurance concerning the operations and liabilities of BPSC relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BPSC to any employees of BPSC and public liability and property damage insurance.

- (c) BPSC shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the Equipment and shall, while using the Equipment, use reasonable care and skill.
- (d) Notwithstanding any other provision of this Agreement, BPSC shall be fully responsible for any damage to or loss of any of the Equipment or any portion thereof while the Equipment is in its possession, reasonable wear and tear excepted.
- (e) BPSC shall not part with possession of, sell, assign, lease, sublease, rent or otherwise transfer any of the Equipment or any portion of the Leased Premises.
- (f) BPSC shall, while utilizing any portion of the Leased Premises, comply with all rules and regulations of BWP Distribution from time to time in force, which are brought to its notice or of which it should reasonably be aware, and shall be responsible for any damage or loss of the Leased Premises or any portion thereof.
- (g) BPSC shall use the Leased Premises solely for the purposes described in Section 3.3 above and shall not make or cause to be made any alterations, additions or improvements or erect or cause to be erected any partitions or install or cause to be installed any trade fixtures, signs, floor covering, interior or exterior lighting, plumbing fixtures, apparatus for air-conditioning, cooling, heating, illuminating, refrigerating, or ventilating in the Leased Premises, or make any changes to the Leased Premises without first obtaining BWP Distribution's written approval thereto.
- (h) BPSC shall not do or permit to be done or omitted anything which could damage the Leased Premises or injure or impede the business of BWP Distribution conducted from the balance of Main Substation #1 and/or 855 Confederation Street, Sarnia, Ontario (collectively, the "Properties") or which shall or might result in any nuisance in or about the Properties, whether to BWP Distribution, any tenant of the Properties, or any other party, the whole as determined by BWP Distribution, acting reasonably. In any of the foregoing events, BPSC shall forthwith remedy the same and if such thing or condition shall not be so remedied, BWP Distribution may, after such notice, if any, as BWP Distribution may deem appropriate in the circumstances, correct such situation at the expense of BPSC and BPSC shall pay such expense to BWP Distribution.
- (i) BPSC shall keep the Leased Premises in a neat, clean and sanitary condition and shall not allow any refuse, garbage or other loose or objectionable or waste material to accumulate in or about such Leased Premises.
- (j) BPSC shall permit BWP Distribution access, upon request at any time during the term hereof, to the Leased Premises.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days

with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to BPSC of any changes or prospective changes in circumstances that would materially affect the resources required for the Personnel, Equipment or Leased Premises provided to BPSC, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, the equipment of BWP Distribution or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third parties.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to BPSC, and BPSC shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or BPSC (whether or not any such Claim is covered by insurance) in respect of its own operations of which any of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Personnel, Equipment and Leased Premises provided, BPSC shall pay to BWP Distribution the fees and charges set out in Schedule "A". BWP Distribution shall render a monthly invoice for all Personnel and Equipment provided to BPSC, as well as for the pro-rata monthly share of annual fees for use of the Leased Premises and Water Billing related fees,

during the preceding month, which invoice shall be due and payable within thirty (30) days of receipt.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses actually and properly incurred by BWP Distribution in connection with the provision of Personnel, Equipment and/or the Leased Premises.

5.3 Taxes

BPSC shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Personnel, Equipment and/or Leased Premises provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to BPSC as follows and acknowledges that BPSC is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by BPSC in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of BPSC

BPSC represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) BPSC is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;

- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of BPSC, enforceable against BPSC by BWP Distribution in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) BPSC shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnitee relating to, or in connection with, or resulting from or arising out of the provision of services of the Personnel provided hereunder, use of the Equipment by BPSC and/or possession, occupation and/or use of the Leased Premises by BPSC.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnitees that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason outside of the Indemnity under Section 7.1 (a), BPSC agrees that BWP Distribution's liability to BPSC or any third party in connection with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Personnel, Equipment and/or the Leased Premises, whether arising in contract, tort, equity or otherwise, shall be limited to actions or liabilities resulting solely from the fraud or wilful misconduct of BWP Distribution in the provision of the Personnel, Equipment and/or the Leased Premises and shall not exceed an amount equal to the total amount paid by BPSC to BWP Distribution under this Agreement for Personnel, Equipment and Leased Premises over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.

- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Personnel, Equipment or Leased Premises referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on BPSC, and BPSC agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting

Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.

- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and BPSC in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and

- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by BPSC and the third shall be appointed by the two arbitrators selected by BWP Distribution and BPSC. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to BPSC,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Kathy Gadsby
Fax: 519-344-7303

- (b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Alex Palimaka
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement constitutes the entire Agreement between the Parties with respect to the subject matter hereof, and there are no other representations, understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and BWP Distribution shall not be considered to be an agent of BPSC. It is further understood and agreed that this Agreement does not constitute a partnership or joint venture agreement between the Parties.

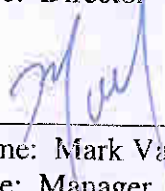
IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

BLUEWATER POWER SERVICES CORPORATION

Per: _____


Name: Kathy Gadsby
Title: Director

Per: _____


Name: Mark Vanderheide
Title: Manager

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: _____

Janice McMichael-Dennis

Name: Janice McMichael-Dennis

Title: President & C.E.O.

Per: _____

Name:

Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Linemen	Cost	
2.	Other Personnel, as required	Cost	
3.	Vehicle and equipment use	Cost	
4.	Use of "Main Substation No. 1"	\$10,850	Annual; fee subject to 3% inflationary increase on January 1, 2014 and each year thereafter
5.	Use of 855 Confederation Street, Sarnia, Ontario	\$6,350	Annual; fee subject to inflation based on CPI on January 1, 2014 and each year thereafter
6.	Equipment and Infrastructure at 855 Confederation Street, Sarnia, Ontario	\$2,820	Annual; fee subject to 3% inflationary increase on January 1, 2014 and each year thereafter
7.	Water Billing related uses of SAP Billing System and mailing equipment	\$77,037	Annual
8.	Water Billing shared costs for Market and Billing Services Personnel	\$77,790	Annual; fee subject to 3% inflationary increase on January 1, 2014 and each year thereafter
9.	Water Billing share costs for paper, envelopes and postage	\$21,640	Annual; fee subject to inflation based on CPI on January 1, 2014 and each year thereafter

Terms & Conditions		
1.	Prices	Subject to Applicable Taxes
2.	Payment	Monthly invoice, Net 30 days
3.	Cost	BWP Distribution's fully allocated cost

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT made as of the 27th day of September, 2012
(to be effective January 1, 2013),

BETWEEN:

BLUEWATER POWER GENERATION CORPORATION,
an Ontario corporation
("GenCo")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

- A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;
- B. GenCo carries on the business of holding shares in an operations company that owns renewable electricity generation projects, as well as directly owning Micro-FIT generation projects; and
- C. BWP Distribution agrees to provide certain services to GenCo on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the Schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Services Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;
- (c) "Claim" has the meaning ascribed to it in Section 4.4;

- (d) "Confidential Information" means information BWP Distribution has obtained relating to a specific consumer, retailer and/or generator in the process of providing current or prospective distribution service;
- (e) "Default" has the meaning ascribed to it in Section 8.1;
- (f) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (g) "Effective Date" means January 1, 2013;
- (h) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "IESO" means the Independent Electricity System Operator;
- (k) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency, including the IESO, or governmental authority of competent jurisdiction;
- (l) "Party" means a party to this Agreement and "Parties" refers to both GenCo and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" means employees, agents, professional advisors, contractors and subcontractors;
- (o) "Services" has the meaning ascribed to it in Section 3.1 of this Agreement;
- (p) "Service Standards" has the meaning ascribed to it in Section 3.2 of this Agreement;
- (q) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement; and
- (r) "Third Party Expenses" means all fees, costs and charges paid to third parties by BWP Distribution on behalf of GenCo in connection with providing the Services or incurred by BWP Distribution's employees while providing Services under this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;

- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;
- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2

TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3

BWP DISTRIBUTION SERVICES AND COVENANTS

3.1 Services

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will provide, or cause to be provided, to GenCo the services set out in Schedule "A" (collectively the "Services"), as may be required by GenCo.

3.2 Service Standards

BWP Distribution will provide the Services to GenCo, or cause them to be provided, to the standards set out in Schedule "B" (collectively the "Service Standards").

3.3 Changes

GenCo and BWP Distribution may, from time to time, during the term of this Agreement agree to modifications to a Service or a Service Standard by negotiating appropriate changes to the description of the Service or the Service Standard, as applicable, and the necessary associated amendments to the consideration for such Service or Service Standard. As evidence of such modifications, the Parties shall initial and attach amended Schedule(s) in this Agreement.

3.4 General BWP Distribution Covenants

- (a) BWP Distribution shall, when requested, provide GenCo with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution shall, while on site at any premises used by GenCo, comply with all the rules and regulations of GenCo from time to time in force, which are brought to its notice or of which it should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and GenCo appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 GenCo Covenants

- (a) GenCo shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use the property of BWP Distribution.
- (b) GenCo shall pay for and maintain for the benefit of GenCo and BWP Distribution appropriate insurance concerning the operations and liabilities of GenCo relevant to this Agreement including, without limiting the generality of the foregoing,

workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by GenCo to any employees of GenCo and public liability and property damage insurance.

- (c) GenCo shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the property of BWP Distribution and shall, while using the property of BWP Distribution, use reasonable care and skill.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to GenCo of any changes or prospective changes in circumstances that would materially affect the resources required for the Services provided to GenCo, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third party.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to GenCo, and GenCo shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or GenCo (whether or not any such Claim is covered by insurance) in respect of its own operations of which either of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Services provided, GenCo shall pay to BWP Distribution the fees and charges set out in Schedule "C". BWP Distribution shall render a monthly invoice for all Services provided to GenCo during the preceding month, which invoice shall be due and payable within thirty (30) days of receipt.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses and Third Party Expenses actually and properly incurred by BWP Distribution in connection with the performance of Services hereunder.

5.3 Taxes

GenCo shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Services provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to GenCo as follows and acknowledges that GenCo is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by GenCo in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of GenCo

GenCo represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) GenCo is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of GenCo, enforceable against GenCo by BWP Distribution in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

6.3 Warranty

The Services provided by BWP Distribution will be performed in a professional and workmanlike manner in accordance with the Service Standards, however, the Services are provided without warranty.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) GenCo shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnities relating to, or in connection with, or resulting from or arising out of the provision of the Services by BWP Distribution.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnities that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason, GenCo agrees that BWP Distribution's liability to GenCo or any third party in connection with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Services, whether arising in contract, tort, equity or otherwise, shall be limited to, and GenCo shall indemnify BWP Distribution from, actions or liabilities resulting solely from the fraud or wilful misconduct of BWP Distribution in the provision of

the Services and shall not exceed an amount equal to the total amount paid by GenCo to BWP Distribution under this Agreement for Services over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.

- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Services referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on GenCo, and GenCo agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.
- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and GenCo in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in

Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and
- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by GenCo and the third shall be appointed by the two arbitrators selected by BWP Distribution and GenCo. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to GenCo,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Tim Vanderheide
Fax: 519-344-7303

(b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Janice McMichael-Dennis
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement supersedes any prior agreement between BWP Distribution and GenCo in relation to the Services provided for in this Agreement, and constitutes the entire Agreement between the Parties with respect to the Services, and there are no other representations,

understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and neither BWP Distribution nor any of its employees shall be considered to be an agent or employee of GenCo. Each of the Parties shall be solely responsible for each of its own employees. It is further understood and agreed that this Agreement does not constitute a partnership, joint venture or employment agreement between the Parties.

IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

**BLUEWATER POWER GENERATION
CORPORATION**

Per: 

Name: Tim Vanderheide

Title: C.O.O. & Secretary

Per: _____

Name:

Title:

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: 

Name: Janice McMichael-Dennis

Title: President and C.E.O.

Per: _____

Name:

Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Description of Services

1. **"Base Management Services"** will include those functions relating to the day-to-day activities normally associated with the provision of management services, but does not include administrative-type or supervisory functions which is carried out by GenCo utilizing its own staff. The types of services included in Base Management Services shall include:
 - (a) Treasury services will include cash flow management, banking, accounts payable services, account receivables, taxation (PILs), GST and PST remittances and corporate VISA card.
 - (b) Controllership services will include financial systems, financial processes, policies and procedures, financial controls and compliance, financial reporting and analysis, annual budgets, financial operations, billing, collecting, capitalization and depreciation, WIP and inventory, labour charging, allocations and burdens, managing external audit, risk and contract management, insurance programs, liability, D&O, fleet, facilities, OEB reporting, incentive plan reporting, billing system quality control.
 - (c) Audit services include audit reports to Audit Committee and Board of Directors.
 - (d) Human resources services will include programming and consulting including recruitment, compensation and benefits, employee relations, labour relations.
 - (e) IT services will include personal computer systems support and communications support.
 - (f) Safety services will include safety program development, monitoring, reporting, implementation and support.
 - (g) General Management services relate to providing corporate direction, monitoring of progress and reporting to the Board of Directors.
 - (h) New support services will include such new services as may be agreed upon by the parties from time to time with a price to be negotiated at that time.
2. **"Project Management Services"** will include any service similar in nature to the services provided under the definition of Base Management Services, where the services rendered are beyond day-to-day activities. This will include an initiative to review a particular business unit or an assessment of a new business opportunity. Generally, time is docketed to Project Management Services by each manager involved in any initiative anticipated to require a total of eight (8) hours or more of management time.

3. **“Materials Management Services”**, if any, will include sourcing of material and stock-keeping services.
 - (a) Sourcing of materials will include sourcing and pricing of special order, as well as routine items that are to be purchased directly by GenCo.
 - (b) Stock-keeping services will include the provision of stock items not separately stocked by GenCo provided in accordance with a written request from GenCo on an as-needed basis.
4. **“Fleet Management”**, if any, will include scheduling and maintenance, as well as tracking mileage, maintenance costs and assisting in decisions regarding replacement of vehicles. The services also include reading vehicles for service and carrying out of routine maintenance.
5. **“Board of Directors”**, will include an allocation of costs relating to the Board of Directors with shared responsibilities, including annual fees, meeting fees, travel, as well as Directors and Officers Liability insurance.

SCHEDULE "B"

Description of Service Standards

Service Standards

- (a) BWP Distribution will adhere to industry standards, based on standards set by the WSIB, Electric Utility Safety Association, and Occupational Health & Safety Standards as applicable and in any case shall perform the Services in a good and workmanlike manner and to a standard of performance that a competent professional and diligent independent provider of the services in the same circumstances would reasonably be expected to provide.
- (b) BWP Distribution will make all reasonable efforts to meet or exceed performance measures established by the Ontario Energy Board, Measurement Canada and by the IESO.

SCHEDULE "C"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Base Management Services	\$1,394	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
2.	Project Management Services	Cost	
3.	Materials Management Services	Sourcing at Cost Stock-keeping at Cost plus a mark-up of 11% on materials	
4.	Fleet Management		Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
5.	Board of Directors	\$106	Annual (subject to adjustment on January 1, 2014 and each year thereafter)

Terms & Conditions		
1	Prices	Subject to Applicable Taxes
2	Payment	Monthly invoice, Net 30 days
3	Cost	Shall mean BWP Distribution's fully allocated cost to provide the Services

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT made as of the 27th day of September, 2012
(to be effective January 1, 2013),

BETWEEN:

BLUEWATER POWER RENEWABLE ENERGY INC.,
an Ontario corporation
("BPREI")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;

B. BPREI carries on the business of owning directly or indirectly, renewable generation projects; and

C. BWP Distribution agrees to provide certain services to BPREI on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the Schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Services Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;
- (c) "Claim" has the meaning ascribed to it in Section 4.4;

- (d) "Confidential Information" means information BWP Distribution has obtained relating to a specific consumer, retailer and/or generator in the process of providing current or prospective distribution service;
- (e) "Default" has the meaning ascribed to it in Section 8.1;
- (f) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (g) "Effective Date" means January 1, 2013;
- (h) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "IESO" means the Independent Electricity System Operator;
- (k) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency, including the IESO, or governmental authority of competent jurisdiction;
- (l) "Party" means a party to this Agreement and "Parties" refers to both BPREI and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" means employees, agents, professional advisors, contractors and subcontractors;
- (o) "Services" has the meaning ascribed to it in Section 3.1 of this Agreement;
- (p) "Service Standards" has the meaning ascribed to it in Section 3.2 of this Agreement;
- (q) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement; and
- (r) "Third Party Expenses" means all fees, costs and charges paid to third parties by BWP Distribution on behalf of BPREI in connection with providing the Services or incurred by BWP Distribution's employees while providing Services under this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;

- (b) all usage of the word "including" or the phrase "e.g." in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;
- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2

TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3 BWP DISTRIBUTION SERVICES AND COVENANTS

3.1 Services

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will provide, or cause to be provided, to BPREI the services set out in Schedule "A" (collectively the "Services"), as may be required by BPREI.

3.2 Service Standards

BWP Distribution will provide the Services to BPREI, or cause them to be provided, to the standards set out in Schedule "B" (collectively the "Service Standards").

3.3 Changes

BPREI and BWP Distribution may, from time to time, during the term of this Agreement agree to modifications to a Service or a Service Standard by negotiating appropriate changes to the description of the Service or the Service Standard, as applicable, and the necessary associated amendments to the consideration for such Service or Service Standard. As evidence of such modifications, the Parties shall initial and attach amended Schedule(s) in this Agreement.

3.4 General BWP Distribution Covenants

- (a) BWP Distribution shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the Services and BWP Distribution shall, when requested, provide BPREI with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution shall, while on site at any premises used by BPREI, comply with all the rules and regulations of BPREI from time to time in force, which are brought to its notice or of which it should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and BPREI appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 BPREI Covenants

- (a) BPREI shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use the property of BWP Distribution.

- (b) BPREI shall pay for and maintain for the benefit of BPREI and BWP Distribution appropriate insurance concerning the operations and liabilities of BPREI relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BPREI to any employees of BPREI and public liability and property damage insurance.
- (c) BPREI shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the property of BWP Distribution and shall, while using the property of BWP Distribution, use reasonable care and skill.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to BPREI of any changes or prospective changes in circumstances that would materially affect the resources required for the Services provided to BPREI, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third party.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to BPREI, and BPREI shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or BPREI (whether or not

any such Claim is covered by insurance) in respect of its own operations of which either of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Services provided, BPREI shall pay to BWP Distribution the fees and charges set out in Schedule "C". BWP Distribution shall render a monthly invoice for all Services provided to BPREI during the preceding month, which invoice shall be due and payable within thirty (30) days of receipt.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses and Third Party Expenses actually and properly incurred by BWP Distribution in connection with the performance of Services hereunder.

5.3 Taxes

BPREI shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Services provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to BPREI as follows and acknowledges that BPREI is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by BPREI in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of BPREI

BPREI represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) BPREI is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of BPREI, enforceable against BPREI by BWP Distribution in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

6.3 Warranty

The Services provided by BWP Distribution will be performed in a professional and workmanlike manner in accordance with the Service Standards, however, the Services are provided without warranty.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) BPREI shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnities relating to, or in connection with, or resulting from or arising out of the provision of the Services by BWP Distribution.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnities that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason, BPREI agrees that BWP Distribution's liability to BPREI or any third party in connection

with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Services, whether arising in contract, tort, equity or otherwise, shall be limited to, and BPREI shall indemnify BWP Distribution from, actions or liabilities resulting solely from the fraud or wilful misconduct of BWP Distribution in the provision of the Services and shall not exceed an amount equal to the total amount paid by BPREI to BWP Distribution under this Agreement for Services over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.

- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Services referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on BPREI, and BPREI agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.
- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and BPREDI in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in

Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and
- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by BPRI and the third shall be appointed by the two arbitrators selected by BWP Distribution and BPRI. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to BPRI,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Tim Vanderheide
Fax: 519-344-7303

(b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Janice McMichael-Dennis
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement supersedes any prior agreement between BWP Distribution and BPRI in relation to the Services provided for in this Agreement, and constitutes the entire Agreement between the Parties with respect to the Services, and there are no other representations,

understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and neither BWP Distribution nor any of its employees shall be considered to be an agent or employee of BPRI. Each of the Parties shall be solely responsible for each of its own employees. It is further understood and agreed that this Agreement does not constitute a partnership, joint venture or employment agreement between the Parties.

IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

**BLUEWATER POWER RENEWABLE ENERGY
INC.**

Per: 

Name: Tim Vanderheide

Title: C.O.O. & Secretary

Per: _____

Name:

Title:

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: 

Name: Janice McMichael-Dennis

Title: President and C.E.O.

Per: _____

Name:

Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Description of Services

1. **"Base Management Services"** will include those functions relating to the day-to-day activities normally associated with the provision of management services, but does not include administrative-type or supervisory functions which is carried out by BPRED utilizing its own staff. The types of services included in Base Management Services shall include:
 - (a) Treasury services will include cash flow management, banking, accounts payable services, account receivables, taxation (PILs), GST and PST remittances and corporate VISA card.
 - (b) Controllership services will include financial systems, financial processes, policies and procedures, financial controls and compliance, financial reporting and analysis, annual budgets, financial operations, billing, collecting, capitalization and depreciation, WIP and inventory, labour charging, allocations and burdens, managing external audit, risk and contract management, insurance programs, liability, D&O, fleet, facilities, OEB reporting, incentive plan reporting, billing system quality control.
 - (c) Audit services include audit reports to Audit Committee and Board of Directors.
 - (d) Human resources services will include programming and consulting including recruitment, compensation and benefits, employee relations, labour relations.
 - (e) IT services will include personal computer systems support and communications support.
 - (f) Safety services will include safety program development, monitoring, reporting, implementation and support.
 - (g) General Management services relate to providing corporate direction, monitoring of progress and reporting to the Board of Directors.
 - (h) New support services will include such new services as may be agreed upon by the parties from time to time with a price to be negotiated at that time.
2. **"Project Management Services"** will include any service similar in nature to the services provided under the definition of Base Management Services, where the services rendered are beyond day-to-day activities. This will include an initiative to review a particular business unit or an assessment of a new business opportunity. Generally, time is docketed to Project Management Services by each manager involved in any initiative anticipated to require a total of eight (8) hours or more of management time.

3. **“Materials Management Services”**, if any, will include sourcing of material and stock-keeping services.
 - (a) Sourcing of materials will include sourcing and pricing of special order, as well as routine items that are to be purchased directly by BPRI.
 - (b) Stock-keeping services will include the provision of stock items not separately stocked by BPRI provided in accordance with a written request from BPRI on an as-needed basis.
4. **“Fleet Management”**, if any, will include scheduling and maintenance, as well as tracking mileage, maintenance costs and assisting in decisions regarding replacement of vehicles. The services also include reading vehicles for service and carrying out of routine maintenance.
5. **“Board of Directors”**, will include an allocation of costs relating to the Board of Directors with shared responsibilities, including annual fees, meeting fees, travel, as well as Directors and Officers Liability insurance.

