PETERBOROUGH DISTRIBUTION INC.
1867 Ashburnham Drive, PO Box 4125, Station Main
Peterborough ON K9J 6Z5

February 14, 2013

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

Attention: Ms. Walli

Re: Peterborough Distribution Inc. (PDI) 2013 Cost of Service Electricity Distribution Rate Application EB-2012-0160

PDI is pleased to file its 2013 Cost of Service Electricity Rate Application with the Ontario Energy Board ("the Board"). PDI is submitting its 2013 Cost of Service Electricity Distribution Rate Application in accordance with all the directives and guidelines issued by the Board.

PDI is requesting an effective date of May 1, 2013 for the implementation of the Proposed 2013 Tariff of Rates and Charges.

The 2013 Cost of Service Electricity Distribution Rate Application includes:

- Exhibit 1 – Administrative Documents
- Exhibit 2 – Rate Base
- Exhibit 3 – Operating Revenue
- Exhibit 4 – Operating Costs
- Exhibit 5 – Cost of Capital and Rate of Return
- Exhibit 6 – Calculation of Revenue Deficiency
- Exhibit 7 – Cost Allocation
- Exhibit 8 – Rate Design
- Exhibit 9 – Deferral and Variance Accounts
- All required Workforms

Please find attached to this cover letter:

- 2 paper copies of the 2013 Cost of Service Electricity Distribution Rate Application.
- A copy of the Application and all Excel workforms has been filed through the Web Portal.

I have reviewed the supporting evidence contained in this application and certify that it is accurate.

In the event of any additional information, questions or concerns, please contact Byron Thompson, Chief Financial Officer, at bthompson@peterboroughutilities.ca or (705) 748-9301 x 1283.

Sincerely,

Byron Thompson
Chief Financial Officer
Peterborough Distribution Inc.
Peterborough, Ontario
Email: bthompson@peterboroughutilities.ca
Phone: 705-748-9301 x 1283

PETERBOROUGH DISTRIBUTION INC

APPLICATION FOR APPROVAL OF ELECTRICITY DISTRIBUTION RATES EFFECTIVE MAY 1, 2013

INDEX

EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS

EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS (Continued)

EXHIBIT 2 - RATE BASE

EXHIBIT 3 - OPERATING REVENUE

EXHIBIT 4 - OPERATING COSTS

EXHIBIT 5 - COST OF CAPITAL AND RATE OF RETURN

EXHIBIT 6 - CALCULATION OF REVENUE DEFICIENCY OR SURPLUS

EXHIBIT 7 - COST ALLOCATION

EXHIBIT 8 - RATE DESIGN

EXHIBIT 9 - DEFERRAL AND VARIANCE ACCOUNTS

EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS

EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS (CONTINUED)

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

AND IN THE MATTER OF an Application by Peterborough Distribution Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2013.

Title of Proceeding:	An Application by Peterborough Distribution Inc. Inc. for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, effective May 1, 2013.
Applicants Name:	Peterborough Distribution Inc.
Applicants Address:	1867 Ashburnham Drive P.O. Box 4125, Station Main Peterborough, ON K9J 6Z5
Applicants Contacts:	John Stephenson, President and CEO Telephone: 705-748-9301 x 1280 Facsimile : 705-748-4358 Email: jstephenson@peterboroughutilities.ca

APPLICATION

Introduction

The Applicant is Peterborough Distribution Inc. The Applicant is a corporation incorporated pursuant to the Ontario Business Corporations Act with its head office in the Town of Peterborough, ON. The Applicant carries on the business of distributing electricity within the City of Peterborough, Village of Lakefield and Town of Norwood.

The Applicant hereby applies to the Ontario Energy Board (the "OEB") pursuant to Section 78 of the Ontario Energy Board Act, 1998 ("the OEB Act") for approval of its proposed distribution rates and other charges, effective May 1, 2013. A list of requested approvals is set out below.

Except where specifically identified in the Application, the Applicant followed the OEB's Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, update issued June 28, 2012 (the "Filing Requirements") in order to prepare this application.

Proposed Distribution Rates and Other Charges

The Schedule of Proposed Tariff of Rates and Charges in this Application is set out in Table 1-1 below and in Exhibit 8. The material being filed in support of this Application sets out Peterborough Distribution Inc.'s approach to its distribution rates and charges.

Proposed Effective Date of Rate Order

The Applicant requests that the OEB make its Rate Order effective May 1, 2013 in accordance with the Filing Requirements.

The Proposed Distribution Rates and Other Charges are Just and Reasonable

The Applicant submits the proposed distribution rates contained in this Application are just and reasonable on the following grounds:

The proposed rates, as set out in Table 1-1 and Table 1-2 attached to this schedule, for the distribution of electricity have been prepared in accordance with the Filing Requirements and reflect traditional rate making and cost of service principles;

The proposed and adjusted rates are necessary to ensure Peterborough Distribution Inc. has sufficient funds to meet its capital expenditure obligations, fund OM&A expenses, provide for a reasonable Market Based Rate of Return ("MBRR") and Payments in Lieu of Taxes ("PILS");

There are no impacts to any of the customer classes or consumption level subgroups that are so significant as to warrant the deferral of any adjustments being requested by the Applicant or the implementation of any other mitigation measures.

The other specific service charges proposed by the Applicant are the same as those previously approved by the OEB; and

Such other grounds as may be set out in the material accompanying this Application Summary.

Relief Sought

The Applicant applies for an Order or Orders approving the proposed distribution rates and charges set out in Exhibit 8 to this Application as just and reasonable rates and charges pursuant to Section 78 of the OEB Act, to be effective May 1, 2013.

The Applicant seeks approval of its Basic Green Energy Plan as part of this Application in accordance with the Deemed Conditions of License as reported by the OEB in its Distribution System Planning Guidelines G-2009-0087, issued June 16, 2009. The Applicant's Basic Green Energy Plan has been prepared in accordance with the OEB's Filing Requirements as reported in EB-2009-0397 – Distribution System Plans under the Green Energy Act issued on December 18, 2009.

Form of Hearing Requested

The Applicant requests that this Application be disposed of by way of a written hearing.

DATED at Peterborough, Ontario, this 14th day of February, 2013

All of which is respectfully submitted,
Peterborough Distribution Inc.

A SCHEDULE OF PROPOSED RATES AND CHARGES

IS PROVIDED ON THE FOLLOWING PAGES

TABLE 1-1 Schedule of Distribution Rate and Charges

Effective May 1, 2013

Customer Class	Item Description	Unit	Rate ($)
Residential			
	Monthly Service Charge	per month	13.20
	Distribution Volumetric Rate	per kWh	0.0129
	Smart Meter Disposition Rate Rider	per month	0.37
	LRAM Rate Rider	per kWh	0.0002
	Deferral/Variance Account Rate Rider	per kWh	(0.0013)
	Stranded Meter Rate Rider	per month	0.35
	Low Voltage	per kWh	0.0009
	RTSR - Network	per kWh	0.0063
	RTSR - Connection	per kWh	0.0046
General Service < 50 kW			
	Monthly Service Charge	per month	31.15
	Distribution Volumetric Rate	per kWh	0.0094
	Smart Meter Disposition Rate Rider	per month	5.5200
	LRAM Rate Rider	per kWh	0.0003
	Deferral/Variance Account Rate Rider	per kWh	(0.0013)
	Stranded Meter Rate Rider	per month	5.1200
	Low Voltage	per kWh	0.0008
	RTSR - Network	per kWh	0.0057
	RTSR - Connection	per kWh	0.0042
General Service > 50 kW			
	Monthly Service Charge	per month	237.53
	Distribution Volumetric Rate	per kW	2.3444
	LRAM Rate Rider	per kW	0.0326
	Deferral/Variance Account Rate Rider	per kW	(0.5284)
	Low Voltage	per kW	0.3187
	RTSR - Network	per kW	2.3111
	RTSR - Connection	per kW	1.6162

TABLE 1-2 Schedule of Distribution Rate and Charges

Part II

Effective May 1, 2013

Customer Class	Item Description	Unit	Rate ($)
Large User			
	Monthly Service Charge	per month	6,576.42
	Distribution Volumetric Rate	per kW	0.7682
	Deferral/Variance Account Rate Rider	per kW	(0.6163)
	Low Voltage	per kW	0.3904
	RTSR - Network	per kW	2.7230
	RTSR - Connection	per kW	1.9799
Street Lighting			
	Monthly Service Charge	per month	3.27
	Distribution Volumetric Rate	per kW	13.6620
	Deferral/Variance Account Rate Rider	per kW	(0.6019)
	Low Voltage	per kW	0.2471
	RTSR - Network	per kW	1.7420
	RTSR - Connection	per kW	1.2534
Sentinel Lighting			
	Monthly Service Charge	per month	2.33
	Distribution Volumetric Rate	per kW	11.1552
	Deferral/Variance Account Rate Rider	per kW	(0.4974)
	Low Voltage	per kW	0.2530
	RTSR - Network	per kW	1.7550
	RTSR - Connection	per kW	1.2833
Unmetered Scattered Loads			
	Monthly Service Charge	per month	2.15
	Distribution Volumetric Rate	per kWh	0.0283
	Deferral/Variance Account Rate Rider	per kWh	(0.0014)
	Low Voltage	per kWh	0.0008
	RTSR - Network	per kWh	0.0057
	RTSR - Connection	per kWh	0.0042

Allowances	Unit	Rate ($)
Transformer Allowance for Ownership - per kW of billing demand/month	$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

CONTACT INFORMATION:

PETERBOROUGH DISTRIBUTION INC.

John Stephenson, President and CEO

Telephone: 705-748-9301 x 1280
Facsimile : 705-748-4358
Email: jstephenson@peterboroughutilities.ca

Byron Thompson, CFO

Telephone: 705-748-9301 x 1283
Facsimile : 705-748-4358
Email: bthompson@peterboroughutilities.ca

APPLICANT'S COUNSEL:

Borden Ladner Gervais LLP
Suite 4100
40 King Street West
Toronto ON
M5H 3Y4

James C. Sidlofsky
Telephone: 416 367-6277
Facsimile : 416 361-2751
Email: jsidlofsky@blgcanada.com

SPECIFIC APPROVALS REQUESTED:

In this proceeding, Peterborough Distribution Inc. is requesting the following approvals:

- Approval to charge rates effective May 1, 2013 to recover a revenue requirement of $16,291,837 which includes a revenue deficiency of $604,748 as set out in Exhibit 6, Schedule 1, Tab 1; the schedule of proposed rates is set out in Exhibit 8 Tab 1 Schedule 6;

- Approval of the proposed loss factor as set out in Exhibit 8, Tab 1, Schedule 1;

- Approval of revised low voltage rates to be included in the standard distribution rates as proposed and described in Exhibit 8, Tab 1, Schedule 1;

- Approval to charge a Retail Transmission Network Service rate and a Retail Transmission Connection Rate as proposed and described in Exhibit 8, Tab 1, Schedule 1;

- Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the OEB Decision and Order in the matter of 2012 Distribution Rates (EB 2012-0009 and EB-2011-0405);

- Approval to continue the Specific Service Charges and Transformer Allowance approved in the OEB Decision and Order in the matter of PDI’s 2012 Distribution Rates (EB- EB-2011-0194);

- Approval to dispose of the following Deferral and Variance Account balances as at December 31 2011 over a one year period using the method of recovery described in Exhibit 9, Tab 1, Schedule 6:

    - 1508 Other Regulatory Assets - Sub-account Incremental Capital Charges
    - 1550 Low Voltage Variance
    - 1580 RSVA - Wholesale Market Service Charges

- 1584 RSVA - Transmission Network
- 1586 RSVA - Transmission Connection
- 1592 Pils and Tax Variances for 2006 and Subsequent Years – Sub-account HST
- 1595 Disposition and Recovery/Refund of Regulatory Balances (2010)

- Approval for the recovery of the lost revenues in 2011, arising from CDM programs implemented from 2005 to 2010, over a one year period using the method of recovery described in Exhibit 9, Tab 2, Schedule 3;
- Approval for a stranded meter rate rider of $0.35 per month per metered residential customer and $5.12 per month per metered General Service < 50kW customer, for four years to recover the net book value of $1,412,163 for stranded meters at December 31, 2012; and
- Approval to realign the Revenue to Cost ratios as detailed in Exhibit 7.
- In the event the OEB is unable to provide a Decision and Order on the Application before May 16, 2013 for implementation of rates by PDI as of May 1, 2013, PDI requests the OEB issue an Interim Order approving the current distribution rates and other charges, effective May 1, 2013.

PUBLICATION NOTICE

PDI intends to publish Notice of Application in the Peterborough Examiner, the local community subscription newspaper with a 42,000 circulation and 8,200 digital e-copies. The notice will be published in a Thursday edition of the Examiner as this edition is distributed fee to all residents of Peterborough PDI also intends to publish the Notice of Application in the Lakefield Herald, a regional paid subscription newspaper with a circulation of 2,500.

PROPOSED ISSUES LIST:

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

1. GENERAL (Exhibit 1)

- Are the Applicant's overall economic and business planning assumptions for the Test Year appropriate?
- Is service quality, based on the Board specified performance indicators, acceptable?
- Is the proposed revenue requirement appropriate?

2. RATE BASE (Exhibit 2)

- Are the Applicant's asset planning assumptions (e.g. asset condition, economic conditions, etc.) appropriate?
- Is the Applicant's capitalization and depreciation policy appropriate?
- Are the capital expenditures appropriate?
- Are the in-service dates accurate for projects closed prior to the Test Year and are they appropriate for proposed projects?
- Is the working capital allowance for the test year appropriate?
- Is the proposed rate base for the test year appropriate?
- Is the accounting for smart meters in rate base appropriate?
- Is the accounting for stranded meters appropriate?
- Is the basic Green Energy Plan appropriate?

3. LOADS, CUSTOMERS - THROUGHPUT REVENUE (Exhibit 3)

- Is the load forecast methodology including weather normalization appropriate?
- Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?
- Is CDM appropriately reflected in the load forecast?
- Are the proposed revenue offsets appropriate?

4. OPERATING COSTS (Exhibit 4)

- Is the overall OM&A forecast for the test year appropriate?
- Are the methodologies used to allocate shared services and other costs appropriate?
- Is the proposed level of depreciation/amortization expense for the test year appropriate?
- Are the 2013 compensation costs and employee levels appropriate?
- Is the test year forecast of PILs appropriate?

5. COST OF CAPITAL AND RATE OF RETURN (Exhibit 5)

- Is the proposed capital structure appropriate?
- Is the cost of debt appropriate?
- Is the proposed return on equity appropriate?

6. CALCULATION OF REVENUE DEFICIENCY OR SURPLUS (Exhibit 6)

- Is the calculation of Revenue Deficiency accurate?

7. COST ALLOCATION (Exhibit 7)

- Is the Applicant's cost allocation appropriate?
- Are the proposed revenue-to-cost ratios appropriate?

8. RATE DESIGN (Exhibit 8)

- Are the customer charges and the fixed-variable splits for each class appropriate?
- Are the proposed Retail Transmission Service Rates appropriate?
- Are the proposed loss factors appropriate?
- Is the Applicant's proposed Tariff of Rates and Charges appropriate?
- Is the Applicant's rate mitigation plan appropriate?

9. DEFERRAL AND VARIANCE ACCOUNTS (Exhibit 9)

- Are the account balances, cost allocation methodology and disposition plan appropriate?

TRANSMISSION ASSETS DEEMED DISTRIBUTION ASSETS:

PDI does not have any transmission assets (>50kV) that need to be deemed by the Board as distribution assets.

PROCEDURAL ORDERS/MOTIONS/NOTICES:

On January 26, 2012 the Board issued its list of distributors that it anticipates will be filing a Cost of Service Applications for 2013. Peterborough Distribution Inc. was included on that list.

ACCOUNTING ORDERS REQUESTED:

Peterborough Distribution Inc. is not requesting Accounting Orders in this proceeding.

COMPLIANCE WITH UNIFORM SYSTEM OF ACCOUNTS:

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

Subsequent to the 2009 Cost of Service application, PDI reviewed its' chart of accounts to better align with the OEB USoA. PDI reviewed each OEB account within operations and maintenance and remapped or created new accounts to provide a more detailed breakout of operations and maintenance activities.

In addition to the above, in preparing the current cost of service application, PDI reviewed the process by which administrative related costs incurred in its affiliate service provider Peterborough Utilities Services Inc. ("PUSI") are allocated to PDI. Prior to this application, administrative costs of PUSI were allocated to PDI as an overhead item to operating and maintenance labour, and thus charged to OEB Operating and Maintenance accounts 5005 through 5195. This allocation approach made PDI's Operating and Maintenance expenses appear higher, and Administrative expenses appear lower for PDI relative to its peers. Overall total OM&A costs for rate setting purposes were not impacted by this practice.

In an effort to maximize transparency of costs from our affiliate service company, and increase comparability with other LDC's, PDI has reallocated these administrative costs from its affiliates to 5615 General and Administrative Salaries and Expenses, in the Administrative Section of the USoA.

For purposes of this application, all prior years OM&A costs have been restated as described, consistent with the presentation of the 2012 Bridge and 2013 Test Year. The tables presented on the following pages illustrate the effect of these reclassifications across the various UsoA general ledger accounts. As previously stated, amounts have been reclassified from one account to another, in total no changes have been made to total OM&A amounts.

Table 1 - 3 Reclassification of OM&A Expenses - 2009
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2009 Actual as Filed	Adjustment	2009 Actual Restated
Operations				
5005	Operation Supervision and Engineering	$ 52,094	-$ 8,055	$ 44,039
5010	Load Dispatching	$ 319,448	-$ 49,392	$ 270,056
5012	Station Buildings and Fixtures Expense	$ 147,302	-$ 22,775	$ 124,527
5014	Transformer Station Equipment - Operation Labour			$ -
5015	Transformer Station Equipment - Operation Expenses			$ -
5016	Distribution Station Equipment - Operation Labour	$ 72,418	-$ 11,197	$ 61,221
5017	Distribution Station Equipment - Operation Expenses	$ 130,129	-$ 20,120	$ 110,009
5020	Overhead Distribution Lines and Feeders - Operation Labour	$ 24,394	-$ 3,772	$ 20,622
5025	OH Distribution Lines and Feeders - Operation Expenses	$ 12,609	-$ 1,950	$ 10,659
5030	Overhead Sub-transmission Feeders - Operation	$ 19,387	-$ 2,998	$ 16,389
5035	Overhead Distribution Transformers - Operation	$ 93,732	-$ 14,493	$ 79,239
5040	Underground Distribution Lines and Feeders - Operation Labour	$ 100,570	-$ 15,550	$ 85,020
5045	UG Distribution Lines and Feeders - Operation Expenses	$ 24,339	-$ 3,763	$ 20,576
5050	Underground Sub-transmission Feeders - Operation	$ -	$ -	$ -
5055	Underground Distribution Transformers - Operation	$ 21,015	-$ 3,249	$ 17,766
5060	Street Lighting and Signal System Expense			$ -
5065	Meter Expense	$ 175,372	-$ 27,115	$ 148,257
5070	Customer Premises - Operation Labour	$ 1,259	-$ 195	$ 1,064
5075	Customer Premises - Operation Materials and Expenses	$ 2,207	-$ 341	$ 1,866
5085	Miscellaneous Distribution Expenses	$ 559,939	-$ 86,576	$ 473,363
5096	Other Rent			$ -
Total - Operations		$ 1,756,214	-$ 271,539	$ 1,484,675