SCHEDULE "B"

Description of Service Standards

Service Standards

- (a) BWP Distribution will adhere to industry standards, based on standards set by the WSIB, Electric Utility Safety Association, and Occupational Health & Safety Standards as applicable and in any case shall perform the Services in a good and workmanlike manner and to a standard of performance that a competent professional and diligent independent provider of the services in the same circumstances would reasonably be expected to provide.
- (b) BWP Distribution will make all reasonable efforts to meet or exceed performance measures established by the Ontario Energy Board, Measurement Canada and by the IESO.

SCHEDULE "C"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Base Management Services	\$13,916	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
2.	Project Management Services	Cost	
3.	Materials Management Services	Sourcing at Cost Stock-keeping at Cost plus a mark-up of 11% on materials	
4.	Fleet Management	\$2,798	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
5.	Board of Directors	\$4,409	Annual (subject to adjustment on January 1, 2014 and each year thereafter)

Terms & Conditions		
1	Prices	Subject to Applicable Taxes
2	Payment	Monthly invoice, Net 30 days
3	Cost	Shall mean BWP Distribution's fully allocated cost to provide the Services

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT made as of the 27th day of September, 2012
(to be effective January 1, 2013),

BETWEEN:

BLUEWATER POWER SERVICES CORPORATION,
an Ontario corporation
("BPSC")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;

B. BPSC carries on the business of water meter installation and maintenance, water billing, street light installation and maintenance, traffic light installation and maintenance and miscellaneous on demand line work, as well as civil work and ad hoc maintenance services; and

C. BWP Distribution agrees to provide certain services to BPSC on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the Schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Services Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;
- (c) "Claim" has the meaning ascribed to it in Section 4.4;

- (d) "Confidential Information" means information BWP Distribution has obtained relating to a specific consumer, retailer and/or generator in the process of providing current or prospective distribution service;
- (e) "Default" has the meaning ascribed to it in Section 8.1;
- (f) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (g) "Effective Date" means January 1, 2013;
- (h) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "IESO" means the Independent Electricity System Operator;
- (k) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency, including the IESO, or governmental authority of competent jurisdiction;
- (l) "Party" means a party to this Agreement and "Parties" refers to both BPSC and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" means employees, agents, professional advisors, contractors and subcontractors;
- (o) "Services" has the meaning ascribed to it in Section 3.1 of this Agreement;
- (p) "Service Standards" has the meaning ascribed to it in Section 3.2 of this Agreement;
- (q) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement; and
- (r) "Third Party Expenses" means all fees, costs and charges paid to third parties by BWP Distribution on behalf of BPSC in connection with providing the Services or incurred by BWP Distribution's employees while providing Services under this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;

- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;
- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2

TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3

BWP DISTRIBUTION SERVICES AND COVENANTS

3.1 Services

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will provide, or cause to be provided, to BPSC the services set out in Schedule "A" (collectively the "Services"), as may be required by BPSC.

3.2 Service Standards

BWP Distribution will provide the Services to BPSC, or cause them to be provided, to the standards set out in Schedule "B" (collectively the "Service Standards").

3.3 Changes

BPSC and BWP Distribution may, from time to time, during the term of this Agreement agree to modifications to a Service or a Service Standard by negotiating appropriate changes to the description of the Service or the Service Standard, as applicable, and the necessary associated amendments to the consideration for such Service or Service Standard. As evidence of such modifications, the Parties shall initial and attach amended Schedule(s) in this Agreement.

3.4 General BWP Distribution Covenants

- (a) BWP Distribution shall, when requested, provide BPSC with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution shall, while on site at any premises used by BPSC, comply with all the rules and regulations of BPSC from time to time in force, which are brought to its notice or of which it should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and BPSC appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 BPSC Covenants

- (a) BPSC shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use the property of BWP Distribution.
- (b) BPSC shall pay for and maintain for the benefit of BPSC and BWP Distribution appropriate insurance concerning the operations and liabilities of BPSC relevant to this Agreement including, without limiting the generality of the foregoing,

workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BPSC to any employees of BPSC and public liability and property damage insurance.

- (c) BPSC shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the property of BWP Distribution and shall, while using the property of BWP Distribution, use reasonable care and skill.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to BPSC of any changes or prospective changes in circumstances that would materially affect the resources required for the Services provided to BPSC, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third party.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to BPSC, and BPSC shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or BPSC (whether or not any such Claim is covered by insurance) in respect of its own operations of which either of them

is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Services provided, BPSC shall pay to BWP Distribution the fees and charges set out in Schedule "C". BWP Distribution shall render a monthly invoice for all Services provided to BPSC during the preceding month, which invoice shall be due and payable within thirty (30) days of receipt.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses and Third Party Expenses actually and properly incurred by BWP Distribution in connection with the performance of Services hereunder.

5.3 Taxes

BPSC shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Services provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to BPSC as follows and acknowledges that BPSC is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by BPSC in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of BPSC

BPSC represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) BPSC is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of BPSC, enforceable against BPSC by BWP Distribution in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

6.3 Warranty

The Services provided by BWP Distribution will be performed in a professional and workmanlike manner in accordance with the Service Standards, however, the Services are provided without warranty.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) BPSC shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnities relating to, or in connection with, or resulting from or arising out of the provision of the Services by BWP Distribution.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnities that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason, BPSC agrees that BWP Distribution's liability to BPSC or any third party in connection

with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Services, whether arising in contract, tort, equity or otherwise, shall be limited to, and BPSC shall indemnify BWP Distribution from, actions or liabilities resulting solely from the fraud or wilful misconduct of BWP Distribution in the provision of the Services and shall not exceed an amount equal to the total amount paid by BPSC to BWP Distribution under this Agreement for Services over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.

- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Services referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on BPSC, and BPSC agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.
- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and BPSC in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in

Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and
- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by BPSC and the third shall be appointed by the two arbitrators selected by BWP Distribution and BPSC. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to BPSC,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Kathy Gadsby
Fax: 519-344-7303

(b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Janice McMichael-Dennis
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement supersedes any prior agreement between BWP Distribution and BPSC in relation to the Services provided for in this Agreement, and constitutes the entire Agreement between the Parties with respect to the Services, and there are no other representations,

understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and neither BWP Distribution nor any of its employees shall be considered to be an agent or employee of BPSC. Each of the Parties shall be solely responsible for each of its own employees. It is further understood and agreed that this Agreement does not constitute a partnership, joint venture or employment agreement between the Parties.

IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

**BLUEWATER POWER SERVICES
CORPORATION**

Per: _____

Name: Kathy Gadsby

Title: Director

Per: _____

Name: Mark Vanderheide

Title: Manager

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: _____

Name: Janice McMichael-Dennis

Title: President and C.E.O.

Per: _____

Name:

Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Description of Services

1. **"Base Management Services"** will include those functions relating to the day-to-day activities normally associated with the provision of management services, but does not include administrative-type or supervisory functions which is carried out by BPSC utilizing its own staff. The types of services included in Base Management Services shall include:
 - (a) Treasury services will include cash flow management, banking, accounts payable services, account receivables, taxation (PILs), GST and PST remittances and corporate VISA card.
 - (b) Controllership services will include financial systems, financial processes, policies and procedures, financial controls and compliance, financial reporting and analysis, annual budgets, financial operations, billing, collecting, capitalization and depreciation, WIP and inventory, labour charging, allocations and burdens, managing external audit, risk and contract management, insurance programs, liability, D&O, fleet, facilities, OEB reporting, incentive plan reporting, billing system quality control.
 - (c) Audit services include audit reports to Audit Committee and Board of Directors.
 - (d) Human resources services will include programming and consulting including recruitment, compensation and benefits, employee relations, labour relations.
 - (e) IT services will include personal computer systems support and communications support.
 - (f) Safety services will include safety program development, monitoring, reporting, implementation and support.
 - (g) General Management services relate to providing corporate direction, monitoring of progress and reporting to the Board of Directors.
 - (h) New support services will include such new services as may be agreed upon by the parties from time to time with a price to be negotiated at that time.
2. **"Project Management Services"** will include any service similar in nature to the services provided under the definition of Base Management Services, where the services rendered are beyond day-to-day activities. This will include an initiative to review a particular business unit or an assessment of a new business opportunity. Generally, time is docketed to Project Management Services by each manager involved in any initiative anticipated to require a total of eight (8) hours or more of management time.

3. **“Materials Management Services”**, if any, will include sourcing of material and stock-keeping services.
 - (a) Sourcing of materials will include sourcing and pricing of special order, as well as routine items that are to be purchased directly by BPSC.
 - (b) Stock-keeping services will include the provision of stock items not separately stocked by BPSC provided in accordance with a written request from BPSC on an as-needed basis.
4. **“Fleet Management”**, if any, will include scheduling and maintenance, as well as tracking mileage, maintenance costs and assisting in decisions regarding replacement of vehicles. The services also include reading vehicles for service and carrying out of routine maintenance.
5. **“Board of Directors”**, will include an allocation of costs relating to the Board of Directors with shared responsibilities, including annual fees, meeting fees, travel, as well as Directors and Officers Liability insurance.

SCHEDULE "B"

Description of Service Standards

Service Standards

- (a) BWP Distribution will adhere to industry standards, based on standards set by the WSIB, Electric Utility Safety Association, and Occupational Health & Safety Standards as applicable and in any case shall perform the Services in a good and workmanlike manner and to a standard of performance that a competent professional and diligent independent provider of the services in the same circumstances would reasonably be expected to provide.
- (b) BWP Distribution will make all reasonable efforts to meet or exceed performance measures established by the Ontario Energy Board, Measurement Canada and by the IESO.

SCHEDULE "C"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Base Management Services	\$102,671	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
2.	Project Management Services	Cost	
3.	Materials Management Services	Sourcing at Cost Stock-keeping at Cost plus a mark-up of 11% on materials	
4.	Fleet Management	\$13,276	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
5.	Board of Directors	\$2,036	Annual (subject to adjustment on January 1, 2014 and each year thereafter)

Terms & Conditions		
1	Prices	Subject to Applicable Taxes
2	Payment	Monthly invoice, Net 30 days
3	Cost	Shall mean BWP Distribution's fully allocated cost to provide the Services

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT made as of the 27th day of September, 2012
(to be effective January 1, 2013),

BETWEEN:

ELECTEK POWER SERVICES INC.,
an Ontario corporation
("Electek")

and

BLUEWATER POWER DISTRIBUTION CORPORATION,
an Ontario corporation
("BWP Distribution")

WHEREAS:

- A. BWP Distribution carries on the business of distributing electricity within the City of Sarnia, the Town of Petrolia, the Village of Point Edward, the Village of Oil Springs, The Municipality of Brooke-Alvinston, and the Township of Warwick;
- B. Electek carries on the business of high voltage protection and control work in Ontario; and
- C. BWP Distribution agrees to provide certain services to Electek on the terms as set forth in this Agreement.

NOW THEREFORE in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement and in the Schedules, the following terms and expressions will have the following meanings:

- (a) "Agreement" means this Services Agreement together with all Schedules attached to it, as they may be amended from time to time;
- (b) "Business Day" means any day other than a Saturday, Sunday, statutory or bank holiday in the Province of Ontario;
- (c) "Claim" has the meaning ascribed to it in Section 4.4;

- (d) "Confidential Information" means information BWP Distribution has obtained relating to a specific consumer, retailer and/or generator in the process of providing current or prospective distribution service;
- (e) "Default" has the meaning ascribed to it in Section 8.1;
- (f) "Defaulting Party" has the meaning ascribed to it in Section 8.1;
- (g) "Effective Date" means January 1, 2013;
- (h) "Event of Default" has the meaning ascribed to it in Section 8.1;
- (i) "Force Majeure Event" has the meaning ascribed to it in Section 11.1;
- (j) "IESO" means the Independent Electricity System Operator;
- (k) "Law" means any law, rule, regulation, code, order, writ, judgement, decree or other legal or regulatory determination by a court, regulatory agency, including the IESO, or governmental authority of competent jurisdiction;
- (l) "Party" means a party to this Agreement and "Parties" refers to both Electek and BWP Distribution collectively;
- (m) "Person" means an individual, corporation, partnership, joint venture, association, trust, pension fund, union, governmental agency, official, board, tribunal, ministry, commission or department;
- (n) "Personnel" means employees, agents, professional advisors, contractors and subcontractors;
- (o) "Services" has the meaning ascribed to it in Section 3.1 of this Agreement;
- (p) "Service Standards" has the meaning ascribed to it in Section 3.2 of this Agreement;
- (q) "Term" has the meaning ascribed to it in Section 2.1 of this Agreement; and
- (r) "Third Party Expenses" means all fees, costs and charges paid to third parties by BWP Distribution on behalf of Electek in connection with providing the Services or incurred by BWP Distribution's employees while providing Services under this Agreement.

1.2 Construction of Agreement

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;

- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated under it, as the same may be amended, re-enacted, consolidated or replaced, from time to time, and any successor statute, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;
- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded, and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate Articles, Sections, subsections and Schedules and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used in accordance with their recognized meanings;
- (i) the terms and conditions are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.

ARTICLE 2

TERM

2.1 Term

Unless terminated in accordance with Section 10.1, this Agreement shall come into force on the Effective Date and shall continue in full force and effect for a period of five (5) years. Thereafter, the term shall be automatically renewed for further successive periods of one (1) year each unless a Party gives notice in writing that the Agreement is not to be extended on a date which is at least ninety (90) days prior to the end of the initial five (5) year term, or the end of any renewal term, as the case may be.

ARTICLE 3

BWP DISTRIBUTION SERVICES AND COVENANTS

3.1 Services

Subject to the terms, covenants and conditions contained in this Agreement, BWP Distribution will provide, or cause to be provided, to Electek the services set out in Schedule "A" (collectively the "Services"), as may be required by Electek.

3.2 Service Standards

BWP Distribution will provide the Services to Electek, or cause them to be provided, to the standards set out in Schedule "B" (collectively the "Service Standards").

3.3 Changes

Electek and BWP Distribution may, from time to time, during the term of this Agreement agree to modifications to a Service or a Service Standard by negotiating appropriate changes to the description of the Service or the Service Standard, as applicable, and the necessary associated amendments to the consideration for such Service or Service Standard. As evidence of such modifications, the Parties shall initial and attach amended Schedule(s) in this Agreement.

3.4 General BWP Distribution Covenants

- (a) BWP Distribution shall, when requested, provide Electek with adequate evidence of its compliance with this Section 3.4.
- (b) BWP Distribution shall, while on site at any premises used by Electek, comply with all the rules and regulations of Electek from time to time in force, which are brought to its notice or of which it should reasonably be aware.
- (c) BWP Distribution shall pay for and maintain for the benefit of BWP Distribution and Electek appropriate insurance concerning the operations and liabilities of BWP Distribution relevant to this Agreement including, without limiting the generality of the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by BWP Distribution to any employees of BWP Distribution and public liability and property damage insurance.

3.5 Electek Covenants

- (a) Electek shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations required to conduct its business and to use any property of BWP Distribution.
- (b) Electek shall pay for and maintain for the benefit of Electek and BWP Distribution appropriate insurance concerning the operations and liabilities of Electek relevant to this Agreement including, without limiting the generality of

the foregoing, workplace safety and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by Electek to any employees of Electek and public liability and property damage insurance.

- (c) Electek shall not, without BWP Distribution's prior consent, make any alternations, additions or improvements to the property of BWP Distribution and shall, while using the BWP Distribution property, use reasonable care and skill.

3.6 Regulatory Change

If any change of Law after the date of this Agreement renders this Agreement illegal or unenforceable, then the Parties shall be required to renegotiate in good faith for thirty (30) days with a goal of developing a substitute agreement with such amendments as are necessary to comply with such change of Law.

ARTICLE 4 MUTUAL COVENANTS

4.1 Confidentiality of Confidential Information

No Personnel of a Party shall have access to any Confidential Information in the possession of the other Party, except for purposes related to the provision of Services and in compliance with the Affiliate Relationship Code for Electricity Distributors and Transmitters prescribed by the Ontario Energy Board.

4.2 Maintain Records

The Parties will maintain such records as may be necessary in connection with this Agreement and as are agreed upon by the Parties, acting reasonably.

4.3 Notification of Changes of Circumstances

BWP Distribution shall promptly give written notice to Electek of any changes or prospective changes in circumstances that would materially affect the resources required for the Services provided to Electek, including any anticipated material change in the nature or level of business of BWP Distribution, the number of employees of BWP Distribution, or any efforts relating to the organization of or collective bargaining by employees of BWP Distribution, or any lease or service arrangements contemplated with any third party.

4.4 Notice of Claims, Etc.

BWP Distribution shall promptly give written notice to Electek, and Electek shall promptly give written notice to BWP Distribution, of all material claims, proceedings, notice of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation (collectively, "Claims") which it reasonably believes could have a material adverse effect on the fulfillment of any of the material terms hereof by BWP Distribution or Electek (whether or not any such Claim is covered by insurance) in respect of its own operations of which either of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such Claims and any developments relating thereto.

ARTICLE 5 FEES AND COSTS

5.1 Fees

As consideration for the Services provided, Electek shall pay to BWP Distribution the fees and charges set out in Schedule "C". BWP Distribution shall render a monthly invoice for all Services provided to Electek during the preceding month, which invoice shall be due and payable within thirty (30) days of receipt.

5.2 Out of Pocket and Third Party Expenses

BWP Distribution shall be reimbursed for all out-of-pocket expenses and Third Party Expenses actually and properly incurred by BWP Distribution in connection with the performance of Services hereunder.

5.3 Taxes

Electek shall pay to BWP Distribution any and all goods and services taxes, sales taxes, value-added taxes and/or any other taxes (excluding income taxes) properly eligible on the supply of Services provided under this Agreement and on any other amounts payable hereunder.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of BWP Distribution

BWP Distribution represents and warrants to Electek as follows and acknowledges that Electek is relying on such representations and warranties:

- (a) BWP Distribution is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
- (c) this Agreement constitutes a legal, valid and binding obligation of BWP Distribution, enforceable against BWP Distribution by Electek in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction; and
- (d) BWP Distribution has the necessary resources and expertise to acquire or perform the Services.

6.2 Representations and Warranties of Electek

Electek represents and warrants to BWP Distribution as follows and acknowledges that BWP Distribution is relying on such representations and warranties:

- (a) Electek is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement constitutes a legal, valid and binding obligation of Electek, enforceable against Electek by BWP Distribution in accordance with its terms except as may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

6.3 Warranty

The Services provided by BWP Distribution will be performed in a professional and workmanlike manner in accordance with the Service Standards, however, the Services are provided without warranty.

ARTICLE 7 INDEMNIFICATION

7.1 Indemnification

- (a) Electek shall indemnify, defend and hold harmless BWP Distribution, its officers, directors, and employees (each a "BWP Distribution Indemnatee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgements, awards, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each an "Indemnifiable Loss"), asserted against or suffered by any BWP Distribution Indemnities relating to, or in connection with, or resulting from or arising out of the provision of the Services by BWP Distribution.
- (b) BWP Distribution shall be deemed to hold the provisions of Section 7.1(a) that are for the benefit of BWP Distribution Indemnities that are not party to this Agreement in trust for such persons as third party beneficiaries under this Agreement.

7.2 Limit of Liability

- (a) Should BWP Distribution be held liable by a court of law for any reason, Electek agrees that BWP Distribution's liability to Electek or any third party in connection with or arising under this Agreement, including without limitation, any liability arising from any act or omission of BWP Distribution in the provision of the Services, whether arising in contract, tort, equity or otherwise, shall be limited to, and Electek shall indemnify BWP Distribution from, actions or liabilities resulting solely from the fraud or wilful misconduct of BWP

Distribution in the provision of the Services and shall not exceed an amount equal to the total amount paid by Electek to BWP Distribution under this Agreement for Services over the twelve month period immediately preceding the date that the cause of action or claim giving rise to the liability first arose.

- (b) BWP Distribution shall not be liable for any damages caused by delay in delivering or furnishing any Services referred to in this Agreement.

7.3 Fines, Etc.

Notwithstanding anything else to the contrary in this Agreement, the Parties agree that BWP Distribution shall not be responsible for any sanctions, fines, penalties, or similar obligations imposed on Electek, and Electek agrees to indemnify and hold harmless BWP Distribution from any such sanctions fines, penalties or similar obligations.

ARTICLE 8 DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following events shall constitute a default (a "Default") by a Party (the "Defaulting Party") under this Agreement and shall constitute an "Event of Default" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party defaults in the payment of any amount due to the other Party under this Agreement and such default shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

ARTICLE 9 REMEDIES

9.1 Default Remedies

- (a) Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith.
- (b) The remedies in this section are expressly in lieu of any or all of the remedies which may be available to each of BWP Distribution and Electek in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

ARTICLE 10 TERMINATION

10.1 Termination

This Agreement shall terminate:

- (a) in accordance with the provisions of Section 9.1; or
- (b) upon issuance of a notice of non-renewal in accordance with Section 2.1.

10.2 Notice of Termination

Any termination hereof pursuant to Section 10.1 shall be by written notice of the terminating Party.

ARTICLE 11 GENERAL

11.1 Force Majeure

No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and
- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in

Canada, or any other similar causes beyond the reasonable control of such Party, (each a "Force Majeure Event").

Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (i) such Force Majeure Event continues; and
- (ii) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Parties by telephone (to be confirmed in writing within five (5) days of the inception of such delay) of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11.2 Dispute Resolution

If any dispute arising in relation to an Event of Default under Section 8.1(b) or the implementation of the cure for the Default under Section 8.1(b) cannot be resolved by negotiation between the Parties, then the dispute shall be referred to one arbitrator agreeable to and appointed by both Parties. If the Parties cannot agree on one arbitrator, the matter in dispute shall be referred to a panel of three arbitrators, one of which shall be appointed by BWP Distribution, one of which shall be appointed by Electek and the third shall be appointed by the two arbitrators selected by BWP Distribution and Electek. The arbitrator or arbitrators shall receive such oral and written evidence as may be required to investigate the matter in dispute and to render a decision and shall be guided by this Agreement and the intent of this Agreement. The decision of the arbitrator or arbitrators shall be provided in writing to the Parties no later than thirty (30) days after the sole arbitrator or the third arbitrator has been appointed. The decision of the arbitrator or arbitrators shall be final and binding on the Parties.

11.3 Assignment

Neither Party shall, without the written consent of the other Party, which may be arbitrarily withheld in the sole discretion of a Party, assign or transfer its interest in this Agreement. This Agreement shall be binding on the Parties and their respective successors and permitted assigns. Any purported assignment in contravention of this Agreement shall be void.

11.4 Notices

All notices, request, approvals, consents and other communications required or permitted under this Agreement shall be in writing and addressed as follows:

- (a) if to Electek,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Tim Vanderheide
Fax: 519-383-1333

(b) if to BWP Distribution,

P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

Attn: Janice McMichael-Dennis
Fax: 519-344-6094

and shall be sent by fax and the Party sending such notice shall telephone to confirm receipt. A copy of any such notice shall also be sent on the date such notice is transmitted by fax by registered express mail or courier with the capacity to verify receipt of delivery. Either Party may change its address or fax number for notification purposes by giving the other Party notice of the new address or fax number and the date upon which it will become effective in accordance with the terms of this Agreement. A notice shall be deemed to have been received as of the next Business Day following its transmission by fax.