Account	Description	2009 Actual as Filed	Adjustment	2009 Actual Restated
Maintenance				
5105	Maintenance Supervision and Engineering		$ -	$ -
5110	Maintenance of Buildings and Fixtures - Distribution Stations	$ 5,141	-$ 795	$ 4,346
5112	Maintenance of Transformer Station Equipment		$ -	$ -
5114	Maintenance of Distribution Station Equipment		$ -	$ -
5120	Maintenance of Poles, Towers and Fixtures		$ -	$ -
5125	Maintenance of Overhead Conductors and Devices	$ 430,053	-$ 66,493	$ 363,560
5130	Maintenance of Overhead Services	$ 166,235	-$ 25,703	$ 140,532
5135	Overhead Distribution Lines and Feeders - Right of Way	$ 276,103	-$ 42,690	$ 233,413
5145	Maintenance of Underground Conduit		$ -	$ -
5150	Maintenance of Underground Conductors and Devices	$ 119,379	-$ 18,458	$ 100,921
5155	Maintenance of Underground Services	$ 148,443	-$ 22,952	$ 125,491
5160	Maintenance of Line Transformers	$ 143,447	-$ 22,179	$ 121,268
5165	Maintenance of Street Lighting and Signal Systems		$ -	$ -
5172	Sentinel Lights - Materials and Expenses		$ -	$ -
5175	Maintenance of Meters	$ 2,845	-$ 440	$ 2,405
5195	Maintenance of Other Installations on Customer Premises		$ -	$ -
Total - Maintenance		$ 1,291,646	-$ 199,710	$ 1,091,936

Table 1 - 3 Reclassification of OM&A Expenses - 2009
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2009 Actual as Filed	Adjustment	2009 Actual Restated
Billing and Collecting				
5305	Supervision	$ 240,914	$ -	$ 240,914
5310	Meter Reading Expense		$ -	
5315	Customer Billing	$ 879,119	$ -	$ 879,119
5320	Collecting	$ 779,596	$ -	$ 779,596
5325	Collecting - Cash Over and Short	-$ 37	$ -	-$ 37
5330	Collection Charges		$ -	
5335	Bad Debt Expense	$ 232,960	$ -	$ 232,960
5340	Miscellaneous Customer Accounts Expenses		$ -	
Total - Billing and Collecting		$ 2,132,552	$ -	$ 2,132,552

Account	Description	2009 Actual as Filed	Adjustment	2009 Actual Restated
Administrative and General Expenses				
5605	Executive Salaries and Expenses	$ 174,457	$ -	$ 174,457
5610	Management Salaries and Expenses		$ -	
5615	General Administrative Salaries and Expenses		$ 471,249	$ 471,249
5620	Office Supplies and Expenses		$ -	
5625	Administrative Expense Transferred - Credit		$ -	
5630	Outside Services Employed	$ 163,250	$ -	$ 163,250
5635	Property Insurance	$ 82,362	$ -	$ 82,362
5640	Injuries and Damages		$ -	
5645	OMERS Pensions and Benefits		$ -	
5655	Regulatory Expenses	$ 93,936	$ -	$ 93,936
5660	General Advertising Expenses	$ 107,382	$ -	$ 107,382
5665	Miscellaneous General Expenses	$ 78,657	$ -	$ 78,657
5670	Rent	$ 681,977	$ -	$ 681,977
5675	Maintenance of General Plant		$ -	
5680	Electrical Safety Authority Fees	$ -	$ -	$ -
5681	Special Purpose Charge Expense	$ -	$ -	$ -
6205	Donations		$ -	
6205	Donations, Sub-account LEAP Funding	$ -	$ -	$ -
Total - Administrative and General Expenses		$ 1,382,021	$ 471,249	$ 1,853,270

Total OM&A		$ 6,562,433	$ 0	$ 6,562,433
Adjustments for non-recoverable items				
5681	Special Purpose Charge Expense	$ -	$ -	$ -
6205	Donations[1]			
Total Recoverable OM&A		$ 6,562,433	$ 0	$ 6,562,433

Table 1 - 3 Reclassification of OM&A Expenses - 2010
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2010 Actual as Filed	Adjustment	2010 Actual Restated
Operations				
5005	Operation Supervision and Engineering	$ 31,536	-$ 6,106	$ 25,430
5010	Load Dispatching	$ 454,407	-$ 87,984	$ 366,423
5012	Station Buildings and Fixtures Expense	$ 154,496	-$ 29,914	$ 124,582
5014	Transformer Station Equipment - Operation Labour			$ -
5015	Transformer Station Equipment - Operation Expenses			$ -
5016	Distribution Station Equipment - Operation Labour	$ 126,172	-$ 24,430	$ 101,742
5017	Distribution Station Equipment - Operation Expenses	$ 140,035	-$ 27,114	$ 112,921
5020	Overhead Distribution Lines and Feeders - Operation Labour	$ 21,151	-$ 4,095	$ 17,056
5025	OH Distribution Lines and Feeders - Operation Expenses	$ 9,315	-$ 1,804	$ 7,511
5030	Overhead Sub-transmission Feeders - Operation	$ 25,517	-$ 4,941	$ 20,576
5035	Overhead Distribution Transformers - Operation	$ 2,297	-$ 445	$ 1,852
5040	Underground Distribution Lines and Feeders - Operation Labour	$ 161,069	-$ 31,187	$ 129,882
5045	UG Distribution Lines and Feeders - Operation Expenses	$ 24,799	-$ 4,802	$ 19,997
5050	Underground Sub-transmission Feeders - Operation	$ -	$ -	$ -
5055	Underground Distribution Transformers - Operation	$ 905	-$ 175	$ 730
5060	Street Lighting and Signal System Expense			$ -
5065	Meter Expense	$ 240,445	-$ 46,556	$ 193,889
5070	Customer Premises - Operation Labour	$ 769	-$ 149	$ 620
5075	Customer Premises - Operation Materials and Expenses	$ -	$ -	$ -
5085	Miscellaneous Distribution Expenses	$ 295,199	-$ 57,157	$ 238,042
5096	Other Rent			$ -
Total - Operations		$ 1,688,112	-$ 326,859	$ 1,361,253

Account	Description	2010 Actual as Filed	Adjustment	2010 Actual Restated
Maintenance				
5105	Maintenance Supervision and Engineering		$ -	$ -
5110	Maintenance of Buildings and Fixtures - Distribution Stations	$ 15,483	-$ 2,998	$ 12,485
5112	Maintenance of Transformer Station Equipment		$ -	$ -
5114	Maintenance of Distribution Station Equipment		$ -	$ -
5120	Maintenance of Poles, Towers and Fixtures		$ -	$ -
5125	Maintenance of Overhead Conductors and Devices	$ 400,583	-$ 77,562	$ 323,021
5130	Maintenance of Overhead Services	$ 282,145	-$ 54,630	$ 227,515
5135	Overhead Distribution Lines and Feeders - Right of Way	$ 92,996	-$ 18,006	$ 74,990
5145	Maintenance of Underground Conduit		$ -	$ -
5150	Maintenance of Underground Conductors and Devices	$ 98,087	-$ 18,992	$ 79,095
5155	Maintenance of Underground Services	$ 161,873	-$ 31,342	$ 130,531
5160	Maintenance of Line Transformers	$ 160,281	-$ 31,034	$ 129,247
5165	Maintenance of Street Lighting and Signal Systems		$ -	$ -
5172	Sentinel Lights - Materials and Expenses		$ -	$ -
5175	Maintenance of Meters	$ -	$ -	$ -
5195	Maintenance of Other Installations on Customer Premises		$ -	$ -
Total - Maintenance		$ 1,211,448	-$ 234,564	$ 976,884

Table 1 - 3 Reclassification of OM&A Expenses - 2010
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2010 Actual as Filed	Adjustment	2010 Actual Restated
Billing and Collecting				
5305	Supervision	$ 251,449	$ -	$ 251,449
5310	Meter Reading Expense		$ -	
5315	Customer Billing	$ 764,253	$ -	$ 764,253
5320	Collecting	$ 677,734	$ -	$ 677,734
5325	Collecting - Cash Over and Short	-$ 55	$ -	-$ 55
5330	Collection Charges		$ -	
5335	Bad Debt Expense	$ 165,760	$ -	$ 165,760
5340	Miscellaneous Customer Accounts Expenses		$ -	
Total - Billing and Collecting		$ 1,859,141	$ -	$ 1,859,141

Account	Description	2010 Actual as Filed	Adjustment	2010 Actual Restated
Administrative and General Expenses				
5605	Executive Salaries and Expenses	$ 221,186	$ -	$ 221,186
5610	Management Salaries and Expenses		$ -	
5615	General Administrative Salaries and Expenses		$ 561,423	$ 561,423
5620	Office Supplies and Expenses		$ -	
5625	Administrative Expense Transferred - Credit		$ -	
5630	Outside Services Employed	$ 162,461	$ -	$ 162,461
5635	Property Insurance	$ 67,448	$ -	$ 67,448
5640	Injuries and Damages		$ -	
5645	OMERS Pensions and Benefits		$ -	
5655	Regulatory Expenses	$ 93,227	$ -	$ 93,227
5660	General Advertising Expenses	$ 108,432	$ -	$ 108,432
5665	Miscellaneous General Expenses	$ 69,291	$ -	$ 69,291
5670	Rent	$ 683,293	$ -	$ 683,293
5675	Maintenance of General Plant		$ -	
5680	Electrical Safety Authority Fees	$ 14,553	$ -	$ 14,553
5681	Special Purpose Charge Expense	$ 187,168	$ -	$ 187,168
6205	Donations		$ -	
6205	Donations, Sub-account LEAP Funding	$ -	$ -	$ -
Total - Administrative and General Expenses		$ 1,607,059	$ 561,423	$ 2,168,482