11.5 Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

11.6 Waiver

No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of the other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

11.7 Entire Agreement

This Agreement supersedes any prior agreement between BWP Distribution and Electek in relation to the Services provided for in this Agreement, and constitutes the entire Agreement between the Parties with respect to the Services, and there are no other representations,

understandings or agreements, either oral or written, between the Parties other than as set out in this Agreement.

11.8 Amendments

No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party.

11.9 Governing Law

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The Parties hereby agree that the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

11.10 Survival

The terms of Article 7, Article 9 and Article 11 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

11.11 Third Party Beneficiaries

Each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

11.12 Covenant of Further Assurances

The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated under it.

11.13 Independent Contractors

The Parties are independent contractors and neither BWP Distribution nor any of its employees shall be considered to be an agent or employee of Electek. Each of the Parties shall be solely responsible for each of its own employees. It is further understood and agreed that this Agreement does not constitute a partnership, joint venture or employment agreement between the Parties.

IN WITNESS WHEREOF this Agreement has been executed by the duly authorized signatories of the parties hereto as of the date first written above.

ELECTEK POWER SERVICES INC.

Per: 

Name: Tim Vanderheide
Title: C.O.O.

Per: _____

Name:
Title:

I/we have authority to bind the corporation

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Per: 

Name: Janice McMichael-Dennis
Title: President & C.E.O.

Per: _____

Name:
Title:

I/we have authority to bind the corporation

SCHEDULE "A"

Description of Services

1. **"Base Management Services"** will include those functions relating to the day-to-day activities normally associated with the provision of management services, but does not include administrative-type or supervisory functions which is carried out by Electek utilizing its own staff. The types of services included in Base Management Services shall include:
 - (a) Treasury services will include cash flow management, taxation (PILs), GST and PST remittances and corporate VISA card.
 - (b) Controllershship services will include financial systems, financial processes, policies and procedures, financial controls and compliance, financial reporting and analysis, annual budgets, financial operations, capitalization and depreciation, allocations and burdens, managing external audit, risk and contract management, liability, D&O, fleet, facilities, OEB reporting, incentive plan reporting, billing system quality control.
 - (c) Audit services include audit reports to Audit Committee and Board of Directors.
 - (d) Human resources services will include programming and consulting including recruitment, compensation and benefits, employee relations, labour relations.
 - (e) IT services will include personal computer systems support and communications support.
 - (f) Safety services will include safety program development, monitoring, reporting, implementation and support.
 - (g) General Management services relate to providing corporate direction, monitoring of progress and reporting to the Board of Directors.
 - (h) New support services will include such new services as may be agreed upon by the parties from time to time with a price to be negotiated at that time.
2. **"Project Management Services"** will include any service similar in nature to the services provided under the definition of Base Management Services, where the services rendered are beyond day-to-day activities. This will include an initiative to review a particular business unit or an assessment of a new business opportunity. Generally, time is docketed to Project Management Services by each manager involved in any initiative anticipated to require a total of eight (8) hours or more of management time.
3. **"Materials Management Services"**, if any, will include sourcing of material and stock-keeping services.

- (a) Sourcing of materials will include sourcing and pricing of special order, as well as routine items that are to be purchased directly by Electek.
 - (b) Stock-keeping services will include the provision of stock items not separately stocked by Electek provided in accordance with a written request from Electek on an as-needed basis.
4. **“Fleet Management”**, if any, will include scheduling and maintenance, as well as tracking mileage, maintenance costs and assisting in decisions regarding replacement of vehicles. The services also include reading vehicles for service and carrying out of routine maintenance.
5. **“Board of Directors”**, will include an allocation of costs relating to the Board of Directors with shared responsibilities, including annual fees, meeting fees, travel, as well as Directors and Officers Liability insurance.

SCHEDULE "B"

Description of Service Standards

Service Standards

- (a) BWP Distribution will adhere to industry standards, based on standards set by the WSIB, Electric Utility Safety Association, and Occupational Health & Safety Standards as applicable and in any case shall perform the Services in a good and workmanlike manner and to a standard of performance that a competent professional and diligent independent provider of the services in the same circumstances would reasonably be expected to provide.
- (b) BWP Distribution will make all reasonable efforts to meet or exceed performance measures established by the Ontario Energy Board, Measurement Canada and by the IESO.

SCHEDULE "C"

Fees & Charges

	SERVICES	FEES	PERIOD OF FEE
1.	Base Management Services	\$59,036	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
2.	Project Management Services	Cost	
3.	Materials Management Services	Sourcing at Cost Stock-keeping at Cost plus a mark-up of 11% on materials	
4.	Fleet Management	\$5,106	Annual (fee subject to inflation based on CPI on January 1, 2014 and each year thereafter)
5.	Board of Directors	\$1,505	Annual (subject to adjustment on January 1, 2014 and each year thereafter)

Terms & Conditions		
1	Prices	Subject to Applicable Taxes
2	Payment	Monthly invoice, Net 30 days
3	Cost	Shall mean BWP Distribution's fully allocated cost to provide the Services

Exhibit 1: Administrative Documents

Tab 3 (of 4): Financial Information

1

HISTORICAL FINANCIAL STATEMENTS

2 Attached are the audited financial statements each with the previous year's comparative
3 results for 2011, 2010 and 2009.

4

5 Bluewater Power does not have any annual reports, rating agency reports or any other
6 public reports to file.

Financial Statements of

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Year ended December 31, 2011



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bluewater Power Distribution Corporation

We have audited the accompanying financial statements of Bluewater Power Distribution Corporation, which comprise the balance sheet as at December 31, 2011, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Bluewater Power Distribution Corporation as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles

Chartered Accountants, Licensed Public Accountants

April 26, 2012

London, Canada

BLUEWATER POWER DISTRIBUTION CORPORATION

Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 3,237,535	\$ 4,514,034
Accounts receivable	8,680,373	10,488,607
Due from companies under common control	5,051	1,191,170
Unbilled revenue	9,559,826	10,411,860
Regulatory balances recoverable (note 4)	1,662,452	1,599,990
Current portion of note receivable	95,000	-
Inventory (note 3)	617,875	596,509
Prepaid expenses	650,902	575,847
Payment in lieu of income taxes recoverable	566,969	586,380
	25,075,983	29,964,397
Property, plant and equipment (note 2)	42,915,253	42,523,228
Regulatory balances recoverable (note 4)	8,863,319	7,276,579
Promissory note receivable (note 16)	1,725,833	-
Future payment in lieu of income taxes (note 11)	2,451,000	2,450,000
	\$ 81,031,388	\$ 82,214,204
Liabilities and Shareholders' Equity		
Current liabilities:		
Power purchases payable	\$ 8,071,305	\$ 8,157,376
Accounts payable and accrued liabilities	3,864,972	4,670,063
Due to shareholders (note 13)	1,701,503	2,288,117
Accrued interest	71,416	-
Dividends payable	765,747	1,165,917
Current portion of long-term debt	608,062	-
Deposits in aid of construction	1,342,513	2,957,065
Regulatory balances payable (note 4)	1,314,262	1,942,466
	17,739,780	21,181,004
Due to shareholders (note 5)	19,377,604	19,377,604
Long-term debt (note 15)	7,219,432	5,651,531
Future regulatory taxes payable	2,451,000	2,450,000
Long-term regulatory balances payable (note 4)	2,197,019	1,172,638
Customer and other deposits	1,543,307	1,937,771
Employee future benefits (note 6)	7,507,737	7,079,641
Shareholders' equity:		
Share capital (note 9)	18,022,105	18,022,105
Retained earnings	4,973,404	5,341,910
	22,995,509	23,364,015
Commitments and contingencies (note 8)		
	\$ 81,031,388	\$ 82,214,204

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Earnings and Retained Earnings

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Energy	\$ 60,757,697	\$ 63,323,310
Distribution	18,307,805	18,450,776
	79,065,502	81,774,086
Cost of power	60,757,697	63,323,310
Distribution revenue	18,307,805	18,450,776
Other operating revenues:		
Service revenue	1,650,780	2,027,610
Water and sewer billing (note 13)	171,218	667,557
OPA revenue	209,033	475,331
Other revenue (note 10)	763,874	429,917
Rental	279,577	313,529
Late payment charges	256,155	288,127
SSS administrative fees	93,861	90,530
Interest	111,668	44,700
	3,536,166	4,337,301
	21,843,971	22,788,077
Operating expenditures:		
Administration	13,099,026	12,933,918
Amortization of property, plant and equipment	4,259,217	3,939,847
Interest	1,663,487	1,510,560
	19,021,730	18,384,325
Income before payments in lieu of income taxes	2,822,241	4,403,752
Payments in lieu of income taxes (note 11):		
Current	525,000	906,000
Net earnings	2,297,241	3,497,752
Retained earnings, beginning of year	5,341,910	3,010,075
Dividends on common shares	(2,665,747)	(1,165,917)
Retained earnings, end of year	\$ 4,973,404	\$ 5,341,910

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 2,297,241	\$ 3,497,752
Adjustments for:		
Amortization of property, plant and equipment	4,259,217	3,939,847
Gain on disposal of property and equipment	(23,293)	(20,735)
Employee future benefits	428,096	495,819
Changes in non-cash operating working capital (note 12)	148,960	(1,516,660)
	7,110,221	6,396,023
Financing activities:		
Dividends on common shares	(2,665,747)	(1,165,917)
Funds received as contributed capital	682,425	453,161
Proceeds from long-term debt	2,175,963	5,651,531
Regulatory balances	(1,253,025)	(6,599,171)
Due to shareholders	(586,614)	413,158
Dividends payable	(400,170)	226,110
Customer and other deposits	(394,464)	151,906
	(2,441,632)	(869,222)
Investing activities:		
Additions to property, plant and equipment	(5,379,771)	(8,099,174)
Due from companies under common control	1,186,119	(809,623)
Promissory note receivable	(1,900,000)	-
Principal repayment on promissory note receivable	79,167	-
Proceeds from disposal of property and equipment	69,397	23,154
	(5,945,088)	(8,885,643)
Decrease in cash	(1,276,499)	(3,358,842)
Cash, beginning of year	4,514,034	7,872,876
Cash, end of year	\$ 3,237,535	\$ 4,514,034
Supplemental cash flow information:		
Interest paid	\$ 1,663,487	\$ 1,510,560
Income taxes paid	442,336	1,388,267

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements

Year ended December 31, 2011

Bluewater Power Distribution Corporation (the "Corporation") was incorporated October 20, 2000 in accordance with the Ontario government's Electricity Competition Act (Bill 35). Assets of the Electric Utilities of the City of Sarnia, Town of Petrolia, Village of Point Edward, Village of Alvinston, Township of Warwick and Village of Oil Springs (the "Municipalities") were transferred to the Corporation on November 1, 2000. The Corporation distributes electricity in these municipalities and the beneficial ownership of the Corporation is held by these municipalities.

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Corporation's distribution and ancillary rates. The Corporation's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Corporation's distribution territory, as established by its distribution license granted by the OEB.

1. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada consistently applied. The more significant accounting policies are summarized below:

(a) Financial effects of distribution rate regulation:

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Corporation accounts for the impact of regulatory actions in the following manner:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Corporation's distribution rates, such occurrences are immediately reflected in the Corporation's accounts.

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Corporation is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(ii) Regulatory direction and practice (continued):

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the financial statements.

(iii) Rate setting:

The distribution rates of the Corporation are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation. The Corporation files a rate application with the OEB annually. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2011, distribution revenue is based on the rates approved for 2010. Once every four years, the Corporation files an Electricity Distribution Rate application ("EDR") where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. An IRM application results in a formulaic adjustment to distribution rates to increase distribution rates for the annual change in the GDP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Corporation's last cost of service EDR application was made in September 2008 and approved on April 27, 2009, with rates effective May 1, 2009. Such decision provided for 2009 service distribution revenue requirement and rate base of \$19,389,209 and \$47,830,945 respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Corporation has filed IRM applications to adjust its base rates effective May 1, 2010, May 1, 2011 and May 1, 2012. Accordingly, the Corporation's base rates were increased by 0.18% effective May 1, 2010 and by 0.18% effective May 1, 2011. The Corporation's 2012 IRM application was approved on March 22, 2012 with an increase in distribution base rates for the annual change in the GDP IPI-FDD of 2.0% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.4% determined by the relative efficiency of the Corporation, for a net increase of 0.88% effective May 1, 2012.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iii) Rate setting (continued):

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of a final report. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

- (a) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5 bps);
- (b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowings;
- (c) reduce MARE volatility from annual changes in the Canada long-bond and by reducing the annual adjustment factor from .75 to .5; and
- (d) reflect a more realistic and fair base risk premium for local distribution companies.

The method of transition to the new MARE is through a Cost of Service Application similar to the 2009 EDR Application. The Corporation will file such an application in 2012 with an effective date of May 1, 2013.

(iv) Smart Meter Initiative:

The province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

In support of this initiative, the Corporation completed its deployment of Smart Meters throughout 2009, 2010 and early 2011, with approximately 35,500 Smart Meters deployed. Successful testing with the provincial Meter Data Management Repository ("MDMR") has been completed in 2012.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iv) Smart Meter Initiative (continued):

In December of 2011, the Corporation submitted an application to the OEB for the continuation of a Utility-Specific smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. On March 22, 2012, the request for continuation was denied by the OEB and the \$2.00 per metered customer per month will cease April 30, 2012. The Corporation will be filing its smart meter rate application in 2012 with full smart meter recovery rates to commence May 1, 2013.

(v) Green Energy and Green Economy Act:

In early 2009, the government tabled the Green Energy and Green Economy Act ("GEGEA"). This new legislation makes fundamental changes to the roles and responsibilities of LDC's in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDC's will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

(vi) New LDC License Requirements - Conservation and Demand Management Targets:

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 10.65 MW and a consumption reduction target of 53,730 MWh. LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Corporation has filed its CDM Strategy with the OEB and continues to pursue the CDM targets.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(b) Revenue recognition:

Electricity distribution service charges comprises customer billings for electricity and distribution service charges less the cost of electricity purchases by the Corporation. Customer billings for electricity and distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading until the end of the fiscal year. The latter component is recorded as unbilled revenue.

(c) Inventory:

Inventories are required to be measured at the lower of cost and net realizable value and any items considered to be major spare components of property, plant and equipment are to be transferred to fixed assets.

(d) Property, plant and equipment:

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

Asset	Rate
Land rights	25 years
Building	60 years
Distribution and transmission systems	25 - 40 years
Equipment	5 - 10 years
Contributed capital	25 years

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(e) Impairment of long-lived assets:

Long-lived assets, including equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(f) Customer and other deposits:

The OEB has released a ruling that requires Corporations to periodically review customers' deposits and where appropriate, return such deposits. During this review, Corporations may also request a deposit from customers based on certain criteria. At this time, the amount to be refunded cannot reasonably be determined and as such, the Corporation has not reclassified any of its long-term liability to a current liability.

The Corporation has a policy of paying interest on these deposits at a rate determined quarterly.

(g) Employee future benefits:

The Corporation pays certain medical and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees. These estimated post retirement costs are recognized in the period in which the employees render their services to the Corporation.

(h) Pension plan:

The Corporation 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. As this is a multi-employer plan, no liability is recorded on the Corporation's books.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(i) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

(j) Contributed capital:

Contributed capital arises from development charges which are provided or paid for by developers and is recorded as a reduction of the capital cost of related fixed assets.

(k) Financial instruments:

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of earnings.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Due from companies under common control	Loans and receivables
Unbilled revenue	Loans and receivables
Regulatory balances recoverable	Loans and receivables
Payment in lieu of income taxes recoverable	Loans and receivables
Promissory note receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Power purchases payable	Other liabilities
Due to shareholders	Other liabilities
Dividends payable	Other liabilities
Accrued interest	Other liabilities
Regulatory balances payable	Other liabilities
Payment in lieu of income taxes payable	Other liabilities
Deposits in aid of construction	Other liabilities
Customer and other deposits	Other liabilities
Long-term debt	Other liabilities

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, regulatory assets, future payments in lieu of income taxes, employee future benefits and carrying value of property, plant and equipment.

2. Property, plant and equipment:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 496,667	\$ -	\$ 496,667	\$ 489,817
Land rights	283,160	267,343	15,817	17,010
Buildings	6,009,894	1,943,405	4,066,489	4,069,190
Distribution and transmission systems	81,435,053	46,354,741	35,080,312	34,243,215
Equipment	24,314,260	16,550,875	7,763,385	7,767,695
Contributed capital (note 1(j))	(6,487,773)	(1,412,859)	(5,074,914)	(4,629,976)
Major spare part inventory	567,497	-	567,497	566,277
	\$ 106,618,758	\$ 63,703,505	\$ 42,915,253	\$ 42,523,228

During the year, the Corporation received \$682,425 (2010 - \$453,161) of contributed capital.

3. Inventory:

Inventory, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventory consumed by the Corporation and recognized as an expense during 2011 was \$243,510 (2010 - \$511,286).

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Regulatory balances:

	2011	2010
Regulatory balances approved for settlement in rates	\$ (4,627,649)	\$ (2,099,184)
Qualifying costs to be recovered in future rates	8,138,865	954,104
Retail settlement variances to be settled in future rates	(1,174,292)	3,044,042
	2,336,924	1,898,962
Accumulated amount settled through rates	4,677,566	3,862,503
Remaining regulatory balances	7,014,490	5,761,465
Less current portion, payable within the next twelve months	1,314,262	1,942,466
Less long-term payable portion	2,197,019	1,172,638
Less current portion, recoverable within the next twelve months	(1,662,452)	(1,599,990)
Regulatory balances recoverable	\$ 8,863,319	\$ 7,276,579

Regulatory balances approved by the OEB for settlement in rates represent various regulatory costs and liabilities, including carrying charges, incurred by the Corporation.

The net liability amount of \$3,974,344 was incurred to the end of December 31, 2007 and was settled in rates from May 1, 2009 to April 30, 2011. The net liability amount of \$2,725,917 was incurred to the end of December 31, 2008 and will be settled in rates commencing May 1, 2010 over a two year period. The net recoverable amount of \$4,636,569 was incurred to the end of December 31, 2009 and will be settled in rates commencing May 1, 2011 over a two year period. The net liability amount of \$2,815,981 was incurred to the end of December 31, 2010 and will be settled in rates commencing May 1, 2012 over a two year period.

Qualifying amounts have been accumulated pursuant to regulation underlying the Electricity Act ("EA") and deferred in anticipation of their future recovery or settlement in electricity distribution service charges.

Retail settlement variances represent amounts that have been accumulated since the most recent OEB approval for disposition and comprise:

- (a) Variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate;

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Regulatory balances (continued):

- (b) Variances between the amounts charged by the IESO and Hydro One to allow for purchases of electricity and the amounts billed to customers by the Corporation based on OEB approved rates; and
- (c) Variances between the amounts incurred by the Corporation for the OEB mandated smart meter implementation and the amounts billed to customers by the Corporation based on OEB approved rates.

5. Due to shareholders:

	2011	2010
Subordinate promissory note payable to shareholders, bearing interest at 7.62%, with interest payable in quarterly installments, with no specified repayment terms for principal amounts. Shareholders can demand payment with twelve months written notice.	\$ 19,377,604	\$ 19,377,604

The promissory note payable to shareholders is unsecured, subordinated and due twelve months following demand for payment and was non-interest bearing prior to October 1, 2001. The rate of interest payable by the Corporation, commencing October 1, 2001, is the maximum amount prescribed by the OEB in its publication Electricity Distribution Rate Handbook as its "Deemed Debt Cost Rates". On May 1, 2009, the Deemed Debt Cost Rate applicable to the Corporation increased from 7.25% to 7.62%.

As no written notice was received from any shareholder as of December 31, 2011, this amount has been classified as a long-term liability.

The Corporation incurred interest expense in respect of the promissory note payable to shareholders of \$1,476,573 (2010 - \$1,476,573).

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

6. Employee future benefits:

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. In measuring the Corporation's accrued benefit obligation, the actuary calculated the obligation utilizing the following assumptions provided by management. A full valuation was performed as at January 1, 2011.

	2011	2010
Discount rate	4.5 %	5.0%
Salary increase	3.0 %	3.0%
Health care costs declining by 1% per year until 5% ultimate rate reached	6.0 %	7.0%
Dental	5.0 %	5.0%

The transition obligation has been amortized over the average remaining service life of current employees, which is thirteen years (2010 - eight years). This results in a liability on the balance sheet at year end as follows:

	2011	2010
Accrued benefit obligation	\$ 9,606,294	\$ 8,877,052
Less: unrecognized loss	(2,098,557)	(1,797,411)
	\$ 7,507,737	\$ 7,079,641

Other information about the Corporation's plan for the year ended December 31 is as follows:

	2011	2010
Service cost	\$ 234,762	\$ 223,573
Interest cost	427,533	435,733
Benefits paid	(274,841)	(244,644)
Actuarial loss	40,641	54,178
	\$ 428,095	\$ 468,840

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

7. Pension plan:

The Corporation participates in the OMERS, a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions in 2011 were 7.4% (2010 - 6.4%) for employee earnings below the year's maximum pensionable earnings and 10.7% (2010 - 9.7%) thereafter. The Corporation contributed \$620,134 (2010 - \$484,027) to the OMERS pension plan, on behalf of its employees, during the year ended December 31, 2011.

8. Commitments and contingencies:

- (i) The Corporation has letters of credit aggregating \$6,281,038 (2010 - \$6,281,038) in favour of the IESO as security for the Corporation's purchase of electricity through the IESO. The Corporation also has letters of credit aggregating \$600,000 (2010 - \$600,000) in favour of Hydro One as security for the Corporation's purchase of electricity through Hydro One. The Corporation also has letters of credit aggregating \$50,000 (2010 - \$50,000) in favour of OMERS as security on behalf of its affiliates for their pension plan contributions. At year end, no amounts were drawn on these letters of credit.
- (ii) The Corporation is a guarantor of a credit facility for a company under common control. This credit facility is specifically for letters of credit aggregating \$500,000 (2010 - \$500,000) in favour of the affiliate's customers to support bids for billable construction projects. As of the date of the auditor's report, no amounts were drawn on these letters of credit.
- (iii) Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of \$500,000,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The order formalized a settlement pursuant to which the defendant MEUs will pay the amount of \$17,000,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is \$149,122, and was paid on June 30, 2011 to the Winter Warmth Fund.

Pursuant to OEB Decision EB-2010-0295 dated February 22, 2011, the Corporation has received approval for the recovery from customers of all costs related to the settlement. The Corporation has therefore recorded a regulatory asset for \$149,122 at year end. As at December 31, 2011, \$80,038 has been recovered from ratepayers with the remaining amount expected to be fully recovered in 2012.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

9. Share capital:

The authorized share capital consists of an unlimited number of common shares.

The share capital of the Corporation is as follows:

	2011	2010
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 18,022,105	\$ 18,022,105

10. Other revenue:

Other revenue from operations comprises of:

	2011	2010
Change in occupancy	\$ 48,154	\$ 47,596
Service agreement revenue	31,891	36,980
Consolidated billing charges	16,650	20,004
Collection charges	82,354	60,742
Gain on disposal of plant and equipment	23,293	20,735
Sale of scrap material	26,394	25,866
Miscellaneous	422,387	104,822
Management fees received from affiliates	112,751	113,172
	\$ 763,874	\$ 429,917

11. Payment in lieu of income taxes:

The provision for payment in lieu ("PILs") varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2011	2010
Basic tax rate of 28.3% applied to income before PILs (31.0% rated used in 2010)	\$ 799,000	\$ 1,341,000
Tax effect of non-deductible expenses	12,000	24,000
Tax effect of temporary differences	(286,000)	(465,000)
Other	-	6,000
	\$ 525,000	\$ 906,000

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

11. Payment in lieu of income taxes (continued):

Future income tax assets of \$2,451,000 (2010 - \$2,450,000) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

12. Changes in non-cash operating working capital:

	2011	2010
Accounts receivable	\$ 1,808,234	\$ (2,443,871)
Unbilled revenue	852,034	(1,020,637)
Inventory	(21,366)	16,673
Prepaid expenses	(75,055)	(327,672)
Payment in lieu of income taxes recoverable	19,411	-
Accounts payable and accrued liabilities	(805,091)	1,529,321
Power purchases payable	(86,071)	692,400
Accrued interest	71,416	(47,798)
Payment in lieu of income taxes payable	-	(530,990)
Deposits in aid of construction	(1,614,552)	615,914
	<u>\$ 148,960</u>	<u>\$ (1,516,660)</u>

13. Due to shareholders:

The balance owing has arisen as a result of water billing services on behalf of certain shareholders. During the course of the year, the Corporation earned \$171,218 (2010 - \$667,557) relating to the provision of these services. The outstanding balance represents billed amounts not yet remitted to shareholders.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

14. Financial Instruments, credit risk and interest rate risk:

(a) Financial instruments:

The Corporation's financial instruments consist of accounts receivable, due from companies under common control, unbilled revenue, regulatory balances recoverable, payment in lieu of income taxes recoverable, promissory note receivable, power purchases payable, accounts payable and accrued liabilities, due to shareholders, dividends payable, accrued interest, regulatory balances payable, deposits in and of construction, customer and other deposits, payment in lieu of income taxes payable and long-term debt. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments. The fair value of the shareholder notes is not readily determinable due to the related party nature of this instrument.

(b) Credit risk:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Corporation reducing the expected cash inflow from Corporation assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Corporation has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

(c) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to financial risk that arises from the interest rate on its Infrastructure Ontario loan. Changes in variable interest rates could cause unanticipated fluctuations in the Corporation's results.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

15. Long-term debt:

	2011	2010
Subordinate, secured loan advances from Ontario Infrastructure and Lands Corporation (OILC), bearing interest at OILC's floating rate, with interest payable monthly, advances due earlier of September 20, 2012 and date of the conversion to a ten year debenture.	\$ 727,494	\$ 5,651,531
Subordinate, secured debenture from Ontario Infrastructure and Lands Corporation (OILC) due September 15, 2021, principal and interest payments due on March 15 and September 15 each year, with interest fixed at 3.37%.	7,100,000	-
	7,827,494	5,651,531
Less current portion	608,062	-
	\$ 7,219,432	\$ 5,651,531

The Corporation has approved financing from OILC of up to \$9,300,000 for its smart meter project. The remaining advances will be converted to a ten year debenture upon completion of the smart meter project in 2012. This debenture will have fixed repayment terms and a fixed interest rate.

During the year, the Corporation converted \$7,100,000 of loan advances to a debenture. The first semi-annual principal and interest payment for this debenture is due March 15, 2012.

Subsequent to year end, the Corporation received loan advances from the OILC of \$810,398 in January 2012.

The Corporation incurred interest expense in respect of the advances of \$85,319 (2010 - \$11,907). The Corporation incurred interest expense in respect of the debenture of \$70,335 (2010 – nil).

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

16. Promissory note receivable:

	2011	2010
Secured promissory note receivable from a company under common control, bearing interest at 4.78%, with principal and interest payable monthly, due in 2031. The Corporation can demand payment with three days written notice on any anniversary date of the note.	\$ 1,820,833	\$ -
Less current portion	95,000	-
	<u>\$ 1,725,833</u>	<u>\$ -</u>

As no written notice was provided to the Corporation under common control, this amount has been classified as a long-term asset.

17. Emerging accounting changes:

International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

In March 2012, the AcSB extended the deferral of adoption of Part I of the CICA Handbook for qualifying entities with activities subject to rate regulation for an additional year to January 1, 2013. The Corporation had decided to implement IFRS commencing January 1, 2012 and is now assessing whether the extended deferral option will be taken.

BLUEWATER POWER DISTRIBUTION CORPORATION

Schedule 1, Attachment 1

Notes to Financial Statements (continued)

Year ended December 31, 2011

18. Related party transactions:

During the course of the year, the Corporation earned \$109,204 (2010 - \$113,172) in management fees, \$21,900 (2010 - \$22,800) in building rent, \$46,642 (2010 - \$85,454) in vehicle rent, \$43,092 (2010 - nil) in billing software rent, \$89,963 (2010 - \$78,707) in service fees and \$12,369 (2010 - \$22,554) in interest on advances from companies under common control.

During the course of the year, the Corporation paid nil (2010 - \$15,000) in management fees, \$2,375 (2010 - \$2,750) in building rent and \$1,093,450 (2010 - \$1,171,286) in service fees to companies under common control.

During the year, the Corporation billed customers for water service on behalf of certain shareholders and remitted funds to the shareholders in the amount of \$30,442,072 (2010 - \$30,039,972).

19. Comparative figures:

Certain of the 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Year ended December 31, 2010



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bluewater Power Distribution Corporation

We have audited the accompanying financial statements of Bluewater Power Distribution Corporation, which comprise the balance sheet as at December 31, 2010, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Bluewater Power Distribution Corporation as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles

Chartered Accountants, Licensed Public Accountants

April 28, 2011

London, Canada

BLUEWATER POWER DISTRIBUTION CORPORATION

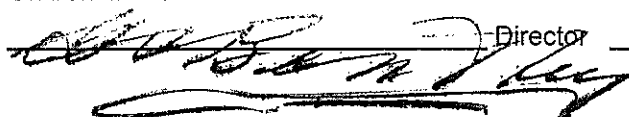
Balance Sheet

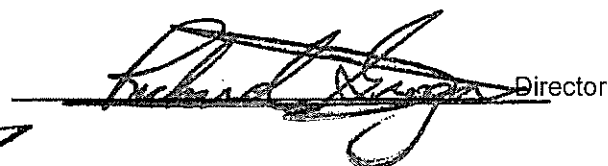
December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 4,514,034	\$ 7,872,876
Accounts receivable	10,488,607	8,044,736
Due from companies under common control	1,191,170	381,547
Unbilled revenue	10,411,860	9,391,223
Regulatory balances recoverable (note 4)	1,599,990	-
Inventory (note 3)	596,509	613,182
Prepaid expenses	575,847	248,175
Payment in lieu of income taxes recoverable	586,380	55,390
	29,964,397	26,607,129
Property, plant and equipment (note 2)	42,523,228	38,819,481
Regulatory balances recoverable (note 4)	7,276,579	5,054,565
Future payment in lieu of income taxes (note 11)	2,450,000	3,133,000
	\$ 82,214,204	\$ 73,614,175
Liabilities and Shareholders' Equity		
Current liabilities:		
Power purchases payable	\$ 8,157,376	\$ 7,464,976
Accounts payable and accrued liabilities	4,670,063	3,140,742
Due to shareholders (note 13)	2,288,117	1,874,959
Accrued interest	-	47,798
Dividends payable	1,165,917	939,807
Deposits in aid of construction	2,957,065	2,341,151
Regulatory balances payable (note 4)	1,942,466	2,355,603
	21,181,004	18,165,036
Due to shareholders (note 5)	19,377,604	19,377,604
Infrastructure Ontario loan (note 15)	5,651,531	-
Future regulatory taxes payable	2,450,000	3,133,000
Long-term regulatory balances payable (note 4)	1,172,638	3,536,668
Customer and other deposits	1,937,771	1,785,865
Employee future benefits (note 6)	7,079,641	6,583,822
Shareholders' equity:		
Share capital (note 9)	18,022,105	18,022,105
Retained earnings	5,341,910	3,010,075
	23,364,015	21,032,180
Commitments and contingencies (note 8)		
Subsequent events (note 18)		
	\$ 82,214,204	\$ 73,614,175

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Earnings and Retained Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Sales	\$ 81,774,086	\$ 70,660,584
Cost of power	63,323,310	53,779,083
Distribution margin	18,450,776	16,881,501
Other operating revenues:		
Service revenue	2,027,610	871,336
Water and sewer billing (note 13)	667,557	668,022
OPA revenue	475,331	361,507
Other revenue (note 10)	429,917	1,458,818
Rental	313,529	307,829
Late payment charges	288,127	285,586
SSS administrative fees	90,530	89,114
Interest	44,700	52,701
	4,337,301	4,094,913
	22,788,077	20,976,414
Operating expenditures:		
Administration	12,933,918	11,424,233
Amortization of property, plant and equipment	3,939,847	3,968,013
Interest	1,510,560	1,471,747
	18,384,325	16,863,993
Income before payments in lieu of income taxes	4,403,752	4,112,421
Payments in lieu of income taxes (note 11):		
Current	906,000	1,293,000
Net earnings	3,497,752	2,819,421
Retained earnings, beginning of year	3,010,075	3,945,461
Adjustment to regulatory taxes payable	-	(2,815,000)
Dividends on common shares	(1,165,917)	(939,807)
Retained earnings, end of year	\$ 5,341,910	\$ 3,010,075

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 3,497,752	\$ 2,819,421
Adjustments for:		
Amortization of property, plant and equipment	3,939,847	3,968,013
Gain on disposal of property and equipment	(20,735)	(152,161)
Employee future benefits	495,819	227,429
Changes in non-cash operating working capital (note 12)	(1,516,660)	3,025,773
	6,396,023	9,888,475
Financing activities:		
Dividends on common shares	(1,165,917)	(939,807)
Hydro One low voltage payable	-	(21,442)
Funds received as contributed capital	453,161	1,270,753
Proceeds from Infrastructure Ontario loan	5,651,531	-
Regulatory balances	(6,599,171)	(5,931,294)
Due to shareholders	413,158	74,743
Dividends payable	226,110	302,494
Customer and other deposits	151,906	199,151
	(869,222)	(5,045,402)
Investing activities:		
Additions to property, plant and equipment	(8,099,174)	(5,338,678)
Due from companies under common control	(809,623)	(176,322)
Proceeds from disposal of property and equipment	23,154	384,799
	(8,885,643)	(5,130,201)
Decrease in cash	(3,358,842)	(287,128)
Cash, beginning of year	7,872,876	8,160,004
Cash, end of year	\$ 4,514,034	\$ 7,872,876
Supplemental cash flow information:		
Interest paid	\$ 1,510,560	\$ 1,471,747
Income taxes paid	1,388,267	1,324,277

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements

Year ended December 31, 2010

Bluewater Power Distribution Corporation (the "Corporation") was incorporated October 20, 2000 in accordance with the Ontario government's Electricity Competition Act (Bill 35). Assets of the Electric Utilities of the City of Sarnia, Town of Petrolia, Village of Point Edward, Village of Alvinston, Township of Warwick and Village of Oil Springs (the "Municipalities") were transferred to the Corporation on November 1, 2000. The Corporation distributes electricity in these municipalities and the beneficial ownership of the Corporation is held by these municipalities.

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Corporation's distribution and ancillary rates. The Corporation's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Corporation's distribution territory, as established by its distribution license granted by the OEB.

1. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada consistently applied. The more significant accounting policies are summarized below:

(a) Financial effects of distribution rate regulation:

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Corporation accounts for the impact of regulatory actions in the following manner:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Corporation's distribution rates, such occurrences are immediately reflected in the Corporation's accounts.

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Corporation is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(ii) Regulatory direction and practice (continued):

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 4 to the financial statements.

(iii) Rate setting:

The distribution rates of the Corporation are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation. The Corporation files a rate application with the OEB annually. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue is based on the rates approved for 2009. Once every four years, the Corporation files an Electricity Distribution Rate application ("EDR") where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. An IRM application results in a formulaic adjustment to distribution rates to increase distribution rates for the annual change in the GDP IPI-FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Corporation's last cost of service EDR application was made in September 2008 and approved on April 27, 2009, with rates effective May 1, 2009. Such decision provided for 2009 service distribution revenue requirement and rate base of \$19,389,209 and \$47,830,945 respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Corporation has filed IRM applications to adjust its base rates effective May 1, 2010 and May 1, 2011. Accordingly, the Corporation's base rates were increased by 0.18% effective May 1, 2010. The Corporation's 2011 IRM application was approved on April 7, 2011 with an increase in distribution base rates for the annual change in the GDP IPI-FDD of 1.3% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.4% determined by the relative efficiency of the Corporation.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iii) Rate setting (continued):

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of a final report. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

- (a) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5 bps);
- (b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowings;
- (c) reduce MARE volatility from annual changes in the Canada long-bond and by reducing the annual adjustment factor from .75 to .5; and
- (d) reflect a more realistic and fair base risk premium for local distribution companies.

The method of transition to the new MARE is through a Cost of Service Application similar to the 2009 EDR Application. The Corporation will file such an application in 2012 with an effective date of May 1, 2013.

(iv) Smart Meter Initiative:

The province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals.

In support of this initiative, the Corporation completed its deployment of Smart Meters throughout 2009, 2010 and early 2011, with approximately 30,000 Smart Meters deployed by the end of 2010. Successful testing with the provincial Meter Data Management Repository ("MDMR") will be completed in 2011.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(a) Financial effects of distribution rate regulation (continued):

(iv) Smart Meter Initiative (continued):

In December of 2010, the Corporation submitted an application to the OEB for the consideration and approval of a Utility-Specific smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. On April 7, 2011, the application was approved as filed. The application provided for a new rate adder of \$2.00 per metered customer per month, beginning May 1, 2011.

(v) Green Energy and Green Economy Act:

In early 2009, the government tabled the Green Energy and Green Economy Act ("GEGEA"). This new legislation makes fundamental changes to the roles and responsibilities of LDC's in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDC's will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

(vi) New LDC License Requirements - Conservation and Demand Management Targets:

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company's CDM targets include a demand reduction target of 10.65 MW and a consumption reduction target of 53,730 MWh. LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Corporation has filed its CDM Strategy with the OEB.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(b) Revenue recognition:

Electricity distribution service charges comprises customer billings for electricity and distribution service charges less the cost of electricity purchases by the Corporation. Customer billings for electricity and distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading until the end of the fiscal year. The latter component is recorded as unbilled revenue.

(c) Inventory:

Inventories are required to be measured at the lower of cost and net realizable value and any items considered to be major spare components of property, plant and equipment are to be transferred to fixed assets.

(d) Property, plant and equipment:

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

Asset	Rate
Land rights	25 years
Building	60 years
Distribution and transmission systems	25 - 40 years
Equipment	5 - 10 years
Contributed capital	25 years

(e) Impairment of long-lived assets:

Long-lived assets, including equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(f) Customer and other deposits:

The OEB has released a ruling that requires Corporations to periodically review customers' deposits and where appropriate, return such deposits. During this review, Corporations may also request a deposit from customers based on certain criteria. At this time, the amount to be refunded cannot reasonably be determined and as such, the Corporation has not reclassified any of its long-term liability to a current liability.

The Corporation has a policy of paying interest on these deposits at a rate determined quarterly.

(g) Employee future benefits:

The Corporation pays certain medical and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees. These estimated post retirement costs are recognized in the period in which the employees render their services to the Corporation.

(h) Pension plan:

The Corporation 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. As this is a multi-employer plan, no liability is recorded on the Corporation's books.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(i) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

(j) Contributed capital:

Contributed capital arises from development charges which are provided or paid for by developers and is recorded as a reduction of the capital cost of related fixed assets.

(k) Financial instruments:

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of earnings.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Due from companies under common control	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Power purchases payable	Other liabilities
Due to shareholder	Other liabilities
Dividends payable	Other liabilities
Accrued interest	Other liabilities
Regulatory balances payable	Other liabilities
Payment in lieu of income taxes payable	Other liabilities
Deposits in and of construction	Other liabilities

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

2. Property, plant and equipment:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 489,817	\$ -	\$ 489,817	\$ 445,817
Land rights	283,160	266,150	17,010	18,202
Buildings	5,925,327	1,856,137	4,069,190	3,101,369
Distribution and transmission systems	78,172,052	43,928,837	34,243,215	33,339,343
Equipment	22,576,178	14,808,483	7,767,695	5,707,235
Contributed capital (note 1(j))	(5,805,348)	(1,175,372)	(4,629,976)	(4,383,985)
Major spare part inventory	566,277	-	566,277	591,500
	\$102,207,463	\$ 59,684,235	\$ 42,523,228	\$ 38,819,481

During the year, the Corporation received \$453,161 (2009 - \$1,270,753) of contributed capital.

3. Inventory:

Inventory, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventory consumed by the Corporation and recognized as an expense during 2010 was \$511,286 (2009 - \$670,783).

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Regulatory balances:

	2010	2009
Regulatory balances approved for settlement in rates	\$ (2,099,184)	\$ (6,963,428)
Qualifying costs to be recovered in future rates	954,104	139,773
Retail settlement variances to be settled in future rates	3,044,042	4,914,794
	1,898,962	(1,908,861)
Accumulated amount settled through rates	3,862,503	1,071,155
Remaining regulatory balances	5,761,465	(837,706)
Less current portion, payable within the next twelve months	1,942,466	2,355,603
Less long-term portion	1,172,638	3,536,668
Less current portion, recoverable within the next twelve months	(1,599,990)	-
Regulatory balances recoverable	\$ 7,276,579	\$ 5,054,565

Regulatory balances approved by the OEB for settlement in rates represent various regulatory costs and liabilities, including carrying charges, incurred by the Corporation. The net liability amount of \$3,974,344 was incurred to the end December 31, 2007 and will be settled in rates commencing May 1, 2009 over a two year period. The net liability amount of \$2,725,917 was incurred to the end of December 31, 2008 and will be settled in rates commencing May 1, 2010 over a two year period.

The net recoverable amount of \$4,636,569 was incurred to the end of December 31, 2009 and will be settled in rates commencing May 1, 2011 over a two year period.

Qualifying amounts have been accumulated pursuant to regulation underlying the Electricity Act ("EA") and deferred in anticipation of their future recovery or settlement in electricity distribution service charges.

Retail settlement variances represent amounts that have been accumulated since the most recent OEB approval for disposition and comprise:

- (a) Variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate;

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Regulatory balances (continued):

- (b) Variances between the amounts charged by the IESO and Hydro One to allow for purchases of electricity and the amounts billed to customers by the Corporation based on OEB approved rates; and
- (c) Variances between the amounts incurred by the Corporation for the OEB mandated smart meter implementation and the amounts billed to customers by the Corporation based on OEB approved rates.

5. Due to shareholders:

	2010	2009
Subordinate promissory note payable to shareholders, bearing interest at 7.62%, with interest payable in quarterly instalments, with no specified repayment terms for principal amounts. Shareholders can demand payment with twelve months written notice	\$ 19,377,604	\$ 19,377,604

The promissory note payable to shareholders is unsecured, subordinated and due twelve months following demand for payment and was non-interest bearing prior to October 1, 2001. The rate of interest payable by the Corporation, commencing October 1, 2001, is the maximum amount prescribed by the OEB in its publication Electricity Distribution Rate Handbook as its "Deemed Debt Cost Rates". On May 1, 2009, the Deemed Debt Cost Rate applicable to the Corporation increased from 7.25% to 7.62%.

As no written notice was received from any shareholder as of December 31, 2010, this amount has been classified as long-term liability.

The Corporation incurred interest expense in respect of the promissory note payable to shareholders of \$1,476,573 (2009 - \$1,452,674).

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Employee future benefits:

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. In measuring the Corporation's accrued benefit obligation, the actuary calculated the obligation utilizing the following assumptions provided by management.

	2010	2009
Discount rate	5.0 %	5.5 %
Salary increase	3.0 %	3.0 %
Health care costs declining by 1% per year until 5% ultimate rate reached	7.0 %	8.0 %
Dental	5.0 %	5.0 %

The transition obligation has been amortized over the average remaining service life of current employees, which is eight years. This results in a liability on the balance sheet at year end as follows:

	2010	2009
Accrued benefit obligation	\$ 8,877,052	\$ 7,796,944
Less: unrecognized loss	(1,797,411)	(1,213,122)
	\$ 7,079,641	\$ 6,583,822

Other information about the Corporation's plan for the year ended December 31 is as follows:

	2010	2009
Service cost	\$ 223,573	\$ 161,634
Interest cost	435,733	411,323
Benefits paid	(244,644)	(345,528)
Actuarial loss	54,178	-
	\$ 468,840	\$ 227,429

During the year, an employee joined the Corporation from a company under common control. The Corporation assumed the liability of \$26,979 as a result of this transfer.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

7. Pension plan:

The Corporation participates in the OMERS, a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions in 2010 were 6.4% (2009 - 6.3%) for employee earnings below the year's maximum pensionable earnings and 9.7% (2009 - 9.5%) thereafter. The Corporation contributed 484,027 (2009 - \$447,867) to the OMERS pension plan, on behalf of its employees, during the year ended December 31, 2010.

8. Commitments and Contingencies:

- (i) The Corporation has letters of credit aggregating \$6,281,038 (2009 - \$6,281,038) in favour of the IESO as security for the Corporation's purchase of electricity through the IESO. The Corporation also has letters of credit aggregating \$600,000 (2009 - \$600,000) in favour of Hydro One as security for the Corporation's purchase of electricity through Hydro One. The Corporation also has letters of credit aggregating \$50,000 (2009 - \$50,000) in favour of OMERS as security on behalf of its affiliates for their pension plan contributions. At year end, no amounts were drawn on these letters of credit.
- (ii) The Corporation has entered into agreements to complete certain capital projects and for the implementation of the Corporation's smart meter initiative. The total commitments at year end for these ongoing projects is approximately \$1,474,577 and all are expected to be completed in 2011.
- (iii) The Corporation is a guarantor of a credit facility for a company under common control. This credit facility is specifically for letters of credit aggregating \$500,000 (2009 - \$500,000) in favour of the affiliate's customers to support bids for billable construction projects. As of the date of the auditor's report, no amounts were drawn on these letters of credit.
- (iv) Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of \$500,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

8. Commitments and Contingencies (continued):

(iv) continued:

The order formalized a settlement pursuant to which the defendant MEUs will pay the amount of \$17,000,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is \$149,122, payable on June 30, 2011 to the Winter Warmth Fund, and has been accrued at year end.

Pursuant to OEB Decision EB-2010-0295 dated February 22, 2011, the Corporation has received approval for the future recovery from customers of all costs related to the settlement. The Corporation has therefore recorded a regulatory asset for \$149,122 at year end.