Total OM&A		$ 6,365,760	$ -	$ 6,365,760
Adjustments for non-recoverable items				
5681	Special Purpose Charge Expense	$ 187,168	$ -	$ 187,168
6205	Donations[1]			
Total Recoverable OM&A		$ 6,178,592	$ -	$ 6,178,592

Table 1 - 3 Reclassification of OM&A Expenses - 2011
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2011 Actual as Filed	Adjustment	2011 Actual Restated
Operations				
5005	Operation Supervision and Engineering	$ 101,537	-$ 16,487	$ 85,050
5010	Load Dispatching	$ 391,648	-$ 63,593	$ 328,055
5012	Station Buildings and Fixtures Expense	$ 116,658	-$ 18,942	$ 97,716
5014	Transformer Station Equipment - Operation Labour			$ -
5015	Transformer Station Equipment - Operation Expenses			$ -
5016	Distribution Station Equipment - Operation Labour	$ 141,268	-$ 22,938	$ 118,330
5017	Distribution Station Equipment - Operation Expenses	$ 149,063	-$ 24,204	$ 124,859
5020	Overhead Distribution Lines and Feeders - Operation Labour	$ 31,006	-$ 5,034	$ 25,972
5025	OH Distribution Lines and Feeders - Operation Expenses	$ 23,703	-$ 3,849	$ 19,854
5030	Overhead Sub-transmission Feeders - Operation	$ 19,664	-$ 3,193	$ 16,471
5035	Overhead Distribution Transformers - Operation	$ 1,317	-$ 214	$ 1,103
5040	Underground Distribution Lines and Feeders - Operation Labour	$ 196,140	-$ 31,848	$ 164,292
5045	UG Distribution Lines and Feeders - Operation Expenses	$ 70,402	-$ 11,431	$ 58,971
5050	Underground Sub-transmission Feeders - Operation	$ -	$ -	$ -
5055	Underground Distribution Transformers - Operation	$ 1,993	-$ 324	$ 1,669
5060	Street Lighting and Signal System Expense			$ -
5065	Meter Expense	$ 238,991	-$ 38,806	$ 200,185
5070	Customer Premises - Operation Labour	$ -		$ -
5075	Customer Premises - Operation Materials and Expenses	$ -	$ -	$ -
5085	Miscellaneous Distribution Expenses	$ 265,249	-$ 43,070	$ 222,179
5096	Other Rent			$ -
Total - Operations		$ 1,748,639	-$ 283,933	$ 1,464,706

Account	Description	2011 Actual as Filed	Adjustment	2011 Actual Restated
Maintenance				
5105	Maintenance Supervision and Engineering		$ -	$ -
5110	Maintenance of Buildings and Fixtures - Distribution Stations	$ 41,447	-$ 6,730	$ 34,717
5112	Maintenance of Transformer Station Equipment		$ -	$ -
5114	Maintenance of Distribution Station Equipment		$ -	$ -
5120	Maintenance of Poles, Towers and Fixtures		$ -	$ -
5125	Maintenance of Overhead Conductors and Devices	$ 750,150	-$ 121,805	$ 628,345
5130	Maintenance of Overhead Services	$ 299,759	-$ 48,673	$ 251,086
5135	Overhead Distribution Lines and Feeders - Right of Way	$ 209,700	-$ 34,050	$ 175,650
5145	Maintenance of Underground Conduit		$ -	$ -
5150	Maintenance of Underground Conductors and Devices	$ 64,923	-$ 10,542	$ 54,381
5155	Maintenance of Underground Services	$ 235,776	-$ 38,284	$ 197,492
5160	Maintenance of Line Transformers	$ 174,121	-$ 28,273	$ 145,848
5165	Maintenance of Street Lighting and Signal Systems		$ -	$ -
5172	Sentinel Lights - Materials and Expenses		$ -	$ -
5175	Maintenance of Meters	$ -	$ -	$ -
5195	Maintenance of Other Installations on Customer Premises		$ -	$ -
Total - Maintenance		$ 1,775,876	-$ 288,357	$ 1,487,519

Table 1 - 3 Reclassification of OM&A Expenses - 2011
Reconciliation of OEB RRR Filings and Cost of Service Application

Account	Description	2011 Actual as Filed	Adjustment	2011 Actual Restated
Billing and Collecting				
5305	Supervision	$ 273,856	$ -	$ 273,856
5310	Meter Reading Expense		$ -	
5315	Customer Billing	$ 789,587	$ -	$ 789,587
5320	Collecting	$ 681,754	$ -	$ 681,754
5325	Collecting - Cash Over and Short	-$ 8	$ -	-$ 8
5330	Collection Charges		$ -	
5335	Bad Debt Expense	$ 155,097	$ -	$ 155,097
5340	Miscellaneous Customer Accounts Expenses		$ -	
Total - Billing and Collecting		$ 1,900,286	$ -	$ 1,900,286

Account	Description	2011 Actual as Filed	Adjustment	2011 Actual Restated
Administrative and General Expenses				
5605	Executive Salaries and Expenses	$ 229,546	$ -	$ 229,546
5610	Management Salaries and Expenses		$ -	$ -
5615	General Administrative Salaries and Expenses		$ 572,290	$ 572,290
5620	Office Supplies and Expenses		$ -	$ -
5625	Administrative Expense Transferred - Credit		$ -	
5630	Outside Services Employed	$ 178,731	$ -	$ 178,731
5635	Property Insurance	$ 91,294	$ -	$ 91,294
5640	Injuries and Damages		$ -	$ -
5645	OMERS Pensions and Benefits		$ -	$ -
5655	Regulatory Expenses	$ 115,143	$ -	$ 115,143
5660	General Advertising Expenses	$ 72,655	$ -	$ 72,655
5665	Miscellaneous General Expenses	$ 78,868	$ -	$ 78,868
5670	Rent	$ 667,651	$ -	$ 667,651
5675	Maintenance of General Plant		$ -	$ -
5680	Electrical Safety Authority Fees	$ 14,841	$ -	$ 14,841
5681	Special Purpose Charge Expense	$ 130,179	$ -	$ 130,179
6205	Donations		$ -	$ -
6205	Donations, Sub-account LEAP Funding	$ 19,505	$ -	$ 19,505
Total - Administrative and General Expenses		$ 1,598,413	$ 572,290	$ 2,170,703

Total OM&A		$ 7,023,214	$ -	$ 7,023,214
Adjustments for non-recoverable items				
5681	Special Purpose Charge Expense	$ 130,179	$ -	$ 130,179
6205	Donations[1]			
Total Recoverable OM&A		$ 6,893,035	$ -	$ 6,893,035

DISTRIBUTION SERVICE TERRITORY AND DISTRIBUTION SYSTEM:

Description of Distributor:

COMMUNITY SERVED:

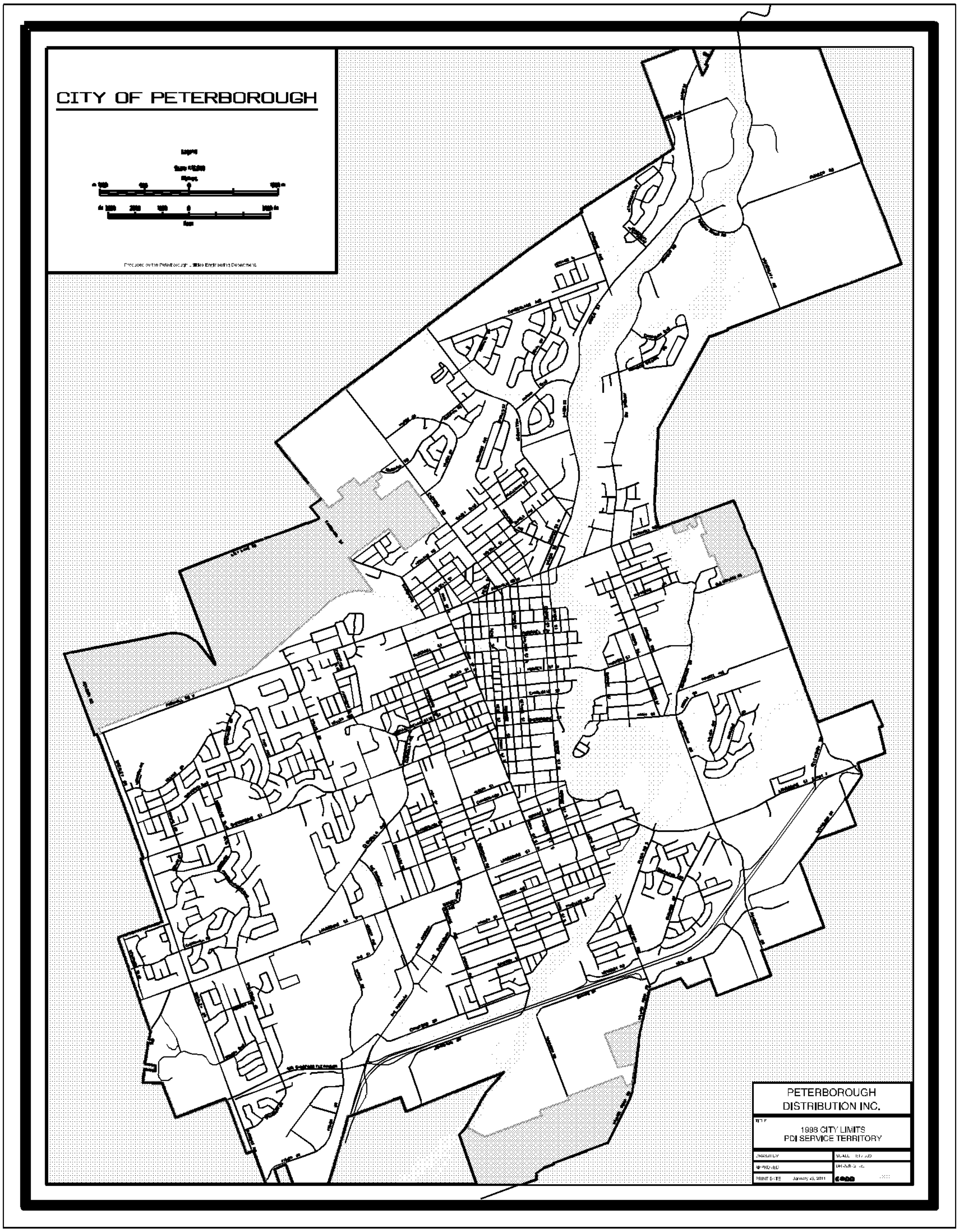
Peterborough
Lakefield
Norwood

URBAN AREAS:	64 sq km
TOTAL SERVICE AREA:	64 sq km
RURAL SERVICE AREA:	0 sq km
DISTRIBUTION TYPE:	Electricity distribution
MUNICIPAL POPULATION:	82,710
POPULATION OF URBAN AREAS SERVED:	82,710

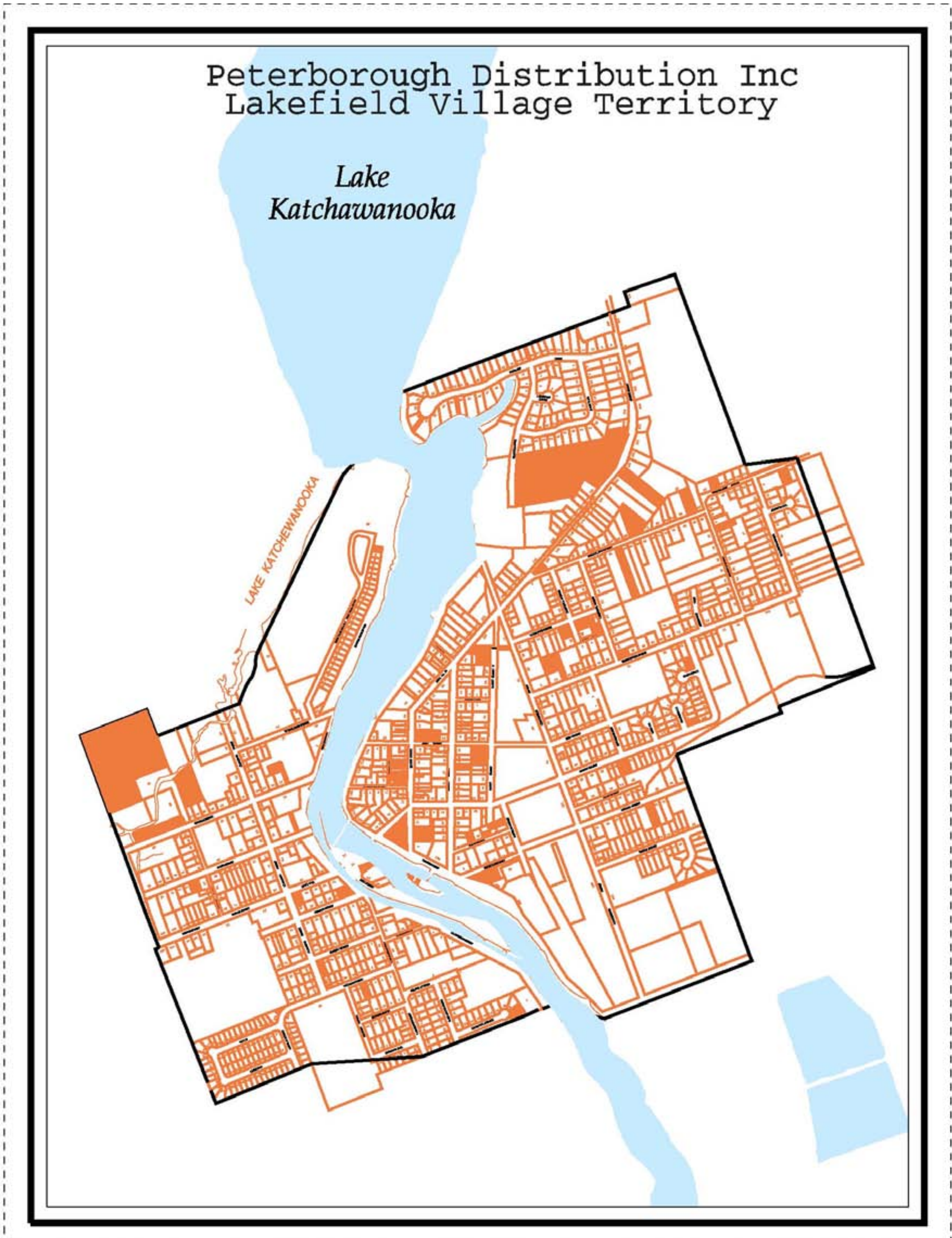
A map of Peterborough Distribution Inc.'s Distribution Service Territory is provided on the following pages. The service area includes City of Peterborough, the Town of Norwood and the Village of Lakefield.

A schematic diagram of Peterborough Distribution Inc.'s distribution system is provided on pages 1–29 through 1-31.