9. Share capital:

The authorized share capital consists of an unlimited number of common shares.

The share capital of the Corporation is as follows:

	2010	2009
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 18,022,105	\$ 18,022,105

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

10. Other revenue:

Other revenue from operations comprises of:

	2010	2009
Change in occupancy	\$ 47,596	\$ 47,361
Service agreement revenue	36,980	39,261
Consolidated billing charges	20,004	21,577
Collection charges	60,742	84,445
Gain on disposal of plant and equipment	20,735	152,161
Sale of scrap material	25,866	20,713
Miscellaneous	104,822	975,690
Management fees received from affiliates	113,172	117,610
	<u>\$ 429,917</u>	<u>\$ 1,458,818</u>

11. Payment in lieu of income taxes:

The provision for payment in lieu ("PILs") varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2010	2009
Basic tax rate of 31% applied to income before PILs (33.0% rated used in 2009)	\$ 1,341,000	\$ 1,357,000
Tax effect of non-deductible expenses	24,000	6,000
Tax effect of temporary differences	(465,000)	(24,000)
Other	6,000	(46,000)
	<u>\$ 906,000</u>	<u>\$ 1,293,000</u>

Future income tax assets of \$2,450,000 (2009 - \$3,133,000) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

12. Changes in non-cash operating working capital:

	2010	2009
Accounts receivable	\$ (2,443,871)	\$ (1,573,031)
Unbilled revenue	(1,020,637)	1,336,571
Inventory	16,673	82,810
Prepaid expenses	(327,672)	93,945
Accounts payable and accrued liabilities	1,529,321	1,222,485
Power purchases payable	692,400	1,709,430
Accrued interest payable	(47,798)	47,798
Payment in lieu of income taxes payable	(530,990)	53,191
Deposits in aid of construction	615,914	52,574
	<u>\$ (1,516,660)</u>	<u>\$ 3,025,773</u>

13. Due to shareholders:

The balance owing has arisen as a result of water billing services on behalf of certain shareholders. During the course of the year, the Corporation earned \$667,557 (2009 - \$668,022) relating to the provision of these services. The outstanding balance represents billed amounts not yet remitted to shareholders.

14. Financial Instruments:

The Corporation's financial instruments consist of accounts receivable, due from companies under common control, unbilled revenue, power purchases payable, accounts payable and accrued liabilities, due to shareholders, dividends payable, accrued interest, regulatory balances payable, deposits in and of construction and payment in lieu of income taxes payable. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments. The fair value of the shareholder notes is not readily determinable due to the related party nature of this instrument.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

14. Financial Instruments (continued):

(a) Credit risk:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Corporation reducing the expected cash inflow from Corporation assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Corporation has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to financial risk that arises from the interest rate on its Infrastructure Ontario loan. Changes in variable interest rates could cause unanticipated fluctuations in the Corporation's results.

15. Infrastructure Ontario loan:

	2010	2009
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at OIPC's floating rate, with interest payable monthly, advances due earlier of September 20, 2012 and date of the conversion to a ten year debenture	\$ 5,651,531	\$ -

The Corporation has approved financing from OIPC of up to \$9,300,000 for its smart meter project. The advances will be converted to a ten year debenture upon completion of the smart meter project. The debentures will have fixed repayment terms and a fixed interest rate.

The Corporation incurred interest expense in respect of the advances of \$11,907 (2009 - nil).

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

16. Financial instruments:

The Corporation's financial instruments consist of accounts receivable, due from companies under common control, unbilled revenue, power purchases payable, accounts payable and accrued liabilities, due to shareholders, dividends payable, accrued interest, regulatory balances payable, deposits in and of construction and payment in lieu of income taxes payable. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments. The fair value of the shareholder notes is not readily determinable due to the related party nature of this instrument.

17. Emerging accounting changes:

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

The Corporation has decided to implement IFRS commencing on January 1, 2012.

18. Subsequent events:

In February, 2011, the Company loaned \$1,900,000 to a company under common control. This promissory note receivable is secured, on a 20 year term, and at 4.78% interest per annum.

In February, 2011, \$535,000 was due from a company under common control. This indebtedness was sold to another company under common control for full consideration.

In February, 2011, the Company declared and paid a dividend of \$1,900,000 to its shareholder.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

19. Related party transactions:

During the course of the year, the Corporation earned \$113,172 (2009 - \$117,610) in management fees, \$22,800 (2009 - \$22,400) in building rent, \$85,454 (2009 - \$80,916) in vehicle rent, \$78,707 (2009 - \$133,285) in service fees and \$22,554 (2009 - \$15,662) in interest on advances from companies under common control.

During the course of the year, the Corporation paid \$15,000 (2009 - nil) in management fees and \$1,171,286 (2009 - \$629,320) in service fees to companies under common control.

During the year, the Corporation billed customers for water service on behalf of certain shareholders and remitted funds to the shareholders in the amount of \$30,039,972 (2009 - \$26,298,840).

20. Comparative figures:

Certain of the 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**BLUEWATER POWER DISTRIBUTION
CORPORATION**

Year ended December 31, 2009



KPMG LLP
Chartered Accountants
 140 Fullarton Street Suite 1400
 PO Box 2305
 London ON N6A 5P2
 Canada

Telephone (519) 672-4880
 Fax (519) 672-5684
 Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholders of Bluewater Power Distribution Corporation

We have audited the balance sheet of Bluewater Power Distribution Corporation as at December 31, 2009 and the statements of earnings and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Chartered Accountants, Licensed Public Accountants

London, Canada

March 19, 2010

BLUEWATER POWER DISTRIBUTION CORPORATION

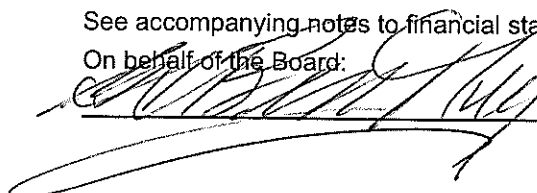
Balance Sheet

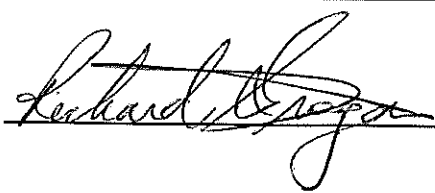
December 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 7,872,876	\$ 8,160,004
Accounts receivable	8,044,736	6,471,705
Due from companies under common control	381,547	205,225
Unbilled revenue	9,391,223	10,727,794
Inventory (note 4)	613,182	695,992
Prepaid expenses	248,175	342,120
Payment in lieu of income taxes recoverable	55,390	108,581
	26,607,129	26,711,421
Property, plant and equipment (note 3)	38,819,481	38,952,207
Regulatory balances recoverable (note 5)	5,054,565	-
Future payment in lieu of income taxes (note 12)	3,133,000	2,815,000
	\$ 73,614,175	\$ 68,478,628
Liabilities and Shareholders' Equity		
Current liabilities:		
Power purchases payable	\$ 7,464,976	\$ 5,755,546
Accounts payable and accrued liabilities	3,140,742	1,918,257
Due to shareholders (note 14)	1,874,959	1,800,216
Accrued interest	47,798	-
Dividends payable	939,807	637,313
Deposits in aid of construction	2,341,151	2,288,577
Regulatory balances payable (note 5)	2,355,603	1,313,484
	18,165,036	13,713,393
Due to shareholders (note 6)	19,377,604	19,377,604
Future regulatory taxes payable	3,133,000	-
Long-term regulatory balances payable (note 5)	3,536,668	5,455,516
Customer and other deposits	1,785,865	1,586,714
Hydro One low voltage payable	-	21,442
Employee future benefits (note 7)	6,583,822	6,356,393
Shareholders' equity:		
Share capital (note 10)	18,022,105	18,022,105
Retained earnings	3,010,075	3,945,461
	21,032,180	21,967,566
Commitments and contingencies (note 9)		
Subsequent events (note 18)		
	\$ 73,614,175	\$ 68,478,628

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Earnings and Retained Earnings

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

	2009	2008
Sales	\$ 70,660,584	\$ 84,542,694
Cost of power	53,779,083	68,972,660
Distribution margin	16,881,501	15,570,034
Regulatory assets recovered	-	617,367
Other operating revenues:		
Interest	52,701	231,087
Rental	245,585	138,625
Late payment charges	285,586	261,939
Service revenue	871,336	2,335,316
Water and sewer billing (note 14)	668,022	639,485
SSS administrative fees	89,114	88,602
OPA revenue	361,507	339,080
Other revenue (note 11)	1,458,818	565,173
	4,032,669	4,599,307
	20,914,170	20,786,708
Operating expenditures:		
Administration	11,361,989	11,865,260
Interest	1,471,747	1,456,708
Amortization of regulatory assets recovered	-	617,367
Amortization of property, plant and equipment	3,968,013	4,020,433
	16,801,749	17,959,768
Income before payments in lieu of income taxes	4,112,421	2,826,940
Payments in lieu of income taxes (note 12):		
Current	1,293,000	1,350,000
Future	-	(435,000)
	1,293,000	915,000
Net earnings	2,819,421	1,911,940
Retained earnings, beginning of year	3,945,461	3,970,834
Adjustment to regulatory taxes payable (note 2)	(2,815,000)	-
Dividends on common shares	(939,807)	(1,937,313)
Retained earnings, end of year	\$ 3,010,075	\$ 3,945,461

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Statement of Cash Flows

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

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 2,819,421	\$ 1,911,940
Adjustments for:		
Amortization of property, plant and equipment	3,968,013	4,020,433
Amortization of regulatory assets recovered	-	617,367
Gain on disposal of property and equipment	(152,161)	(54,127)
Future payment in lieu of income taxes	-	(435,000)
Employee future benefits	227,429	847,994
Changes in non-cash operating working capital (note 13)	3,025,773	780,783
	9,888,475	7,689,390
Financing activities:		
Dividends on common shares	(939,807)	(1,937,313)
Hydro One low voltage payable	(21,442)	(61,716)
Funds received as contributed capital	1,270,753	392,789
Increase in regulatory liabilities	(5,931,294)	2,294,907
Due to shareholders	74,743	302,643
Dividends payable	302,494	16,456
Customer and other deposits	199,151	118,045
	(5,045,402)	1,125,811
Investing activities:		
Additions to property, plant and equipment	(5,338,678)	(5,595,417)
Due from companies under common control	(176,322)	824,015
Proceeds from disposal of property and equipment	384,799	54,127
	(5,130,201)	(4,717,275)
Increase (decrease) in cash	(287,128)	4,097,926
Cash, beginning of year	8,160,004	4,062,078
Cash, end of year	\$ 7,872,876	\$ 8,160,004
Supplemental cash flow information:		
Interest paid	\$ 1,471,747	\$ 1,456,708
Income taxes paid	1,324,277	1,826,624

See accompanying notes to financial statements.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements

Year ended December 31, 2009

Bluewater Power Distribution Corporation (the "Corporation") was incorporated October 20, 2000 in accordance with the Ontario government's Electricity Competition Act (Bill 35). Assets of the Electric Utilities of the City of Sarnia, Town of Petrolia, Village of Point Edward, Village of Alvinston, Township of Warwick and Village of Oil Springs (the "Municipalities") were transferred to the Corporation on November 1, 2000. The Corporation distributes electricity in these municipalities and the beneficial ownership of the Corporation is held by these municipalities.

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Corporation's distribution and ancillary rates. The Corporation's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Corporation's distribution territory, as established by its distribution license granted by the OEB.

1. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada consistently applied. The more significant accounting policies are summarized below:

(a) Revenue recognition:

Electricity distribution service charges comprises customer billings for electricity and distribution service charges less the cost of electricity purchases by the Corporation. Customer billings for electricity and distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading until the end of the fiscal year. The latter component is recorded as unbilled revenue.

(b) Inventory:

Effective January 1, 2008, the Corporation adopted Canadian Institute of Chartered Accountant's (CICA) Handbook Section 3031, "*Inventories*". Under the new standard, inventories are required to be measured at the lower of cost and net realizable value and any items considered to be major spare components of property, plant and equipment are to be transferred to fixed assets. This new standard also provides updated guidance on the appropriate methods of determining cost and the impact of any write-downs to net realizable value. The implementation of this standard did not have any impact on the Corporation's results of operations.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(c) Property, plant and equipment:

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

Asset	Rate
Land rights	25 years
Building	60 years
Distribution and transmission systems	25 - 40 years
Equipment	5 years
Contributed capital	25 years

(d) Impairment of long-lived assets:

Long-lived assets, including equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(e) Customer and other deposits:

The OEB has released a ruling that requires Corporations to periodically review customers' deposits and where appropriate, return such deposits. During this review, Corporations may also request a deposit from customers based on certain criteria. At this time, the amount to be refunded cannot reasonably be determined and as such, the Corporation has not accrued a current liability.

The Corporation has a policy of paying interest on these deposits at a rate determined quarterly.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(f) Employee future benefits:

The Corporation pays certain medical and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees. These estimated post retirement costs are recognized in the period in which the employees rendered their services to the Corporation.

(g) Pension plan:

The Corporation 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. As this is a multi-employer plan, no liability is recorded on the Corporation's books.

(h) Related party transactions:

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

(i) Contributed capital:

Contributed capital arises from development charges which are provided or paid for by developers and is recorded as a reduction of the capital cost of related fixed assets.

(j) Financial effects of distribution rate regulation:

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Corporation accounts for the impact of regulatory actions in the following manner:

(i) Regulatory decisions to adjust distribution rates:

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Corporation's distribution rates, such occurrences are immediately reflected in the Corporation's accounts.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(j) Financial effects of distribution rate regulation (continued):

(ii) Regulatory direction and practice:

In the absence of a regulatory decision impacting rates, and where the Corporation is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in note 5 to the financial statements.

(k) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

1. Significant accounting policies (continued):

(l) Financial instruments:

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of earnings.

The Corporation has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Due from companies under common control	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Power purchases payable	Other liabilities
Due to shareholder	Other liabilities
Dividends payable	Other liabilities
Accrued interest	Other liabilities
Regulatory balances payable	Other liabilities
Payment in lieu of income taxes payable	Other liabilities

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

2. Changes in accounting policies:

Effective January 1, 2009, the Corporation adopted the amended sections of CICA Handbook Section 1100, *"Generally Accepted Accounting Principles"*, CICA Handbook Section 3465, *"Income Taxes and Accounting"* Guideline 19 - *"Disclosures by Entities Subject to Rate Regulation."*

- (a) The amendment to CICA Handbook Section 1100 removed the exemption pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with the Canadian GAAP hierarchy guidance framework outlined in CICA Handbook Section 1100, the Corporation has determined that its assets and liabilities arising from rate regulation qualify for recognition under Canadian GAAP and this recognition is consistent with U.S., Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS71"). The Corporation concluded the assets and liabilities from rate regulation were consistent with the primary sources of Canadian GAAP. There was no change in the Corporation's opening retained earnings as at January 1, 2009 or the Corporation's results from operations for the year ended December 31, 2009 as a result of the adoption of this section.
- (b) The amendment to CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. The regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized. This change has been applied on a retroactive basis without restatement of prior periods. As a result of this change, opening retained earnings decreased by \$2,815,000 and regulatory liabilities and future income tax assets increased by \$3,909,179 and \$1,094,179 respectively at January 1, 2009.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

3. Property, plant and equipment:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 445,817	\$ -	\$ 445,817	\$ 445,817
Land rights	283,160	264,958	18,202	19,394
Buildings	4,878,665	1,777,296	3,101,369	2,988,855
Distribution and transmission systems	74,885,634	41,546,291	33,339,343	32,674,454
Equipment	18,886,610	13,179,375	5,707,235	5,497,673
Contributed capital (note 1(i))	(5,352,188)	(968,203)	(4,383,985)	(3,296,160)
Major spare part inventory	591,500	-	591,500	622,174
	\$ 94,619,198	\$ 55,799,717	\$ 38,819,481	\$ 38,952,207

During the year, the Corporation received \$1,270,753 (2008 - \$392,789) of contributed capital.

4. Inventory:

Inventory, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventory consumed by the Corporation and recognized as an expense during 2009 was \$670,783 (2008 - \$675,985).

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

5. Regulatory balances:

	2009	2008
Regulatory balances approved for settlement in rates	\$ (6,963,428)	\$ (3,974,344)
Qualifying costs to be recovered in future rates	139,773	840,962
Retail settlement variances to be settled in future rates	4,914,794	(3,635,618)
	(1,908,861)	(6,769,000)
Less accumulated amount settled through rates	1,071,155	-
Remaining amount payable	(837,706)	(6,769,000)
Less current portion, payable within the next twelve months	2,355,603	1,313,484
Less long-term payable portion	3,536,668	5,455,516
Regulatory balances recoverable	\$ 5,054,565	\$ -

Regulatory balances approved by the OEB for settlement in rates represent various regulatory costs and liabilities, including carrying charges, incurred by the Corporation. The net amount of \$3,974,344 was incurred to the end December 31, 2007 and will be settled in rates commencing May 1, 2009 over a two year period. The net amount of \$2,977,717 was incurred to the end of December 31, 2008 and will be settled in rates commencing May 1, 2010 over a two year period.

Qualifying amounts have been accumulated pursuant to regulation underlying the Electricity Act ("EA") and deferred in anticipation of their future recovery or settlement in electricity distribution service charges.

Retail settlement variances represent amounts that have been accumulated since the most recent OEB approval for disposition and comprise:

- (a) Variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate; and

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

5. Regulatory balances (continued):

- (b) Variances between the amounts charged by the IESO and Hydro One to allow for purchases of electricity and the amounts billed to customers by the Corporation based on OEB approved rates; and
- (c) Variances between the amounts incurred by the Corporation for the OEB mandated smart meter implementation and the amounts billed to customers by the Corporation based on OEB approved rates.

6. Due to shareholders:

	2009	2008
Subordinate promissory note payable to shareholders, bearing interest at 7.62%, with interest payable in quarterly instalments, with no specified repayment terms for principal amounts. Shareholders can demand payment with twelve months written notice	\$ 19,377,604	\$ 19,377,604

The promissory note payable to shareholders is unsecured, subordinated and due twelve months following demand for payment and was non-interest bearing prior to October 1, 2001. The rate of interest payable by the Corporation, commencing October 1, 2001, is the maximum amount prescribed by the OEB in its publication Electricity Distribution Rate Handbook as its "Deemed Debt Cost Rates". On May 1, 2009, the Deemed Debt Cost Rate applicable to the Corporation increased from 7.25% to 7.62%.

The Corporation incurred interest expense in respect of the promissory note payable to shareholders of \$1,452,674 (2008 - \$1,404,876).

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

7. Employee future benefits:

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. In measuring the Corporation's accrued benefit obligation, the actuary calculated the obligation utilizing the following assumptions provided by management.

	2009	2008
Discount rate	5.5 %	6.0 %
Salary increase	3.0 %	3.0 %
Health care costs declining by 1% per year until 5% ultimate rate reached	8.0 %	9.0 %
Dental	5.0 %	5.0 %

The transition obligation has been amortized over the average remaining service life of current employees, which is nine years. This results in a liability on the balance sheet at year end as follows:

	2009	2008
Accrued benefit obligation	\$ 7,796,944	\$ 6,396,070
Less: unrecognized loss	(1,213,122)	(39,677)
	\$ 6,583,822	\$ 6,356,393

Other information about the Corporation's plan for the year ended December 31 is as follows:

	2009	2008
Service cost	\$ 161,634	\$ 572,024
Interest cost	411,323	390,882
Benefits paid	(345,528)	(222,941)
Actuarial loss	-	108,029
	\$ 227,429	\$ 847,994

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

8. Pension plan:

The Corporation participates in the OMERS, a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions in 2009 were 6.3% (2008 - 6.5%) for employee earnings below the year's maximum pensionable earnings and 9.5% (2008 - 9.6%) thereafter. The Corporation contributed \$447,867 (2008 - \$466,540) to the OMERS pension plan, on behalf of its employees, during the year ended December 31, 2009.

9. Commitments and Contingencies:

- (i) The Corporation has letters of credit aggregating \$6,281,038 (2008 - \$6,281,038) in favour of the IESO as security for the Corporation's purchase of electricity through the IESO. The Corporation also has letters of credit aggregating \$600,000 (2008 - \$600,000) in favour of Hydro One as security for the Corporation's purchase of electricity through Hydro One. The Corporation also has letters of credit aggregating \$50,000 (2008 - \$50,000) in favour of OMERS as security on behalf of its affiliates for their pension plan contributions. At year end, no amounts were drawn on these letters of credit.
- (ii) On March 2, 2010 the Electric Distributors Association ("EDA") presented to its members and all electric distributors in Ontario, the terms of a tentative settlement with respect to a pending class action lawsuit against all local distribution company's ("LDC's") regarding the charging of late payment penalties ("LPP's") which are alleged to have contravened Section 347 of the Criminal Code. It is contended that LPP's are "interest" as defined in the Criminal Code and that, in certain circumstances, the implied rate of interest exceeds the prescribed limit of 60%.

The plaintiffs seek repayment of all improper LPP charges. This litigation has been pending since 1994 in the case of Toronto Hydro, and since 1998 in the case of all other LDC's. Similar class actions were also brought against Enbridge/Consumers Gas and Union Gas. On each of these occasions, the Supreme Court of Canada has made rulings which were favourable to the plaintiff's and which deprived the defendant utilities of most of their defenses to these claims.

In light of the settlements in the other cases, industry counsel instructed by an Ad Hoc Committee of the EDA recently participated in a court-supervised mediation process to explore possible settlement of the case against the LDC's. A settlement in principle of this litigation on behalf of all LDC's has now been reached. The tentative settlement agreement requires the unanimous consent and approval of all LDC's. All LDC's must indicate their acceptance of this settlement on or before April 5, 2010. If a unanimous acceptance of this offer is indicated by all LDC's; the Ontario Superior Court of Justice will convene a hearing on May 26, 2010 to consider the settlement of the class action suit.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

9. Commitments and Contingencies (continued):

(ii) (continued)

Under the terms of the settlement agreement, the Corporation would make a one-time payment of approximately \$150,000 on June 30, 2011. The amounts paid under this settlement, after deduction of class counsel fees, would be paid to the Winter Warmth Fund or a similar charity in the Corporation's service territory.

(iii) The Corporation has entered into agreements to complete certain capital projects and for the implementation of the Corporation's smart meter initiative. The total commitments at year end for these ongoing projects is approximately \$5,343,000 and all are expected to be completed in 2010.

10. Share capital:

The authorized share capital consists of an unlimited number of common shares.