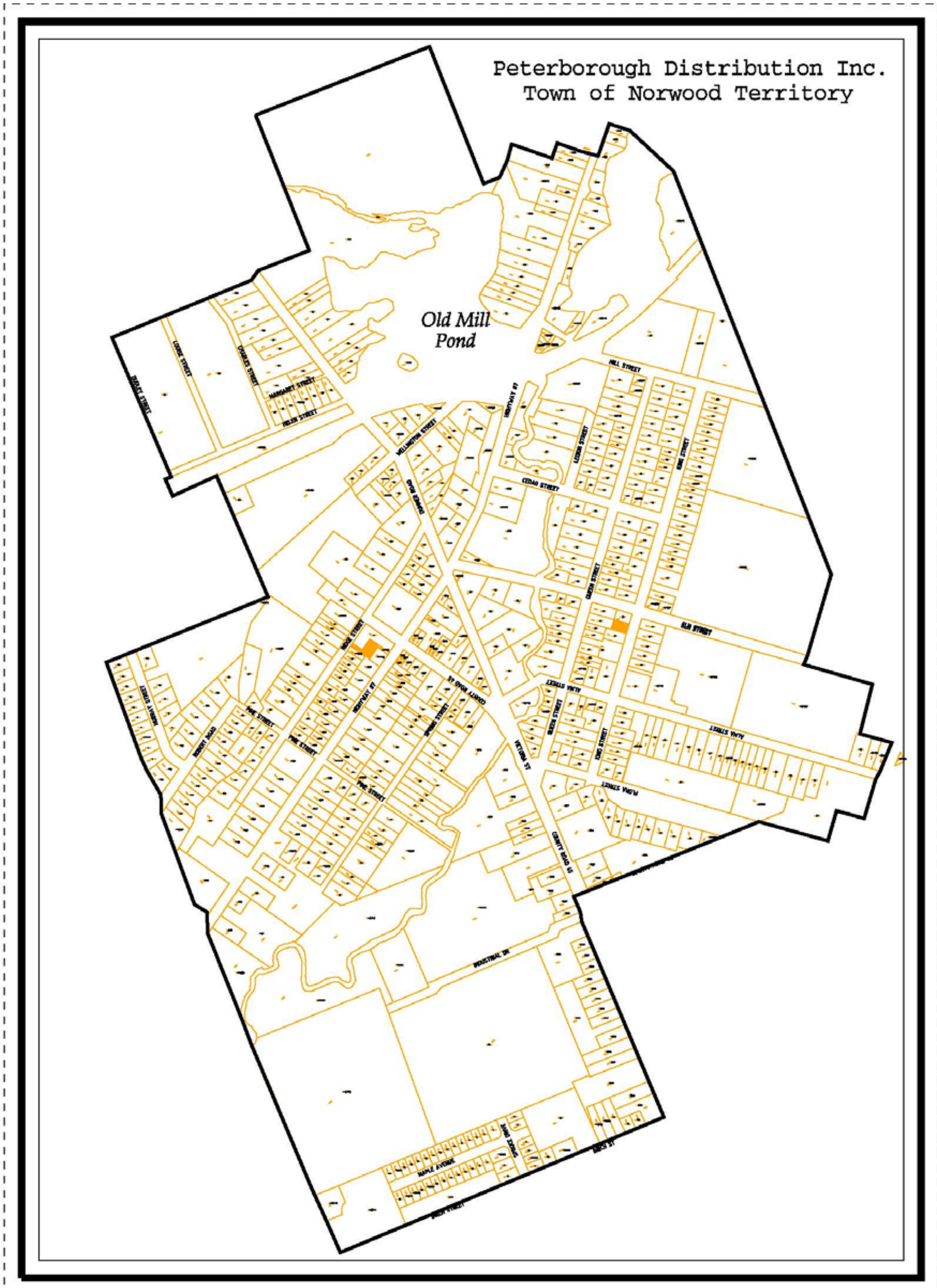
Service Area – City of Peterborough



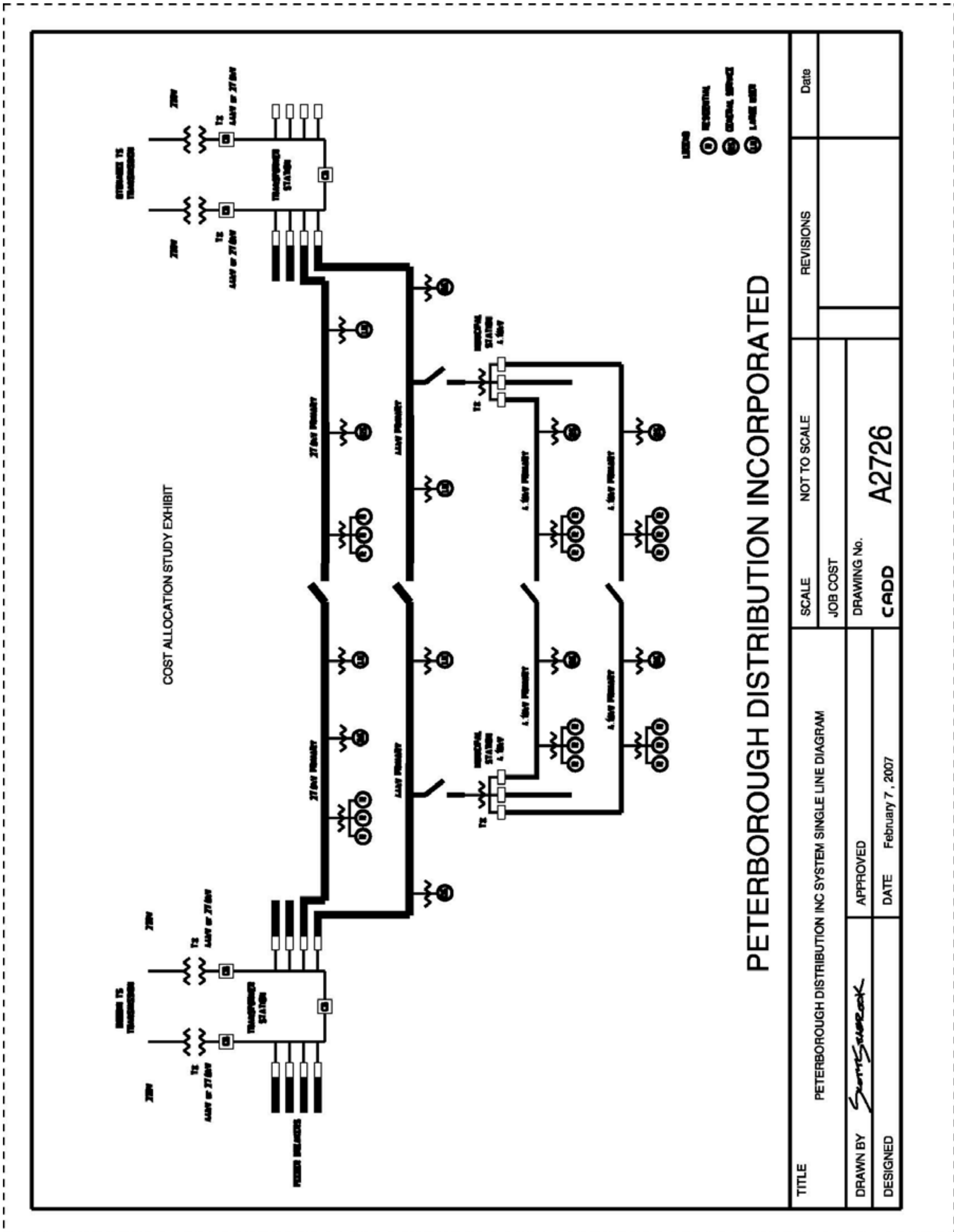
Service Area – Village of Lakefield

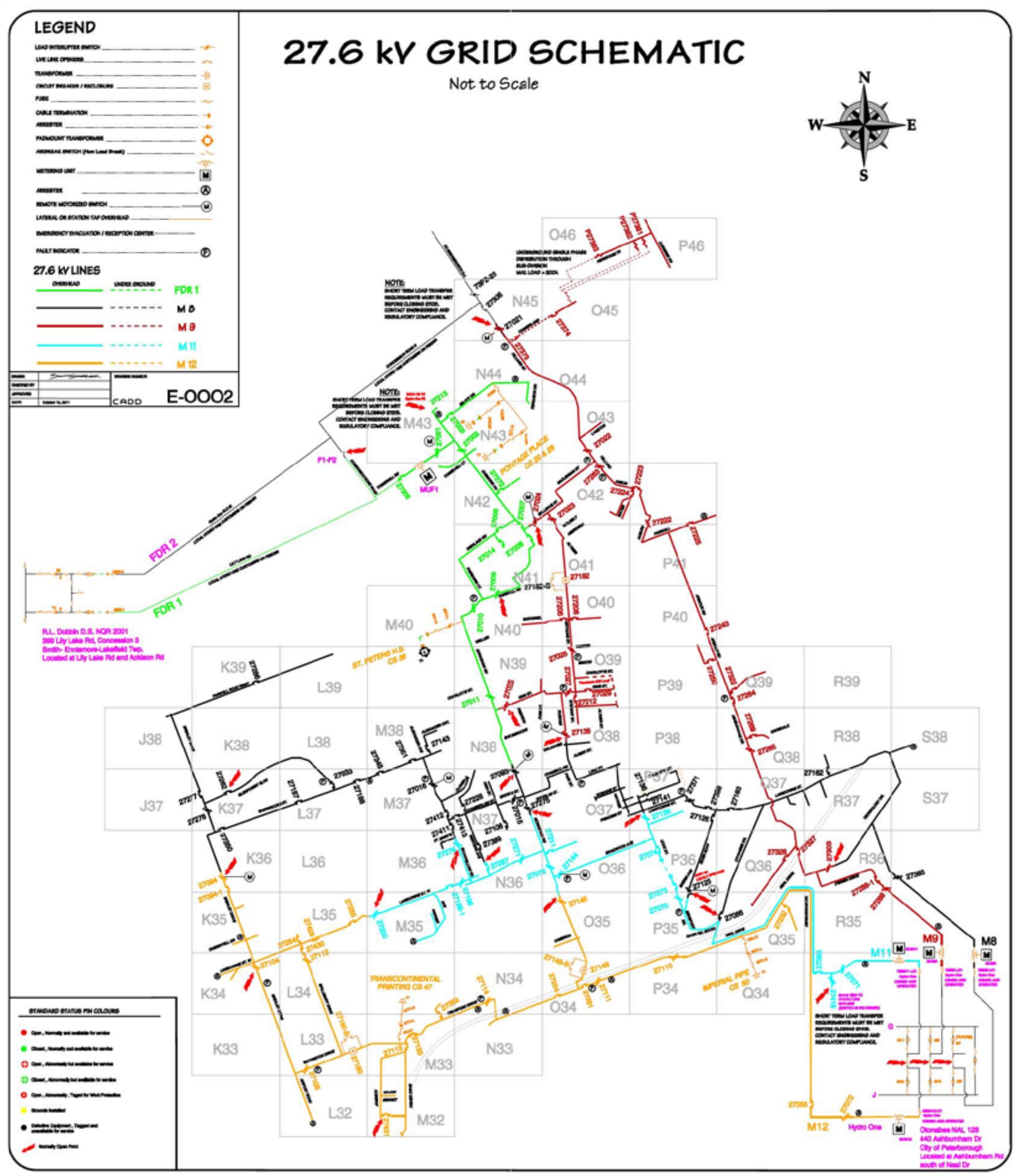


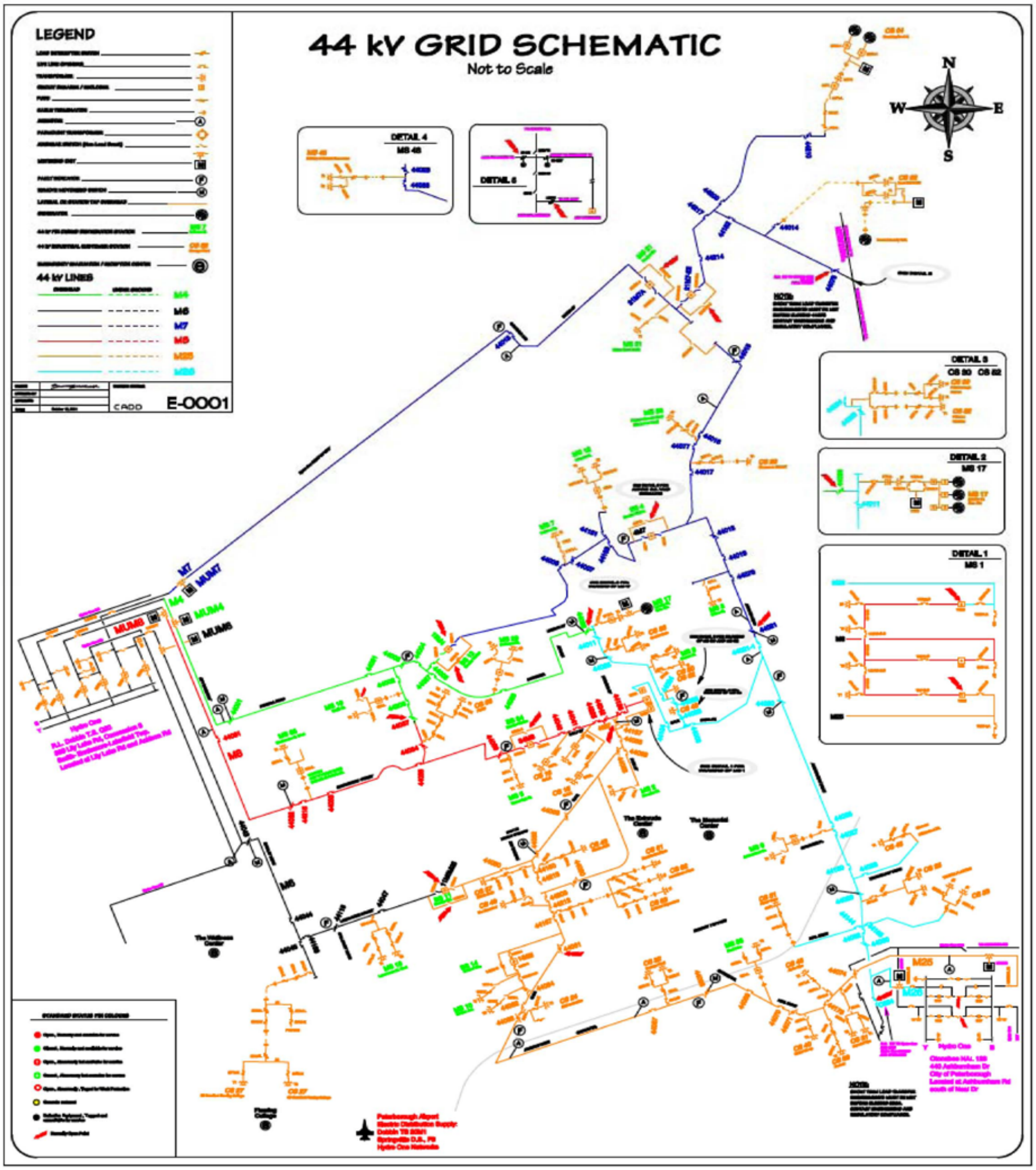
Service Area – Town Of Norwood



Cost Allocation Schematic - PDI




LEGEND
27.6 kV GRID SCHEMATIC
Not to Scale
N
S
W
E
27.6 kV LINES
FDR 1
M 8
M 9
M 11
M 12
E-0002
CADD
FDR 2
FDR 1
STANDARD STATUS PIN COLOURS
M8
M9
M11
M12
Hydro One


44 kV GRID SCHEMATIC
Not to Scale
LEGEND
44 kV LINES
M4
M6
M7
M5
M25
M26
E-0001
CADD
DETAIL 4
DETAIL 5
DETAIL 3
DETAIL 2
DETAIL 1
MS 1
N
S
W
E

LIST OF NEIGHBOURING UTILITIES:

Peterborough Distribution Inc. is bounded by Hydro One on all service territory boundaries.

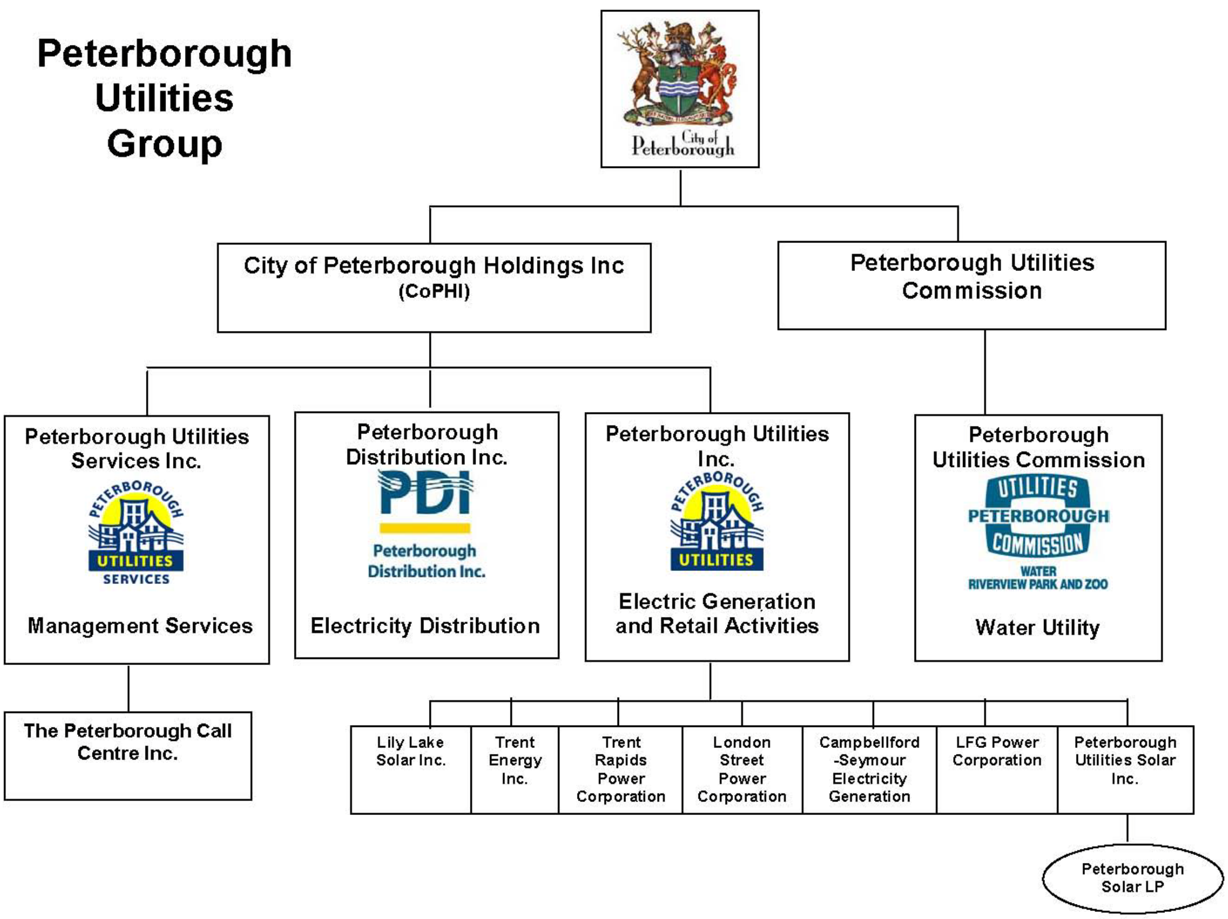
EXPLANATION OF HOST AND EMBEDDED UTILITIES:

Peterborough Distribution Inc. ("PDI") is a Registered Market Participant for the purposes of settlement with the Independent Electricity System Operator. However, PDI is considered a partially "embedded" LDC because it receives some of its electricity from Hydro One Networks Inc.'s low voltage distribution system.

UTILITY ORGANIZATIONAL STRUCTURE:

Peterborough Distribution Inc. is 100% owned by its parent company City of Peterborough Holdings Inc. The City of Peterborough Holdings Inc., is 100% owned by the City of Peterborough. A chart illustrating PDI's corporate group is provided below in Chart 1-1.

Chart 1 – 1



Peterborough Utilities Group of Companies

The Peterborough Utilities Group of Companies (“PUG”) as depicted in Chart 1 – 1 operates under a common management team and includes The City of Peterborough Holdings Inc. (CoPHI), and all of its subsidiaries together with the Peterborough Utilities Commission. By operating under this combined operating format the City of Peterborough rate payers benefit from the advantages found through economies of scale.

With some exceptions as provided below, the management team and employees of PUG are employed by Peterborough Utilities Services Inc. (“PUSI”) These employees, through PUSI provide services to all of the operating companies in the group.

A brief description of the key operating companies with in PUG is provided as follows:

Peterborough Distribution Inc. (“PDI”) - PDI is a rate regulated local distribution company. This company is responsible for the maintenance, operation and renewal of the electricity distribution system in Peterborough, Lakefield and Norwood. The only employee in PDI is its VP of Electric Utility Services. All of the other employees providing services for PDI are employed by PUSI.

Peterborough Utilities Inc. (“PUI”) – PUI and its subsidiaries as detailed in Chart 1-1 operate various renewable generation facilities including hydro, solar and land fill gas hydro electric generation plants. PUI has several of its own employees and also receives varied corporate, technical and professional services from PUSI.

Peterborough Utilities Commission (“PUC”) - The PUC maintains and operates the drinking water system in the City of Peterborough. The PUC has no direct employees and acquires all of its personnel services under contract from PUSI.

Peterborough Utilities Services Inc. (“PUSI”) - PUSI provides a full array of corporate and professional services to each of the companies in PUG. PUSI has a cost allocation methodology which is used to ensure costs allocated to PDI and is affiliates are fair and equitable. This cost allocation methodology is explained further in Exhibit 4, Tab 2 Schedule 5. PUSI employs the senior management team for the group including its CEO, CFO, VP of Information Technology, Director of Human Resources, and Director of Customer & Corporate Services who provide services to each of the companies in PUG. PUSI also operates a for profit water services business to neighbouring communities and until September 2012 operated a for profit mailing service business.

Peterborough Distribution Inc. management reports to a Board of Directors which is independent of the Board of Directors of the City of Peterborough Holdings Inc. The most recent annual report of the City of Peterborough Holdings Inc., for December 31, 2011 is provided in Appendix B of this Exhibit.

PLANNED CHANGES IN CORPORATE AND OPERATIONAL STRUCTURE:

No changes to PDI’s corporate and operational structures are planned at the present time.

STATUS OF BOARD DIRECTIVES FROM PREVIOUS BOARD DECISIONS:

In the last cost of service filing (EB-2008-0241), the OEB provided four forward looking directives to PDI. A summary of these directives, together with PDI's resolution of these requests is provided below.