The share capital of the Corporation is as follows:

	2009	2008
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 18,022,105	\$ 18,022,105

11. Other revenue:

Other revenue from operations comprises of:

	2009	2008
Change in occupancy	\$ 47,361	\$ 49,696
Service agreement revenue	39,261	38,770
Consolidated billing charges	21,577	21,469
Collection charges	84,445	73,727
Gain on disposal of plant and equipment	152,161	54,127
Sale of scrap material	20,713	65,538
Miscellaneous	975,690	205,596
Management fees received from affiliates	117,610	56,250
	\$ 1,458,818	\$ 565,173

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

12. Payment in lieu of income taxes:

The provision for payment in lieu ("PILs") varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2009	2008
Basic tax rate of 33.0% applied to income before PILs (33.5% rated used in 2008)	\$ 1,357,000	\$ 947,000
Tax effect of non-deductible expenses	6,000	23,000
Tax effect of temporary differences	(24,000)	-
Other	(46,000)	(55,000)
	<u>\$ 1,293,000</u>	<u>\$ 915,000</u>

Future income tax assets of \$3,133,000 (2008 - \$2,815,000) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets and intangible assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

13. Changes in non-cash operating working capital:

	2009	2008
Accounts receivable	\$ (1,573,031)	\$ 638,903
Unbilled revenue	1,336,571	(221,867)
Inventory	82,810	519,097
Prepaid expenses	93,945	100,997
Accounts payable and accrued liabilities	1,222,485	(590,072)
Power purchases payable	1,709,430	(1,003,664)
Accrued Interest payable	47,798	-
Payment in lieu of income taxes payable	53,191	(282,036)
Deposits in aid of construction	52,574	1,619,425
	<u>\$ 3,025,773</u>	<u>\$ 780,783</u>

14. Due to shareholders:

The balance owing has arisen as a result of water billing services on behalf of certain shareholders. During the course of the year, the Corporation earned \$668,022 (2008 - \$639,485) relating to the provision of these services. The outstanding balance represents billed amounts not yet remitted to shareholders.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

15. Credit risk:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Corporation reducing the expected cash inflow from Corporation assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions.

The Corporation has assessed that there are no significant concentrations of credit risk other than the present uncertainty relating to the recovery of regulatory assets. The final regulatory amount recoverable will be assessed in future years by the regulator after the audit of those costs.

16. Financial Instruments:

The Corporation's financial instruments consist of accounts receivable, due from companies under common control, unbilled revenue, power purchases payable, accounts payable and accrued liabilities, due to shareholders, dividends payable, accrued interest, regulatory balances payable and payment in lieu of income taxes payable. Management is of the opinion that the fair values of all financial assets and liabilities are not materially different from their carrying values due to the short-term maturity of these instruments. The fair value of the shareholder notes is not readily determinable due to the related party nature of this instrument.

17. Emerging accounting changes:

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On October 14, 2009, the Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. As such, the Corporation will apply IFRS to its financial statements ending December 31, 2011 with restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2010, for comparative purposes.

A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date.

BLUEWATER POWER DISTRIBUTION CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2009

17. Emerging accounting changes (continued):

The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. Although the impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related process changes, which will be required in order to provide the additional information required to make these disclosures.

In July 2009, the International Accounting Standards Board ("IASB") issued an exposure draft on rate regulated activities. The IASB staff has postponed presenting their analysis of the response to the IASB. This presentation may include options for the next steps of the rate regulated activities project. It is unclear at this time what the outcome of the IASB's deliberations will be and how that will impact the Corporation's reporting under IFRS.

The Corporation continues to assess the impact of conversion to IFRS on its results of operations.

18. Subsequent events:

In February, 2010, an affiliated company under common control established a credit facility with its bank. This was specifically for letters of credit aggregating \$500,000 (2009 - nil) in favour of its customers to support bids for billable construction projects. This credit facility is guaranteed by the Corporation. As of the date of the auditor's report, no amounts were drawn on these letters of credit.

19. Comparative figures:

Certain of the 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

1 **HISTORICAL FINANCIAL RESULT FILINGS**

2 Bluewater Power has included at Exhibit 1, Tab 3, Schedule 2, Attachment 1 a schedule
3 which details the financial account filings for 2009 Board Approved, 2009 Actual, 2010
4 Actual and 2011 Actual results.

Bluewater Power (ED-2002-0517)

2013 EDR Application (EB-2012-0107) version: 1

Bluewater Power Distribution Corporation

EB-2012-0107

Exhibit 1

Tab 3

Schedule 2, Attachment 1

A2 Approved & Actual Balances

Account Grouping	Account Description	FinStmnt	Rates	2011 Actual	2010 Actual	2009 Actual	2009 EDR Approved
1050-Current Assets	1005-Cash	BS		3,237,535.00	4,514,034.00	7,872,876.00	(1,589,954.00)
	1100-Customer Accounts Receivable	BS		6,228,016.00	6,251,238.00	5,917,925.00	5,115,000.00
	1104-Accounts Receivable - Recoverable Work	BS		436,313.00	1,732,350.00	481,382.00	1,000,000.00
	1110-Other Accounts Receivable	BS		3,076,275.00	3,577,759.00	2,375,446.00	1,500,000.00
	1120-Accrued Utility Revenues	BS		9,559,826.00	10,411,860.00	9,391,221.00	11,100,000.00
	1130-Accumulated Provision for Uncollectible Accounts--Credit	BS		(560,262.00)	(488,607.00)	(115,000.00)	(115,000.00)
	1180-Prepayments	BS		650,902.00	575,847.00	248,175.00	450,000.00
	1200-Accounts Receivable from Associated Companies	BS		5,051.00	1,191,170.00	381,547.00	300,000.00
	1210-Notes Receivable from Associated Companies	BS		95,000.00			
1100-Inventory	1330-Plant Materials and Operating Supplies	BS		617,875.00	596,509.00	613,182.00	1,250,000.00
1150-Non-Current Assets	1485-Investment in Associated Companies - Significant Influence	BS		1,725,833.00			
1200-Other Assets and Deferred Charges	1505-Unrecovered Plant and Regulatory Study Costs	BS	6				133,584.00
	1508-Other Reg Assets-OEB Cost Assessments	BS	6	648,713.00	633,323.00	311,171.00	695,033.00
	1521-Special Purpose Charge Assessment Variance Account	BS	6	30,657.00	396,094.00		
	1525-Miscellaneous Deferred Debits	BS	6				527.00
	1548-RCVASTR	BS	6				41,299.00
	1550-LV Variance Account	BS	6	(82,404.00)	(143,184.00)	(66,915.00)	(35,459.00)
	1555-Smart Meters Capital Variance Account	BS	6	6,407,130.00	4,799,859.00	(250,045.00)	(190,678.00)
	1556-Smart Meters OM&A Variance Account	BS	6	1,260,285.00	378,798.00	85,831.00	41,967.00
	1562-Deferred Payments in Lieu of Taxes	BS	6	(706,229.00)	(277,433.00)	(275,601.00)	(280,402.00)
	1565-Conservation and Demand Management Expenditures and Recoveries	BS	6		365.00	365.00	
	1566-CDM Contra Account	BS	6		(110.00)	(110.00)	
	1572-Extraordinary Event Costs	BS	6	(350,302.00)	(326,390.00)	(274,377.00)	
	1580-RSVAWMS	BS	6	(3,019,408.00)	(1,778,900.00)	(907,493.00)	(1,868,802.00)
	1584-RSVANW	BS	6	(416,209.00)	23,374.00	(405,814.00)	119,485.00
	1586-RSVACN	BS	6	(193,591.00)	(288,703.00)	(503,745.00)	(403,993.00)
	1588-RSVAPOWER Main Account	BS	6	427,568.00	4,689,367.00	3,985,259.00	(2,911,100.00)
	1590-Recovery of Regulatory Asset Balances	BS	6				(153,280.00)
	1595-Disposition and Recovery of Regulatory Balances	BS		2,508,312.00	(2,929,129.00)	(2,914,554.00)	
1450-Distribution Plant	1805-Land	BS	1	497,489.00	489,817.00	445,814.00	445,817.00
	1806-Land Rights	BS	1	283,160.00	283,160.00	283,160.00	283,160.00

Bluewater Power (ED-2002-0517)

2013 EDR Application (EB-2012-0107) version: 1

Bluewater Power Distribution Corporation

EB-2012-0107

Exhibit 1

Tab 3

Schedule 2, Attachment 1

A2 Approved & Actual Balances

Account Grouping	Account Description	FinStmnt	Rates	2011 Actual	2010 Actual	2009 Actual	2009 EDR Approved
	1820-Distribution Station Equipment - Normally Primary below 50 kV	BS	1	6,455,582.00	6,106,086.00	5,768,029.00	5,766,704.00
	1830-Poles, Towers and Fixtures	BS	1	2,257,678.00	1,781,988.00	1,240,576.00	1,941,647.00
	1835-Overhead Conductors and Devices	BS	1	27,485,935.00	27,076,679.00	26,429,206.00	26,921,131.00
	1840-Underground Conduit	BS	1	1,150,356.00	958,584.00	756,555.00	(53,260.00)
	1845-Underground Conductors and Devices	BS	1	20,300,059.00	19,704,320.00	19,374,143.00	19,179,938.00
	1850-Line Transformers	BS	1	15,367,543.00	14,684,774.00	13,736,285.00	12,686,426.00
	1855-Services	BS	1	555,088.00	431,764.00	327,336.00	445,964.00
1500-General Plant	1860-Meters	BS	1	7,862,812.00	7,427,858.00	7,253,505.00	7,697,717.00
	1908-Buildings and Fixtures	BS	1	6,009,894.00	5,925,327.00	4,878,665.00	4,842,016.00
	1915-Office Furniture and Equipment	BS	1	876,633.00	849,162.00	828,300.00	723,963.00
	1920-Computer Equipment - Hardware	BS	1	5,099,380.00	4,736,268.00	4,367,945.00	3,866,633.00
	1925-Computer Software	BS	1	9,500,884.00	8,481,130.00	5,607,852.00	6,056,976.00
	1930-Transportation Equipment	BS	1	4,341,254.00	4,271,828.00	3,389,989.00	3,728,644.00
	1935-Stores Equipment	BS	1	81,138.00	81,138.00	81,138.00	80,604.00
	1940-Tools, Shop and Garage Equipment	BS	1	887,821.00	849,235.00	777,871.00	799,543.00
	1945-Measurement and Testing Equipment	BS	1	313,080.00	246,881.00	229,399.00	229,399.00
	1955-Communication Equipment	BS	1	252,975.00	248,340.00	162,458.00	160,396.00
	1960-Miscellaneous Equipment	BS	1	784,532.00	784,532.00	784,532.00	835,038.00
	1970-Load Management Controls - Customer Premises	BS	1	464,917.00	464,917.00	464,917.00	464,917.00
	1980-System Supervisory Equipment	BS	1	1,238,700.00	1,210,302.00	1,210,302.00	1,201,410.00
	1990-Other Tangible Property	BS	1	567,497.00	566,276.00	591,499.00	
	1995-Contributions and Grants - Credit	BS	1	(5,074,914.00)	(4,629,976.00)	(4,383,984.00)	(4,997,587.00)
	2055-Construction Work in Progress--Electric	BS		472,126.00	352,445.00	981,909.00	
1600-Accumulated Amortization	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	BS	1	(48,298,146.00)	(45,784,974.00)	(43,323,587.00)	(54,514,918.00)
	2120-Accumulated Amortization of Electric Utility Plant - Intangibles	BS	1	(267,343.00)	(266,150.00)	(264,958.00)	(938,418.00)
	2160-Accumulated Amortization of Other Utility Plant	BS	1	(16,550,875.00)	(14,808,483.00)	(13,179,375.00)	
1650-Current Liabilities	2205-Accounts Payable	BS		(2,513,665.00)	(3,706,053.00)	(2,308,530.00)	(1,450,000.00)
	2210-Current Portion of Customer Deposits	BS		(1,342,513.00)	(2,957,065.00)	(2,341,151.00)	(800,000.00)
	2215-Dividends Declared	BS		(765,747.00)	(1,165,917.00)	(939,807.00)	
	2220-Miscellaneous Current and Accrued Liabilities	BS		(652,938.00)	(50,308.00)	(276,445.00)	(250,000.00)
	2240-Accounts Payable to Associated Companies	BS		(1,701,503.00)	(2,288,117.00)	(1,874,957.00)	(1,500,000.00)
	2250-Debt Retirement Charges(DRC) Payable	BS		(411,994.00)	(442,972.00)	(489,871.00)	(500,000.00)
	2252-Transmission Charges Payable	BS		(8,071,305.00)	(8,157,376.00)	(7,464,977.00)	(7,500,000.00)
	2268-Accrued Interest on Long Term Debt	BS		(71,416.00)		(47,798.00)	

Bluewater Power (ED-2002-0517)

2013 EDR Application (EB-2012-0107) version: 1

Bluewater Power Distribution Corporation

EB-2012-0107

Exhibit 1

Tab 3

Schedule 2, Attachment 1

A2 Approved & Actual Balances

Account Grouping	Account Description	FinStmnt	Rates	2011 Actual	2010 Actual	2009 Actual	2009 EDR Approved
	2290-Commodity Taxes	BS		(149,037.00)	(359,689.00)	2,624.00	(50,000.00)
	2292-Payroll Deductions / Expenses Payable	BS		(137,339.00)	(111,040.00)	(68,522.00)	(75,000.00)
	2294-Accrual for Taxes, Payments in Lieu of Taxes, Etc.	BS		566,969.00	586,380.00	55,390.00	(175,000.00)
1700-Non-Current Liabilities	2306-Employee Future Benefits	BS		(7,507,737.00)	(7,079,641.00)	(6,583,822.00)	(6,742,660.00)
	2335-Long Term Customer Deposits	BS		(1,543,307.00)	(1,937,771.00)	(1,785,865.00)	(1,200,000.00)
	2350-Future Income Tax - Non-Current	BS					2,380,000.00
	2425-Other Deferred Credits	BS	6				216,604.00
1800-Long-Term Debt	2520-Other Long Term Debt	BS		(7,827,494.00)	(5,651,531.00)		(19,377,604.00)
	2550-Advances from Associated Companies	BS		(19,377,604.00)	(19,377,604.00)	(19,377,604.00)	
1850-Shareholders' Equity	3005-Common Shares Issued	BS		(13,413,553.00)	(13,413,553.00)	(13,413,553.00)	(13,413,553.00)
	3010-Contributed Surplus	BS		(4,608,552.00)	(4,608,552.00)	(4,608,552.00)	(4,608,552.00)
	3045-Unappropriated Retained Earnings	BS		(5,341,909.00)	(3,010,075.00)	(3,945,460.00)	(1,163,932.00)
	3046-Balance Transferred From Income	BS					(189,442.00)
	3049-Dividends Payable-Common Shares	BS		2,665,747.00	1,165,917.00	939,807.00	
3000-Sales of Electricity	4006-Residential Energy Sales	PL		(19,599,670.00)	(19,726,387.00)	(16,673,090.00)	(20,880,053.00)
	4020-Energy Sales to Large Users	PL		(4,308,559.00)	(5,138,928.00)	(4,259,156.00)	(11,220,401.00)
	4025-Street Lighting Energy Sales	PL		(257,751.00)	(297,661.00)	(334,728.00)	(670,037.00)
	4030-Sentinel Lighting Energy Sales	PL		(38,612.00)	(37,250.00)	(35,473.00)	(52,028.00)
	4035-General Energy Sales	PL		(20,509,566.00)	(20,822,402.00)	(19,817,083.00)	(39,497,097.00)
	4050-Revenue Adjustment	PL		569,130.00	(1,067,986.00)	2,072,687.00	
	4062-Billed WMS	PL		(6,099,260.00)	(6,179,030.00)	(5,871,872.00)	
	4066-Billed NW	PL		(5,682,064.00)	(5,278,832.00)	(4,582,688.00)	
	4068-Billed CN	PL		(4,831,345.00)	(4,788,270.00)	(4,507,168.00)	
	4075-Billed-LV	PL					(189,602.00)
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	PL	5	(18,642,816.00)	(18,527,871.00)	(16,652,014.00)	(15,452,166.00)
3100-Other Operating Revenues	4082-Retail Services Revenues	PL	5	(48,541.00)	(56,983.00)	(60,838.00)	(68,097.00)
	4084-Service Transaction Requests (STR) Revenues	PL	5	(3,805.00)	(3,756.00)	(1,746.00)	(5,091.00)
	4210-Rent from Electric Property	PL	5	(279,577.00)	(313,529.00)	(307,829.00)	(136,320.00)
	4220-Other Electric Revenues	PL	5	(112,751.00)	(113,172.00)	(117,610.00)	
	4225-Late Payment Charges	PL	5	(244,953.00)	(230,017.00)	(285,586.00)	(225,433.00)
	4235-Miscellaneous Service Revenues	PL	5	(174,751.00)	(209,404.00)	(1,105,751.00)	(135,840.00)
3150-Other Income & Deductions	4325-Revenues from Merchandise, Jobbing, Etc.	PL	5	(1,475,205.00)	(1,655,256.00)	(597,536.00)	(361,084.00)
	4330-Costs and Expenses of Merchandising, Jobbing, Etc.	PL	5	896,293.00	1,304,982.00	372,896.00	92,578.00
	4355-Gain on Disposition of Utility and Other Property	PL	5	(23,293.00)	(20,735.00)	(358,539.00)	(30,051.00)
	4375-Revenues from Non-Utility Operations	PL	5	(567,028.00)	(1,573,352.00)	(1,096,951.00)	
	4380-Expenses of Non-Utility Operations	PL	5	490,321.00	1,144,726.00	687,065.00	

Bluewater Power (ED-2002-0517)

2013 EDR Application (EB-2012-0107) version: 1

Bluewater Power Distribution Corporation

EB-2012-0107

Exhibit 1

Tab 3

Schedule 2, Attachment 1

A2 Approved & Actual Balances

Account Grouping	Account Description	FinStmnt	Rates	2011 Actual	2010 Actual	2009 Actual	2009 EDR Approved
	4390-Miscellaneous Non-Operating Income	PL	5	(26,394.00)	(25,866.00)	(20,713.00)	(33,318.00)
3200-Investment Income	4405-Interest and Dividend Income	PL	5	(312,894.00)	(111,557.00)	(52,701.00)	243,636.00
3350-Power Supply Expenses	4705-Power Purchased	PL	4	44,764,887.00	46,646,401.00	41,596,698.00	56,619,746.00
	4708-Charges-WMS	PL	4	3,535,211.00	3,911,352.00	4,575,002.00	4,882,632.00
	4710-Cost of Power Adjustments	PL	4	1,484,516.00	1,642,950.00	(2,371,042.00)	
	4714-Charges-NW	PL	4	5,301,643.00	5,335,078.00	4,672,460.00	4,914,057.00
	4716-Charges-CN	PL	4	4,716,434.00	4,732,567.00	4,311,876.00	4,682,525.00
	4730-Rural Rate Assistance Expense	PL	4	955,006.00	1,054,963.00	994,090.00	1,220,658.00
	4750-Charges-LV	PL	4				189,602.00
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	PL	3	814,674.00	888,541.00	626,703.00	835,073.00
	5010-Load Dispatching	PL	3	212,873.00	215,197.00	187,893.00	184,799.00
	5012-Station Buildings and Fixtures Expense	PL	3	1,917.00	17,440.00	53,112.00	88.00
	5014-Transformer Station Equipment - Operation Labour	PL	3				22,991.00
	5017-Distribution Station Equipment - Operation Supplies and Expenses	PL	3	25,130.00	148.00	9,026.00	371.00
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	PL	3	267,780.00	291,515.00	233,839.00	204,588.00
	5035-Overhead Distribution Transformers-Operation	PL	3	1,878.00	241.00	342.00	1,738.00
	5040-Underground Distribution Lines and Feeders - Operation Labour	PL	3	995,046.00	831,743.00	741,539.00	795,488.00
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	PL	3	120,553.00	167,941.00	337,253.00	270,909.00
	5055-Underground Distribution Transformers - Operation	PL	3	1,122.00			
	5065-Meter Expense	PL	3	359,545.00	355,175.00	335,735.00	386,874.00
	5075-Customer Premises - Materials and Expenses	PL	3			1,508.00	38,217.00
	5085-Miscellaneous Distribution Expense	PL	3	344,988.00	340,815.00	376,855.00	357,866.00
	5095-Overhead Distribution Lines and Feeders - Rental Paid	PL	3	31,891.00	26,941.00	21,988.00	27,138.00
3550-Distribution Expenses - Maintenance	5114-Maintenance of Distribution Station Equipment	PL	3	30,357.00	68,428.00	29,453.00	6,433.00
	5120-Maintenance of Poles, Towers and Fixtures	PL	3	4,986.00	4,881.00	11,295.00	12,645.00
	5125-Maintenance of Overhead Conductors and Devices	PL	3	64,602.00	54,937.00	79,516.00	73,853.00
	5145-Maintenance of Underground Conduit	PL	3	14.00	10.00	48.00	
	5150-Maintenance of Underground Conductors and Devices	PL	3	25,926.00	19,139.00	21,071.00	14,944.00

Bluewater Power (ED-2002-0517)

2013 EDR Application (EB-2012-0107) version: 1

Bluewater Power Distribution Corporation

EB-2012-0107

Exhibit 1

Tab 3

Schedule 2, Attachment 1

A2 Approved & Actual Balances

Account Grouping	Account Description	FinStmnt	Rates	2011 Actual	2010 Actual	2009 Actual	2009 EDR Approved
	5155-Maintenance of Underground Services	PL	3	775.00	3,637.00	5,650.00	4,549.00
	5160-Maintenance of Line Transformers	PL	3	30,102.00	23,761.00	14,829.00	22,991.00
	5175-Maintenance of Meters	PL	3	455.00	1,057.00	606.00	3,979.00
3650-Billing and Collecting	5305-Supervision	PL	3	208,714.00	170,710.00	122,263.00	110,356.00
	5310-Meter Reading Expense	PL	3	55,952.00	110,314.00	126,551.00	130,998.00
	5315-Customer Billing	PL	3	818,456.00	768,194.00	791,098.00	784,936.00
	5320-Collecting	PL	3	191,529.00	193,454.00	214,394.00	206,153.00
	5325-Collecting- Cash Over and Short	PL	3	120.00	(84.00)	104.00	
	5330-Collection Charges	PL	3	309.00	162.00	440.00	697.00
	5335-Bad Debt Expense	PL	3	206,195.00	490,144.00	102,769.00	90,976.00
3700-Community Relations	5410-Community Relations - Sundry	PL	3	106,039.00	44,624.00	43,958.00	45,981.00
	5415-Energy Conservation	PL	3	27,391.00	33,708.00	49,799.00	40,269.00
	5420-Community Safety Program	PL	3	122,273.00	113,415.00	119,437.00	105,519.00
	5425-Miscellaneous Customer Service and Informational Expenses	PL	3	596.00			
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	PL	3	1,213,294.00	935,378.00	1,046,191.00	851,116.00
	5610-Management Salaries and Expenses	PL	3	74,042.00	68,523.00	67,390.00	184,825.00
	5615-General Administrative Salaries and Expenses	PL	3	1,352,575.00	992,791.00	972,326.00	1,515,325.00
	5620-Office Supplies and Expenses	PL	3	5,269.00	5,919.00	2,637.00	2,529.00
	5625-Administrative Expense Transferred Credit	PL	3				(543,487.00)
	5630-Outside Services Employed	PL	3	281,162.00	267,635.00	273,402.00	157,994.00
	5635-Property Insurance	PL	3	127,829.00	110,030.00	160,266.00	146,853.00
	5645-Employee Pensions and Benefits	PL	3	1,707,958.00	1,557,222.00	1,495,682.00	1,756,541.00
	5655-Regulatory Expenses	PL	3	322,518.00	321,433.00	287,143.00	387,047.00
	5660-General Advertising Expenses	PL	3	39,301.00	8,491.00	10,237.00	18,569.00
	5665-Miscellaneous General Expenses	PL	3	719,664.00	647,754.00	682,251.00	640,900.00
	5675-Maintenance of General Plant	PL	3	146,944.00	103,430.00	114,991.00	91,788.00
	5680-Electrical Safety Authority Fees	PL	3	714.00	26.00		
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	PL	2	4,259,216.00	3,939,847.00	3,968,013.00	4,120,022.00
3900-Interest Expense	6005-Interest on Long Term Debt	PL		1,632,228.00	1,488,480.00	1,452,674.00	1,404,876.00
	6035-Other Interest Expense	PL		99,294.00	82,938.00	108,767.00	56,820.00
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	PL	3	189,527.00	180,940.00	247,231.00	262,750.00
4000-Income Taxes	6110-Income Taxes	PL		525,000.00	906,000.00	1,293,000.00	85,857.00
4100-Extraordinary & Other Items	6205-Donations	PL	9	30,629.00	54,448.00	48,784.00	
	6310-Extraordinary Deductions	PL	9	428,796.00			
Balance Sheet Total		BS		2,297,244.00	3,497,752.00	2,819,422.00	
Net Income		PL		(2,297,246.00)	(3,497,752.00)	(2,819,425.00)	

RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND RESULTS FILED

The reconciliation for 2009, 2010 and 2011 is presented as of Exhibit 1, Tab 3, Schedule 3, Attachment 1. Certain account numbers are found more than once in Attachment 1 and are highlighted in the same colour. These colour coded accounts must be added together in order to arrive at the total for that account in the trial balance.

Certain account balances in this attachment may differ slightly (one or two dollars) from the trial balance filed. This is to compensate for rounding in order to arrive at the exact dollar amounts found in the audited financial statements found in Attachments 1, 2 and 3 of Exhibit 1, Tab 3, Schedule 1.

It is important to note that the 2009 trial balance filed with the OEB in 2010 is different than the amounts filed with this Application. The amounts filed for 2009 contained a misclassification, and Bluewater Power filed an update on December 9, 2010 to request a change to the RRR data filed related to 2009. The OEB was not able to accommodate the change request for the RRR data; however, Bluewater Power has reflected the proposed 2009 adjustments in this application to allow for proper comparisons. The entry is required to properly reflect the correct billable costs in Account 4330. If not, then the Distribution OM&A would be overstated by a material amount. This entry will ensure comparability between all years filed with the 2013 COS Application. Table 1 details the adjustments that were made to the data that was filed through the RRR.

This 2009 adjustment is reflected throughout the application, including but not limited to the Historical Financial Results Filings at Exhibit 1, Tab 3, Schedule 3, Attachment 1, and all the OEB Appendices where 2009 Actual results are detailed.

1

2

Table 1 – Entry Required to Properly Reflect Billable Costs for Account 4330

3

USoA Account	Description	Debit	Credit
4330	Costs and Expenses of Merchandising, Jobbing, Etc	\$ 372,896.28	
5005	Operation Supervision and Engineering		\$ 26,116.82
5010	Load Dispatching		\$ 7,831.19
5040	Underground Distribution Lines and Feeders - Operation Labour		\$ 95,993.43
5045	Underground Distribution Lines and Feeders - Operation Supplies and Expenses		\$ 25,746.82
5060	Street Lighting and Signal System Expense		\$ 169,129.81
5065	Meter Expense		\$ 2,687.13
5615	General Administrative Salaries and Expenses		\$ 493.89
5630	Outside Services Employed		\$ 752.72
5645	Employee Pensions and Benefits		\$ 27,010.37
5665	Miscellaneous General Expenses		\$ 17,134.10

4

2.1.13 Mapping Part 1

BLUEWATER POWER DISTRIBUTION CORPORATION

Trial Balance Mapped to Financial Statement Grouping: BALANCE SHEET

Account	B/S Section	B/S Line Grouping	G/L Account Description	2011 Current Year	2011 Balance Sheet	2010 Current Year	2010 Balance Sheet	2009 Current Year	2009 Balance Sheet
Assets									
1005	Current Assets	Cash	Cash	3,237,535	3,237,535	4,514,034	4,514,034	7,872,876	7,872,876
1100	Current Assets	Accounts Receivable	Customer Accounts Receivable	6,228,016		6,251,238		5,917,925	
1104	Current Assets	Accounts Receivable	Accounts Receivable - Recoverable Work	436,313		1,732,350		481,382	
1110	Current Assets	Accounts Receivable	Other Accounts Receivable	2,576,306		2,993,626		1,760,429	
1130	Current Assets	Accounts Receivable	Accumulated Provision for Uncollectable Accounts - Credit	(560,262)	8,680,373	(488,607)	10,488,607	(115,000)	8,044,736
1200	Current Assets	Due from companies under common control	AR from Associated Companies	5,051	5,051	1,191,170	1,191,170	381,547	381,547
1120	Current Assets	Unbilled revenue	Accrued Utility Revenues	9,559,826	9,559,826	10,411,860	10,411,860	9,391,223	9,391,223
NA	Current Assets	Regulatory balances recoverable current	Reclass from Asset account	1,662,452	1,662,452	1,599,990	1,599,990	0	0
1210	Current Assets	Current portion of note receivable	Notes Receivable from Associated companies	95,000	95,000	0	0	0	0
1330	Current Assets	Inventory	Inventory	617,875	617,875	596,509	596,509	613,182	613,182
1180	Current Assets	Prepaid expenses	Prepayments	650,902	650,902	575,847	575,847	248,175	248,175
2294	Current Assets	Payment in lieu of income taxes recoverable	Accruals for Payments in Lieu of Taxes	566,969	566,969	586,380	586,380	55,390	55,390
Total Current Assets					25,075,983		29,964,397		26,607,129
1805	Assets	Property, plant and equipment	Land	497,489		489,817		445,814	
1806	Assets	Property, plant and equipment	Land Rights	283,160		283,160		283,160	
1820	Assets	Property, plant and equipment	Distribution Station Equipment - < 50 KV	6,455,582		6,106,086		5,768,029	
1830	Assets	Property, plant and equipment	Poles, Towers and Fixtures	2,257,678		1,781,988		1,240,576	
1835	Assets	Property, plant and equipment	Overhead Conductors and Devices	27,485,935		27,076,679		26,429,206	
1840	Assets	Property, plant and equipment	Underground Conduit	1,150,356		958,584		756,555	
1845	Assets	Property, plant and equipment	Underground Conductors and Devices	20,300,059		19,704,320		19,374,143	
1850	Assets	Property, plant and equipment	Line Transformers	15,367,543		14,684,774		13,736,285	
1855	Assets	Property, plant and equipment	Underground Services	555,088		431,764		327,336	
1860	Assets	Property, plant and equipment	Meters	7,862,812		7,427,858		7,253,505	
1908	Assets	Property, plant and equipment	Buildings and Fixtures	6,009,894		5,925,327		4,878,665	
1915	Assets	Property, plant and equipment	Office Furniture and Equipment	876,633		849,162		828,300	
1920	Assets	Property, plant and equipment	Computer Equipment - Hardware	5,099,380		4,736,268		4,367,945	
1925	Assets	Property, plant and equipment	Computer Software	9,500,884		8,481,130		5,607,852	
1930	Assets	Property, plant and equipment	Transportation Equipment	4,341,254		4,271,828		3,389,989	
1935	Assets	Property, plant and equipment	Stores Equipment	81,138		81,138		81,138	
1940	Assets	Property, plant and equipment	Tools, Shop and Garage Equipment	887,821		849,235		777,871	
1945	Assets	Property, plant and equipment	Measurement and Testing Equipment	313,080		246,881		229,399	
1955	Assets	Property, plant and equipment	Communication Equipment	252,975		248,340		162,458	
1960	Assets	Property, plant and equipment	Misc Equipment - (New Era & C&DM)	784,532		784,532		784,532	
1970	Assets	Property, plant and equipment	Load Mgmnt Controls - Customer Premises	464,917		464,917		464,917	
1980	Assets	Property, plant and equipment	System Supervisory Equipment	1,238,700		1,210,302		1,210,302	
1990	Assets	Property, plant and equipment	Other Tangible Property	567,497		566,276		591,499	
1995	Assets	Property, plant and equipment	Contributed Capital - Post Jan.1, 2000	(5,074,914)		(4,629,976)		(4,383,984)	
2055	Assets	Property, plant and equipment	Construction Work in Progress - Electric	472,126		352,445		981,909	

2.1.13 Mapping Part 1

BLUEWATER POWER DISTRIBUTION CORPORATION

Trial Balance Mapped to Financial Statement Grouping: BALANCE SHEET

Account	B/S Section	B/S Line Grouping	G/L Account Description	2011	2011	2010	2010	2009	2009
2105	Assets	Property, plant and equipment	Accum Depreciation of Electric Utility Plant	(48,298,146)		(45,784,974)		(43,323,587)	
2120	Assets	Property, plant and equipment	Accum Dep'n of Electric Utility Plt-Intangibles	(267,343)		(266,150)		(264,958)	
2160	Assets	Property, plant and equipment	Accum Dep'n of Other Utility Plant	(16,550,875)	42,915,253	(14,808,483)	42,523,228	(13,179,375)	38,819,481
1110	Assets	Regulatory balances recoverable	Other Accounts Receivable	499,969		584,134		615,014	
1508	Assets	Regulatory balances recoverable	Other Regulatory Assets	648,713		633,323		311,171	
1521	Assets	Regulatory balances recoverable	Special Purpose Charge Assessment Variance Account	30,657		396,094		0	
1550	Assets	Regulatory balances recoverable	LV Variance Account	(82,404)		(143,184)		(66,915)	
1555	Assets	Regulatory balances recoverable	Smart Meter Capital	6,407,130		4,799,859		(250,045)	
1556	Assets	Regulatory balances recoverable	Smart Meter OM&A Variance	1,260,285		378,798		85,831	
1562	Assets	Regulatory balances recoverable	Deferred Payments in Lieu of Taxes	(706,229)		(277,433)		(275,601)	
1565	Assets	Regulatory balances recoverable	C & DM Expenditures and Recoveries	0		365		365	
1566	Assets	Regulatory balances recoverable	C & DM Contra Account	0		(110)		(110)	
1572	Assets	Regulatory balances recoverable	Extraordinary Event Costs	(350,302)		(326,390)		(274,377)	
1580	Assets	Regulatory balances recoverable	RSVA IESO Charges Variance	(3,019,408)		(1,778,900)		(907,493)	
1584	Assets	Regulatory balances recoverable	RSVA Network Charges Variance	(416,209)		23,374		(405,814)	
1586	Assets	Regulatory balances recoverable	RSVA Connection Charges Variance	(193,591)		(288,703)		(503,745)	
1588	Assets	Regulatory balances recoverable	RSVA Power Charges Variance incl. GA	427,568		4,689,367		3,985,259	
1589	Assets	Regulatory balances recoverable	1588 - Global Adjustment sub-account	0		0		(236,692)	
1590	Assets	Regulatory balances recoverable	Recovery of Regulatory Asset Balances	0		0		0	
1595	Assets	Regulatory balances recoverable	Disposition and recovery of regulatory Balances Control Account	2,508,312		(2,929,129)		(2,914,554)	
				7,014,489		5,761,465		(837,706)	
NA		Regulatory balances recoverable current	Reclass to current assets	(1,662,452)		(1,599,990)		0	
NA		Regulatory balances payable	Reclass to liabilities	1,314,262		1,942,466		2,355,603	
NA		Long-term regulatory balances payable	Reclass to current liabilities	2,197,019	8,863,319	1,172,638	7,276,579	3,536,668	5,054,565
1485	Assets	Promissory note receivable	Investment in Associated Companies - Significant Influence	1,725,833	1,725,833	0	0	0	0
2350	Assets	Future payment in lieu of income taxes	Future Income Tax Non-Current	2,451,000	2,451,000	2,450,000	2,450,000	3,133,000	3,133,000
Total Assets					\$81,031,388		\$82,214,204		\$73,614,175
Liabilities and Shareholders' Equity									
2252	Current Liabilities	Power purchases payable	Transmission Charges Payable	(8,071,305)	(8,071,305)	(8,157,376)	(8,157,376)	(7,464,976)	(7,464,976)
2205	Current Liabilities	Accounts payable and accrued liabilities	Accounts Payable	(2,513,665)		(3,706,053)		(2,308,530)	
2250	Current Liabilities	Accounts payable and accrued liabilities	Debt Retirement Charges Payable	(411,994)		(442,972)		(489,871)	
2290	Current Liabilities	Accounts payable and accrued liabilities	Commodity Taxes Payable	(149,037)		(359,689)		2,624	
2292	Current Liabilities	Accounts payable and accrued liabilities	Payroll Deductions/Expenses Payable	(137,339)		(111,040)		(68,522)	
2220	Current Liabilities	Accounts payable and accrued liabilities	Misc Current and accrued Liabilities	(652,938)	(3,864,972)	(50,309)	(4,670,063)	(276,443)	(3,140,742)
2240	Current Liabilities	Due to shareholders	Accounts Payable to Associated Companies	(1,701,503)	(1,701,503)	(2,288,117)	(2,288,117)	(1,874,959)	(1,874,959)
2268	Current Liabilities	Accrued interest	Accrued Interest on Long Term Debt	(71,416)	(71,416)	0	0	(47,798)	(47,798)
2215	Current Liabilities	Dividend payable	Dividends Payable	(765,747)	(765,747)	(1,165,917)	(1,165,917)	(939,807)	(939,807)
2520	Current Liabilities	Current portion of long-term debt	Other Long Term Debt Payable	(608,062)	(608,062)	0	0	0	0

2.1.13 Mapping Part 1

BLUEWATER POWER DISTRIBUTION CORPORATION

Trial Balance Mapped to Financial Statement Grouping: BALANCE SHEET

Account	B/S Section	B/S Line Grouping	G/L Account Description	2011	2011	2010	2010	2009	2009
2210	Current Liabilities	Deposits in aid of construction	Current Portion of Customer Deposits	(1,342,513)	(1,342,513)	(2,957,065)	(2,957,065)	(2,341,151)	(2,341,151)
NA		Regulatory balances payable	Reclass to liabilities	(1,314,262)	(1,314,262)	(1,942,466)	(1,942,466)	(2,355,603)	(2,355,603)
	Total Current				(17,739,780)		(21,181,004)		(18,165,036)
2550	Liabilities	Due to shareholders - long term	Other Long Term Debt Payable	(19,377,604)	(19,377,604)	(19,377,604)	(19,377,604)	(19,377,604)	(19,377,604)
2520	Liabilities	Long-term debt	Other Long Term Debt Payable	(7,219,432)	(7,219,432)	(5,651,531)	(5,651,531)	0	0
2350	Liabilities	Future regulatory taxes payable	Future Income Tax Non-Current	(2,451,000)	(2,451,000)	(2,450,000)	(2,450,000)	(3,133,000)	(3,133,000)
NA		Long-term regulatory balances payable	Reclass to current liabilities	(2,197,019)	(2,197,019)	(1,172,638)	(1,172,638)	(3,536,668)	(3,536,668)
2335	Liabilities	Customer and other deposits	Long Term Customer Deposits Payable	(1,543,307)	(1,543,307)	(1,937,771)	(1,937,771)	(1,785,865)	(1,785,865)
2306	Liabilities	Employee future benefits	Employee Future Benefits Liability	(7,507,737)	(7,507,737)	(7,079,641)	(7,079,641)	(6,583,822)	(6,583,822)
Shareholders' Equity									
3005	Shareholders' Equity	Share capital	Common Shares Issued	(13,413,553)		(13,413,553)		(13,413,553)	
3010	Shareholders' Equity	Share capital	Contributed Capital - Pre Jan.1, 2000	(4,608,552)	(18,022,105)	(4,608,552)	(18,022,105)	(4,608,552)	(18,022,105)
3045	Shareholders' Equity	Retained Earnings	Unappropriated Retained Earnings	(5,341,910)		(3,010,075)		(3,945,461)	
3049	Shareholders' Equity	Retained Earnings	Dividends Declared	2,665,747		1,165,917		939,807	
3055	Shareholders' Equity	Retained Earnings	Adjustment to Retained Earnings	0		0		2,815,000	
		Net earnings from statement of earnings		(2,297,241)	(4,973,404)	(3,497,752)	(5,341,910)	(2,819,421)	(3,010,075)
		Total Shareholders' Equity			(22,995,509)		(23,364,015)		(21,032,180)
		Total Liabilities and Shareholders' Equity			(\$81,031,388)		(\$82,214,204)		(\$73,614,175)

Trial Balance Mapped to Financial Statement Grouping: STATEMENT OF EARNINGS

Account	EARNINGS Section	EARNINGS Line Grouping	G/L Account Description	2011 Current Year	2011 Statement of Earnings	2010 Current Year	2010 Statement of Earnings	2009 Current Year	2009 Statement of Earnings
Revenues									
4006	Revenues	Revenue	Residential Energy Sales	(19,599,670)		(19,726,387)		(16,673,090)	
4020	Revenues	Revenue	Large Users Energy Sales	(4,308,559)		(5,138,928)		(4,259,156)	
4025	Revenues	Revenue	Street Lighting Energy Sales	(257,751)		(297,661)		(334,728)	
4030	Revenues	Revenue	Sentinel Lighting Energy Sales	(38,612)		(37,250)		(35,473)	
4035	Revenues	Revenue	General Service Energy Sales	(20,509,566)		(20,822,402)		(19,817,083)	
4050	Revenues	Revenue	Unbilled Revenue Adjustment	810,340		(1,067,986)		2,072,687	
4062	Revenues	Revenue	Billed IESO Fees	(6,099,260)		(6,179,030)		(5,871,872)	
4066	Revenues	Revenue	Billed Network Fees	(5,682,064)		(5,278,832)		(4,582,688)	
4068	Revenues	Revenue	Billed Connection Fees	(4,831,345)		(4,788,270)		(4,507,168)	
4080	Revenues	Revenue	Distribution Services Revenue	(18,548,954)	(79,065,440)	(18,437,340)	(81,774,086)	(16,652,013)	(70,660,584)
Cost of power									
4705	Cost of power	Cost of power	Power Purchased	44,764,887		46,646,401		41,596,698	
4708	Cost of power	Cost of power	IESO Charges	3,535,211		3,911,352		4,575,002	
4710	Cost of power	Cost of power	Cost of Power Adjustments	1,484,516		1,642,950		(2,371,042)	
4714	Cost of power	Cost of power	Network Charges	5,301,643		5,335,078		4,672,460	
4716	Cost of power	Cost of power	Connection Charges	4,716,434		4,732,567		4,311,876	
4730	Cost of power	Cost of power	Rural Rate Assistance Charges	955,006	60,757,697	1,054,962	63,323,310	994,089	53,779,083
Distribution revenue					(18,307,743)		(18,450,776)		(16,881,501)
Other operating revenues									
4325	Other operating revenues	Service revenue	Revenues from Merchandise, Jobbing, etc	(1,475,205)		(1,655,256)		(597,536)	
4355	Other operating revenues	Service revenue	Inventory sold to affiliate	0		0		(206,378)	
4375	Other operating revenues	Service revenue	Revenues from Non-Utility Operations	(175,575)	(1,650,780)	(372,354)	(2,027,610)	(67,422)	(871,336)
4375	Other operating revenues	Water and sewer building	Revenues from Non-Utility Operations	(171,218)	(171,218)	(667,557)	(667,557)	(668,022)	(668,022)
4375	Other operating revenues	OPA revenue	Revenues from Non-Utility Operations	(209,033)	(209,033)	(475,331)	(475,331)	(361,507)	(361,507)
4050	Other operating revenues	Other revenue	Unbilled Revenue Adjustment	(241,149)		0		0	
4082	Other operating revenues	Other revenue	Retail Services Revenue	(48,541)		(56,983)		(60,838)	
4084	Other operating revenues	Other revenue	Service Transaction Requests (STR) Revenues	(3,805)		(3,756)		(1,746)	
4220	Other operating revenues	Other revenue	Other Electric Revenues	(112,751)		(113,172)		(117,610)	
4235	Other operating revenues	Other revenue	Miscellaneous Service Revenue	(174,751)		(209,404)		(1,105,751)	
4355	Other operating revenues	Other revenue	Gain on Disposition of Utility & Other Property	(23,292)		(20,735)		(152,161)	
4375	Other operating revenues	Other revenue	Revenues from Non-Utility Operations	0		0		0	
4390	Other operating revenues	Other revenue	Miscellaneous Non-Operating Income	(26,394)		(25,867)		(20,712)	
4405	Other operating revenues	Other revenue	Interest and Dividend Income	(201,226)		0		0	
6035	Other operating revenues	Other revenue	Other Interest Expense	68,035	(763,874)	0	(429,917)	0	(1,458,818)
4210	Other operating revenues	Rental	Rent from Electric Property	(279,577)	(279,577)	(313,529)	(313,529)	(307,829)	(307,829)
4225	Other operating revenues	Late payment charges	Late Payment Charges	(244,953)		(230,017)		(285,586)	
4375	Other operating revenues	Late payment charges	Revenues from Non-Utility Operations	(11,202)	(256,155)	(58,110)	(288,127)	0	(285,586)

Account	EARNINGS Section	EARNINGS Line Grouping	G/L Account Description	Statement of		Statement of		Statement of	
				Current Year	Earnings	Current Year	Earnings	Current Year	Earnings
4086	Other operating revenues	SSS administrative fee	Distribution Services Revenue	0		0		(89,114)	
4080	Other operating revenues	SSS administrative fee	Distribution Services Revenue	(93,861)	(93,861)	(90,530)	(90,530)	0	(89,114)
4405	Other operating revenues	Interest Income	Interest and Dividend Income	(111,668)	(111,668)	(44,700)	(44,700)	(52,701)	(52,701)
Total Other operating revenues					(3,536,165)		(4,337,301)		(4,094,913)
					(21,843,908)		(22,788,077)		(20,976,414)
Operating expenditures									
4050	Operating expenditures	Administration	Unbilled Revenue Adjustment	(61)		0		0	
4330	Operating expenditures	Administration	Cost and Expenses of Merchandising, Jobbing, Etc.	896,293		1,304,982		372,896	
4360	Other operating revenues	Service revenue	Inventory sold to affiliate	0		0		206,378	
4380	Operating expenditures	Administration	Expenses of Non-Utility Operations	490,321		1,144,726		687,065	
4405	Operating expenditures	Administration	Interest and Dividend Income	0		(66,857)		0	
6035	Operating expenditures	Administration	Other Interest Expense	0		60,858		89,695	
5005	Operating expenditures	Administration	Operation Supervision and Engineering	814,674		888,541		626,703	
5010	Operating expenditures	Administration	Load Dispatching	212,873		215,197		187,893	
5012	Operating expenditures	Administration	Station Buildings and Fixtures Expense	1,917		17,440		53,112	
5017	Operating expenditures	Administration	Distribution Stn Equip - Operating Supplies/Exps	25,130		148		9,026	
5025	Operating expenditures	Administration	OH Dist Lines & Feeders - Op Supplies/Exps	267,780		291,515		233,839	
5035	Operating expenditures	Administration	OH Distribution Transformers - Operation	1,878		241		342	
5040	Operating expenditures	Administration	UG Dist Lines & Feeders - Operation Labour	995,046		831,743		741,539	
5045	Operating expenditures	Administration	UG Dist Lines & Feeders - OP Supplies/Exps	120,553		167,941		337,253	
5055	Operating expenditures	Administration	UG Distribution Transformers - Operation	1,122		0		0	
5060	Operating expenditures	Administration	Street Lighting and Signal System Expenses					392	
5065	Operating expenditures	Administration	Meter Expenses	359,545		355,175		335,735	
5070	Operating expenditures	Administration	Customer Premises - Operating Labour					200	
5075	Operating expenditures	Administration	Customer Premises - Materials and Expenses					1,508	
5085	Operating expenditures	Administration	Miscellaneous Distribution Expenses	344,988		340,815		376,855	
5095	Operating expenditures	Administration	OH Dist Lines & Feeders - Rental Paid	31,891		26,941		21,988	
5114	Operating expenditures	Administration	Maintenance of Dist Stn Equipment	30,357		68,428		29,453	
5120	Operating expenditures	Administration	Maintenance of Poles, Towers and Fixtures	4,986		4,881		11,295	
5125	Operating expenditures	Administration	Maintenance of OH Conductors and Devices	64,602		54,937		79,516	
5145	Operating expenditures	Administration	Maintenance of UG Conduit	14		10		48	
5150	Operating expenditures	Administration	Maintenance of UG Conductors and Devices	25,926		19,139		21,071	
5155	Operating expenditures	Administration	Maintenance of UG Services	775		3,637		5,650	
5160	Operating expenditures	Administration	Maintenance of Line Transformers	30,102		23,761		14,829	
5175	Operating expenditures	Administration	Maintenance of Meters	455		1,057		606	
5305	Operating expenditures	Administration	Supervision	208,714		170,710		122,263	
5310	Operating expenditures	Administration	Meter Reading Expenses	55,952		110,314		126,551	
5315	Operating expenditures	Administration	Customer Billing	818,456		768,194		791,098	
5320	Operating expenditures	Administration	Collecting	191,529		193,454		214,394	
5325	Operating expenditures	Administration	Collecting - Cash Over and Short	120		(84)		104	
5330	Operating expenditures	Administration	Collection Charges	309		162		440	
5335	Operating expenditures	Administration	Bad Debt Expense	206,195		490,144		102,769	
5410	Operating expenditures	Administration	Community Relations - Sundry	106,039		44,624		43,958	
5415	Operating expenditures	Administration	Energy Conservation	27,391		33,708		49,799	
5420	Operating expenditures	Administration	Community Safety Program	122,273		113,415		119,437	

Account	EARNINGS Section	EARNINGS Line Grouping	G/L Account Description	Statement of		Statement of		Statement of	
				Current Year	Earnings	Current Year	Earnings	Current Year	Earnings
5425	Operating expenditures	Administration	Miscellaneous Customer Service and Informational Expenses	596		0		0	
5605	Operating expenditures	Administration	Executive Salaries and Expenses	1,213,294		935,378		1,046,191	
5610	Operating expenditures	Administration	Management Salaries and Expenses	74,042		68,523		67,390	
5615	Operating expenditures	Administration	General Administrative Salaries & Expenses	1,352,575		992,791		972,326	
5620	Operating expenditures	Administration	Office Supplies and Expenses	5,269		5,919		2,637	
5630	Operating expenditures	Administration	Outside Services Employed	281,162		267,635		273,402	
5635	Operating expenditures	Administration	Property Insurance	127,829		110,030		160,266	
5645	Operating expenditures	Administration	Employee Pensions and Benefits	1,707,958		1,557,222		1,495,682	
5655	Operating expenditures	Administration	Regulatory Expenses	322,518		321,433		287,143	
5660	Operating expenditures	Administration	General Advertising Expenses	39,301		8,491		10,237	
5665	Operating expenditures	Administration	Miscellaneous General Expenses	719,664		647,754		682,251	
5675	Operating expenditures	Administration	Maintenance of General Plant	146,943		103,431		114,993	
5680	Operating expenditures	Administration	Electrical Safety Authority Fees	714		26		0	
6105	Operating expenditures	Administration	Taxes Other Than Income Taxes	189,527		180,940		247,231	
6205	Operating expenditures	Administration	Donations	30,629		54,448		48,784	
6298	Operating expenditures	Administration	Overhead Allocation	0		0		0	
6299	Operating expenditures	Administration	Capitalized Labour	0		0		0	
6310	Operating expenditures	Administration	Extraordinary Deductions	428,795	13,098,964	0	12,933,918	0	11,424,233
5705	Operating expenditures	Amortization of PP&E	Amortization Expense - Prop, Plant, Equip	4,259,217	4,259,217	3,939,847	3,939,847	3,968,013	3,968,013
6005	Operating Expenditures	Interest Expense	Interest on Long Term Debt	1,632,228		1,488,480		1,452,674	
6035	Operating Expenditures	Interest Expense	Other Interest Expense	31,259	1,663,487	22,080	1,510,560	19,073	1,471,747
Total operating expenditures					19,021,667		18,384,325		16,863,993
Income before payment in lieu of income taxes					(2,822,241)		(4,403,752)		(4,112,421)
6110	Payment in lieu of income taxes	Income taxes	Income Taxes	525,000	525,000	906,000	906,000	1,293,000	1,293,000
Net earnings					(2,297,241)		(3,497,752)		(2,819,421)

1

FINANCIAL PROJECTIONS

2

3 The 2012 and 2013 pro-forma financial statements are presented in Attachment 1 and
4 Attachment 2 of Exhibit 1, Tab 3, Schedule 4.

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
1050-Current Assets	1005-Cash	4,279,885
	1100-Customer Accounts Receivable	6,200,000
	1104-Accounts Receivable - Recoverable Work	450,000
	1110-Other Accounts Receivable	3,100,000
	1120-Accrued Utility Revenues	9,600,000
	1130-Accumulated Provision for Uncollectible Accounts--Credit	(180,000)
	1180-Prepayments	650,000
	1200-Accounts Receivable from Associated Companies	
	1210-Notes Receivable from Associated Companies	
	1330-Plant Materials and Operating Supplies	650,000
1100-Inventory		
1150-Non-Current Assets	1485-Investment in Associated Companies - Significant Influence	
1200-Other Assets and Deferred Charges	1508-Other Reg Assets-OEB Cost Assessments	
	1508-Other Reg Assets- Deferred IFRS Transition	121,665
	1508-Other Reg Assets- Incremental Capital	2,952
	1521-Special Purpose Charge Assessment Variance Account	
	1550-LV Variance Account	(14,626)
	1555-Smart Meters Capital Variance Account	
	1556-Smart Meters OM&A Variance Account	
	1562-Deferred Payments in Lieu of Taxes	(715,255)
	1572-Extraordinary Event Costs	(369,099)
	1580-RSVAWMS	(3,067,281)
	1584-RSVANW	(421,508)

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
	1586-RSVACN	(198,158)
	1588-RSVAPOWER Main Account	318,673
	1589-1588 Global Adjustment sub-account	166,600
	1592-2006 PILs/Taxes Variance	(169,326)
	1595-Disposition and Recovery of Regulatory Balances	2,000,000
1450-Distribution Plant	1805-Land	497,489
	1806-Land Rights	
	1820-Distribution Station Equipment - Normally Primary below 50 kV	3,542,043
	1830-Poles, Towers and Fixtures	2,613,433
	1835-Overhead Conductors and Devices	9,601,913
	1840-Underground Conduit	925,082
	1845-Underground Conductors and Devices	7,606,896
	1850-Line Transformers	6,328,158
	1855-Services	413,598
	1860-Meters	813,931
1500-General Plant	1908-Buildings and Fixtures	5,976,589
	1915-Office Furniture and Equipment	293,510
	1920-Computer Equipment - Hardware	2,361,777
	1925-Computer Software	
	1930-Transportation Equipment	2,079,765
	1935-Stores Equipment	9,854
	1940-Tools, Shop and Garage Equipment	329,669
	1945-Measurement and Testing Equipment	142,001
	1955-Communication Equipment	91,082
	1960-Miscellaneous Equipment	72,207
	1970-Load Management Controls - Customer Premises	
	1980-System Supervisory Equipment	444,007
	1990-Other Tangible Property	567,497
1550-Other Capital Assets	1995-Contributions and Grants - Credit	
	2055-Construction Work in Progress--Electric	

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
1600-Accumulated Amortization	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	(4,847,695)
	2120-Accumulated Amortization of Electric Utility Plant - Intangibles	
	2160-Accumulated Amortization of Other Utility Plant	
1650-Current Liabilities	2205-Accounts Payable	(2,500,000)
	2210-Current Portion of Customer Deposits	(1,300,000)
	2215-Dividends Declared	(800,000)
	2220-Miscellaneous Current and Accrued Liabilities	(650,000)
	2240-Accounts Payable to Associated Companies	(1,700,000)
	2250-Debt Retirement Charges(DRC) Payable	(450,000)
	2252-Transmission Charges Payable	(8,100,000)
	2268-Accrued Interest on Long Term Debt	(70,000)
	2290-Commodity Taxes	(150,000)
	2292-Payroll Deductions / Expenses Payable	(150,000)
	2294-Accrual for Taxes, Payments in Lieu of Taxes, Etc.	
1700-Non-Current Liabilities	2306-Employee Future Benefits	(7,935,832)
	2335-Long Term Customer Deposits	(1,500,000)
1800-Long-Term Debt	2520-Other Long Term Debt	(7,219,432)
	2550-Advances from Associated Companies	(19,377,604)
1850-Shareholders' Equity	3005-Common Shares Issued	(13,413,553)
	3010-Contributed Surplus	(4,608,552)
	3045-Unappropriated Retained Earnings	(4,973,404)
	3046-Balance Transferred From Income	(2,371,243)
	3049-Dividends Payable-Common Shares	2,600,000
3000-Sales of Electricity	4006-Residential Energy Sales	(19,948,566)
	4020-Energy Sales to Large Users	(10,140,707)
	4025-Street Lighting Energy Sales	(695,895)
	4030-Sentinel Lighting Energy Sales	(48,220)
	4035-General Energy Sales	(37,115,299)
	4050-Revenue Adjustment	
	4062-Billed WMS	(5,806,792)
	4066-Billed NW	(6,305,380)
	4068-Billed CN	(5,119,683)
	4075-Billed-LV	(182,353)

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	(18,541,473)
3100-Other Operating Revenues	4082-Retail Services Revenues	(50,000)
	4084-Service Transaction Requests (STR) Revenues	(2,000)
	4210-Rent from Electric Property	(275,954)
	4220-Other Electric Revenues	(105,948)
	4225-Late Payment Charges	(240,000)
	4235-Miscellaneous Service Revenues	(151,520)
3150-Other Income & Deductions	4325-Revenues from Merchandise, Jobbing, Etc.	(757,575)
	4330-Costs and Expenses of Merchandising, Jobbing, Etc.	568,181
	4355-Gain on Disposition of Utility and Other Property	
	4375-Revenues from Non-Utility Operations	
	4380-Expenses of Non-Utility Operations	
	4390-Miscellaneous Non-Operating Income	(20,000)
3200-Investment Income	4405-Interest and Dividend Income	(108,565)
3350-Power Supply Expenses	4705-Power Purchased	67,948,687
	4708-Charges-WMS	4,792,908
	4710-Cost of Power Adjustments	
	4714-Charges-NW	6,305,380
	4716-Charges-CN	5,119,683
	4730-Rural Rate Assistance Expense	1,013,884
3500-Distribution Expenses - Operation	4750-Charges-LV	182,353
	5005-Operation Supervision and Engineering	763,498
	5010-Load Dispatching	215,812
	5012-Station Buildings and Fixtures Expense	
	5017-Distribution Station Equipment - Operation Supplies and Expenses	26,600
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	256,298
	5035-Overhead Distribution Transformers- Operation	

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
	5040-Underground Distribution Lines and Feeders - Operation Labour	961,197
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	90,808
	5055-Underground Distribution Transformers - Operation	
	5065-Meter Expense	397,503
	5085-Miscellaneous Distribution Expense	363,809
	5095-Overhead Distribution Lines and Feeders - Rental Paid	27,000
3550-Distribution Expenses - Maintenance	5114-Maintenance of Distribution Station Equipment	18,000
	5120-Maintenance of Poles, Towers and Fixtures	8,000
	5125-Maintenance of Overhead Conductors and Devices	64,000
	5145-Maintenance of Underground Conduit	
	5150-Maintenance of Underground Conductors and Devices	19,200
	5155-Maintenance of Underground Services	400
	5160-Maintenance of Line Transformers	27,500
	5175-Maintenance of Meters	1,000
3650-Billing and Collecting	5305-Supervision	214,997
	5310-Meter Reading Expense	161,099
	5315-Customer Billing	797,284
	5320-Collecting	191,932
	5325-Collecting- Cash Over and Short	
	5330-Collection Charges	400
3700-Community Relations	5335-Bad Debt Expense	102,000
	5410-Community Relations - Sundry	115,867

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
	5415-Energy Conservation	26,966
	5420-Community Safety Program	127,592
	5425-Miscellaneous Customer Service and Informational Expenses	
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	1,324,165
	5610-Management Salaries and Expenses	81,726
	5615-General Administrative Salaries and Expenses	1,470,414
	5620-Office Supplies and Expenses	4,646
	5630-Outside Services Employed	306,658
	5635-Property Insurance	144,964
	5645-Employee Pensions and Benefits	1,818,515
	5655-Regulatory Expenses	359,330
	5660-General Advertising Expenses	6,800
	5665-Miscellaneous General Expenses	817,641
	5675-Maintenance of General Plant	144,317
	5680-Electrical Safety Authority Fees	
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	3,827,655
3900-Interest Expense	6005-Interest on Long Term Debt	1,785,939
	6035-Other Interest Expense	
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	194,128
4000-Income Taxes	6110-Income Taxes	140,950
4100-Extraordinary & Other Items	6205-Donations	

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	2012
		Final Projection
	6310-Extraordinary Deductions	
1300-Intangible Plant	1611-Computer Software	8,636,032
	1612-Land Rights	15,818
1450-Distribution Plant	1861-1860-Meters - Smart Meter Sub-Account	4,241,682
1550-Other Capital Assets	2440-Deferred Revenues	(491,240)
3100-Other Operating Revenues	4086-SSS Administration Revenue	(93,000)

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
1050-Current Assets	1005-Cash	6,691,957
	1100-Customer Accounts Receivable	6,200,000
	1104-Accounts Receivable - Recoverable Work	450,000
	1110-Other Accounts Receivable	3,100,000
	1120-Accrued Utility Revenues	9,600,000
	1130-Accumulated Provision for Uncollectible Accounts--Credit	(180,000)
	1180-Prepayments	650,000
1100-Inventory	1330-Plant Materials and Operating Supplies	650,000
1200-Other Assets and Deferred Charges	1508-Other Reg Assets- Deferred IFRS Transition	121,665
	1508-Other Reg Assets- Incremental Capital	2,952
	1550-LV Variance Account	(14,626)
	1562-Deferred Payments in Lieu of Taxes	(715,255)
	1572-Extraordinary Event Costs	(369,099)
	1580-RSVAWMS	(3,067,281)
	1584-RSVANW	(421,508)
	1586-RSVACN	(198,158)
	1588-RSVAPOWER Main Account	318,673
	1589-1588 Global Adjustment sub-account	166,600
	1592-2006 PILs/Taxes Variance	(169,326)
	1595-Disposition and Recovery of Regulatory Balances	1,925,000
	1805-Land	497,489
1450-Distribution Plant	1820-Distribution Station Equipment - Normally Primary below 50 kV	3,897,043

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
1500-General Plant	1830-Poles, Towers and Fixtures	3,447,683
	1835-Overhead Conductors and Devices	10,218,913
	1840-Underground Conduit	1,055,082
	1845-Underground Conductors and Devices	8,791,896
	1850-Line Transformers	7,032,908
	1855-Services	468,598
	1860-Meters	863,931
	1908-Buildings and Fixtures	6,189,089
	1915-Office Furniture and Equipment	303,510
	1920-Computer Equipment - Hardware	3,274,617
	1930-Transportation Equipment	2,582,265
	1935-Stores Equipment	9,854
	1940-Tools, Shop and Garage Equipment	371,669
	1945-Measurement and Testing Equipment	192,001
1600-Accumulated Amortization	1955-Communication Equipment	91,082
	1960-Miscellaneous Equipment	72,207
1650-Current Liabilities	1980-System Supervisory Equipment	464,007
	1990-Other Tangible Property	567,497
	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	(9,778,098)
	2205-Accounts Payable	(2,500,000)
	2210-Current Portion of Customer Deposits	(1,300,000)
	2215-Dividends Declared	(800,000)
	2220-Miscellaneous Current and Accrued Liabilities	(650,000)
	2240-Accounts Payable to Associated Companies	(1,700,000)
	2250-Debt Retirement Charges(DRC) Payable	(450,000)
	2252-Transmission Charges Payable	(8,100,000)
	2268-Accrued Interest on Long Term Debt	(70,000)
	2290-Commodity Taxes	(150,000)
	2292-Payroll Deductions / Expenses Payable	(150,000)
	2306-Employee Future Benefits	(9,702,041)
1700-Non-Current Liabilities	2335-Long Term Customer Deposits	(1,500,000)
	2520-Other Long Term Debt	(8,281,273)
1800-Long-Term Debt	2550-Advances from Associated Companies	(19,377,604)
	3005-Common Shares Issued	(13,413,553)
	3010-Contributed Surplus	(4,608,552)
1850-Shareholders' Equity		

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
	3040-Appropriated Retained Earnings	1,287,542
	3045-Unappropriated Retained Earnings	(4,744,647)
	3046-Balance Transferred From Income	(2,922,429)
	3049-Dividends Payable-Common Shares	800,000
3000-Sales of Electricity	4006-Residential Energy Sales	(21,582,595)
	4020-Energy Sales to Large Users	(10,772,645)
	4025-Street Lighting Energy Sales	(758,957)
	4030-Sentinel Lighting Energy Sales	(52,982)
	4035-General Energy Sales	(39,741,171)
	4062-Billed WMS	(5,670,649)
	4066-Billed NW	(5,740,832)
	4068-Billed CN	(4,871,083)
	4075-Billed-LV	(183,931)
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	(21,876,690)
3100-Other Operating Revenues	4082-Retail Services Revenues	(46,298)
	4084-Service Transaction Requests (STR) Revenues	(2,037)
	4210-Rent from Electric Property	(274,745)
	4225-Late Payment Charges	(232,694)
	4235-Miscellaneous Service Revenues	(157,724)
3150-Other Income & Deductions	4325-Revenues from Merchandise, Jobbing, Etc.	(641,026)
	4330-Costs and Expenses of Merchandising, Jobbing, Etc.	480,769
	4390-Miscellaneous Non-Operating Income	(20,000)
3200-Investment Income	4405-Interest and Dividend Income	(96,099)
3350-Power Supply Expenses	4705-Power Purchased	72,908,349
	4708-Charges-WMS	4,680,536
	4714-Charges-NW	5,740,832
	4716-Charges-CN	4,871,083
	4730-Rural Rate Assistance Expense	990,113
	4750-Charges-LV	183,931
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	792,514
	5010-Load Dispatching	221,350

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
	5012-Station Buildings and Fixtures Expense	500
	5017-Distribution Station Equipment - Operation Supplies and Expenses	26,600
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	289,300
	5040-Underground Distribution Lines and Feeders - Operation Labour	1,089,225
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	124,669
	5065-Meter Expense	435,738
	5085-Miscellaneous Distribution Expense	451,608
	5095-Overhead Distribution Lines and Feeders - Rental Paid	35,500
3550-Distribution Expenses - Maintenance	5114-Maintenance of Distribution Station Equipment	18,000
	5120-Maintenance of Poles, Towers and Fixtures	9,000
	5125-Maintenance of Overhead Conductors and Devices	68,000
	5150-Maintenance of Underground Conductors and Devices	19,200
	5155-Maintenance of Underground Services	400
	5160-Maintenance of Line Transformers	27,500
	5175-Maintenance of Meters	500
3650-Billing and Collecting	5305-Supervision	230,451
	5310-Meter Reading Expense	241,109
	5315-Customer Billing	1,179,268
	5320-Collecting	242,549
	5325-Collecting- Cash Over and Short	100
	5330-Collection Charges	400

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
3700-Community Relations	5335-Bad Debt Expense	189,234
	5410-Community Relations - Sundry	95,900
	5415-Energy Conservation	39,342
	5420-Community Safety Program	123,241
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	1,338,330
	5610-Management Salaries and Expenses	85,356
	5615-General Administrative Salaries and Expenses	1,591,130
	5620-Office Supplies and Expenses	4,569
	5630-Outside Services Employed	389,845
	5635-Property Insurance	148,023
	5645-Employee Pensions and Benefits	2,075,079
	5655-Regulatory Expenses	374,545
	5660-General Advertising Expenses	7,000
	5665-Miscellaneous General Expenses	947,730
	5675-Maintenance of General Plant	166,023
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	5,011,623
3900-Interest Expense	6005-Interest on Long Term Debt	1,133,631
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	223,914
4000-Income Taxes	6110-Income Taxes	586,513
1300-Intangible Plant	1611-Computer Software	9,629,717
	1612-Land Rights	273,018
1450-Distribution Plant	1861-1860-Meters - Smart Meter Sub-Account	4,241,682
1550-Other Capital Assets	2440-Deferred Revenues	(1,166,697)

S3 Finalize 2013 Test Year Projections

Account Grouping	Account Description	2013
		Final Projection
3100-Other Operating Revenues	4086-SSS Administration Revenue	(90,395)

1 **PROSPECTUS AND RECENT DEBT/SHARE ISSUANCE**
2 **UPDATE**

3

4 This is not applicable for Bluewater Power.

OTHER FINANCIAL MATTERS

Annual Report and MD&A

Neither Bluewater Power, nor its parent company, produce an annual report or a 'management discussion and analysis' that you would typically find in an annual report. Only the historical audited financial statements are produced for Bluewater Power which are found in Exhibit 1, Tab 3, Schedule 1.

Rating Agency Reports

Bluewater Power has no rating agency reports.

Prospectuses, etc

Bluewater Power has no past or planned prospectuses, etc.

Exhibit 1: Administrative Documents

Tab 4 (of 4): Materiality Threshold

1

MATERIALITY THRESHOLD

2 Section 2.4.4 of the Filing Guidelines indicate that the materiality threshold will be “0.5%
3 *of distribution revenue requirement for a distributor with a distribution revenue*
4 *requirement greater than \$10 million and less than or equal to \$200 million.”* In the case
5 of Bluewater Power the materiality threshold is \$114,785. Any rate base, capital or
6 OM&A variances or individual capital projects greater than this threshold will be fully
7 explained.