- In partnership with its service provider affiliates, PDI was asked to initiate a review of the corporate cost allocation methodology. PDI has complied with this request and filed a copy of the opinion on this process and its compliance with OEB recommended allocation guidance in Exhibit 4, Appendix G.
- The Board recommended PDI review its depreciation policies to ensure compliance with the Board's policies and report on the matter at the time of its next rebasing. PDI conducted this review and as a result of this review modified the amortization period of certain of its assets and prospectively adopted the half year rule for additions in 2012. As a result of the Boards requirement to adopt Modified IFRS polices for depreciation in 2013 PDI has updated its policies accordingly. Details of this work are provided in Exhibit 4, Tab 2, Schedule 7.
- The Board accepted PDI's request to delay disposition of Regulatory variance accounts 1508 and 1550. The Board recommended that PDI make an application to dispose of all its existing deferral and variance accounts or explain the reasons for not seeking disposition by December 31, 2009. On December 18, 2009 PDI filed an application seeking approval to dispose of the balances of its Group 1 and Group 2 deferral and variance accounts to be effective May 1, 2010. In the Board Decision EB-2009-0420 the Board approved tariffs to dispose of the balances in these accounts.
- The Board prescribed a phase-in period to adjust its revenue-to-cost ratios, moving the Sentinel Lighting and Street Lighting from their 2009 positions to the bottom of the Board's target ranges during 2010 and 2011. PDI has complied with this directive and as of its 2011 IRM application (EB-2010-0238), Sentinel Lighting and Street Lighting Revenue-to-Cost Ratios have been moved to within the Board's target ranges.

CONDITIONS OF SERVICE

Peterborough Distribution Inc.'s current Conditions of Service document is publicly available on the utilities website at: http://www.peterboroughutilities.ca/ by selecting the Electric tab at the top and then "Conditions of Service"**.** None of the rates or charges requested in this application are documented within the Conditions of Service therefore the document does not require any changes as a result of approval of this application.

PRELIMINARY LIST OF WITNESSES:

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

SUMMARY OF THE APPLICATION:

PDI is an electricity distribution company licensed by the OEB to provide electricity distribution services to customers within the City of Peterborough, the Village of Lakefield and the Town of Norwood. PDI's strategic objectives are:

- To provide a reliable, effective and efficient distribution system
- To optimize financial performance
- To maintain good customer and community relationships

Within its service territory, PDI has partnered with local agencies and businesses to deliver the following innovative conservation and demand management programs:

Peterborough Green Up:

PDI has had a long-standing relationship with Peterborough Green Up over the last 16 years. PDI (and formerly the Peterborough Utilities Commission) has been a major contributor to Peterborough Green Up for energy conservation incentives such as public education, community centric initiatives and school education programs. Peterborough Green Up has delivered efficient and effective energy conservation and information programs to PDI's customers. Peterborough Green Up is also a delivery partner for the OPA sponsored Small Business Lighting program and the Home Assistance Program for low income consumers.

Housing Resource Centre:

PDI provides funding to the Housing Resource Centre for the Fund for Utility Services Emergencies, (FUSE). PDI customers can also make "On Bill" contributions to the fund.

On an annual basis the FUSE fund assists approximately 1,600 low-income utility customers to prevent disconnection or to restore utility services after they have been disconnected for non-payment. The Housing Resource Centre administers the fund using the same criteria as the LEAP Fund for customers that are designated low-income. Additionally, the FUSE program will occasionally assist working poor or seniors that fall outside the "Low Income" designation.

Unlike many other emergency funds that operate only during the heating season this fund operates year round.

Purpose and Need

Peterborough Distribution Inc.'s requested revenue requirement for 2013 in the amount of $16,345,898 includes the recovery of its costs to provide distribution services, its permitted Return on Equity ["ROE"] and the funds necessary to service its debt.

When forecasted energy and demand levels for 2013 are considered, PDI estimates that its present rates will produce a deficiency in gross distribution revenue of $658,809 for the 2013 Test Year.

Therefore, PDI seeks the OEB's approval to revise its electricity distribution rates. The rates proposed to recover its projected revenue requirement and other relief sought are set out in Exhibit 1, Tab 1, Schedule 2 and Exhibit 8, Tab 1, Schedule 6 to this Application.

The information presented in this Application represents PDI's forecasted results for its 2013 Test Year. PDI is also presenting the forecasted results for 2012 Bridge Year and audited financial information for fiscal 2009, 2010 and 2011.

Timing

The financial information supporting the Test Year for this Application will be PDI's fiscal year ending December 31, 2013 (the "2013 Test Year"). However, PDI is requesting rates effective May 1, 2013, continuing through April 30, 2014. Given the timing of filing its application, PDI understands that it is unlikely this rate application will be finalized by May 1, 2013 and accordingly requests its existing rates be deemed interim effective May 1, 2013. PDI will not be seeking recovery of forgone revenue. PDI expects the rate riders applied for in this application will have to be adjusted for collection over a shorter period. Once the relevant period is determined PDI will recalculate the applicable rate riders and Customer Impact.

Customer Impact

In preparing this application, PDI has considered the impacts on its customers, with a goal of minimizing those impacts. With respect to cost allocation, all PDI customer classes fall within the applicable threshold defined by the Board in the March 31, 2012 Report on Electricity Distribution Cost Allocation Policy (EB-2011-0219). Customer impacts including the percentage average Total Bill Impact and Average Dollar Impact, which include revised distribution rates [monthly service charge and volumetric rates], revised low voltage rates, revised retail transmission rates, revised loss factors, LRAM rate riders, and regulatory asset rate riders to dispose of the balances in the Deferral and Variance Accounts requested in this Application are set out in Table 1-4 below, for typical Residential (800 kWh per month) and Commercial (2000 kWh per month) customers. A complete listing of bill impacts for all customer classes is provided in Exhibit 8, Appendix M.

Table 1 -4 : Bill Impact: Residential

Customer Class: **Residential**

Consumption 800 **kWh** ○ May 1 - October 31 ◉ November 1 - April 30 (Select this radio button for applications filed after Oct 3

	Charge Unit	Current Board-Approved			Proposed			Impact	
		Rate ($)	Volume	Charge ($)	Rate ($)	Volume	Charge ($)	$ Change	% Change
Monthly Service Charge	Monthly	$ 11.9100	1	$ 11.91	$ 13.2000	1	$ 13.20	$ 1.29	10.83%
Smart Meter Rate Adder	Monthly	$ 1.7600	1	$ 1.76		1	$ -	-$ 1.76	-100.00%
Distribution Volumetric Rate	per kWh	$ 0.0116	800	$ 9.28	$ 0.0129	800	$ 10.32	$ 1.04	11.21%
Smart Meter Disposition Rider	Monthly	$ 0.3700	1	$ 0.37	$ 0.3700	1	$ 0.37	$ -	0.00%
LRAM & SSM Rate Rider	per kWh	$ 0.0016	800	$ 1.28	$ 0.0002	800	$ 0.16	-$ 1.12	-87.50%
Sub-Total A				$ 24.60			$ 24.05	**-$ 0.55**	**-2.24%**
Deferral/Variance Account Disposition Rate Rider	per kWh	-$ 0.0015	800	-$ 1.20	-$ 0.0013	800	-$ 1.04	$ 0.16	-13.33%
Tax Change Rate Rider	per kWh	-$ 0.0005	800	-$ 0.40		800	$ -	$ 0.40	-100.00%
Global Adj Disposition Rider	per kWh	-$ 0.0015	800	-$ 1.20		800	$ -	$ 1.20	-100.00%
Stranded Meter Rate Rider	Monthly		1	$ -	$ 0.3500	1	$ 0.35	$ 0.35	
Low Voltage Service Charge	per kWh	$ 0.0005	800	$ 0.40	$ 0.0009	800	$ 0.72	$ 0.32	80.00%
Smart Meter Entity Charge	Monthly					1	$ -	$ -	
Sub-Total B - Distribution (includes Sub-Total A)				**$ 22.20**			**$ 24.08**	**$ 1.88**	**8.47%**
RTSR - Network	per kWh	$ 0.0066	839	$ 5.54	$ 0.0063	844	$ 5.32	-$ 0.22	-3.99%
RTSR - Line and Transformation Connection	per kWh	$ 0.0047	839	$ 3.94	$ 0.0046	844	$ 3.88	-$ 0.06	-1.56%
Sub-Total C - Delivery (including Sub-Total B)				**$ 31.68**			**$ 33.28**	**$ 1.60**	**5.04%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	839	$ 4.36	$ 0.0052	844	$ 4.39	$ 0.03	0.58%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	839	$ 0.92	$ 0.0011	844	$ 0.93	$ 0.01	0.58%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0067	839	$ 5.62	$ 0.0067	844	$ 5.65	$ 0.03	0.58%
Energy - RPP - Tier 1		$ 0.0750	839	$ 62.92	$ 0.0740	844	$ 62.44	-$ 0.48	-0.76%
Energy - RPP - Tier 2		$ 0.0880	0	$ -	$ 0.0870	0	$ -	$ -	
TOU - Off Peak		$ 0.0650	537	$ 34.90	$ 0.0630	540	$ 34.02	-$ 0.88	-2.51%
TOU - Mid Peak		$ 0.1000	151	$ 15.10	$ 0.0990	152	$ 15.04	-$ 0.06	-0.42%
TOU - On Peak		$ 0.1170	151	$ 17.67	$ 0.1180	152	$ 17.92	$ 0.25	1.44%
Total Bill on RPP (before Taxes)				**$ 105.76**			**$ 106.94**	**$ 1.18**	**1.12%**
HST		13%		$ 13.75	13%		$ 13.90	$ 0.15	1.12%
Total Bill (including HST)				$ 119.51			$ 120.84	$ 1.34	1.12%
Ontario Clean Energy Benefit [1]				-$ 11.95			-$ 12.08	-$ 0.13	1.09%
Total Bill on RPP (including OCEB)				**$ 107.56**			**$ 108.76**	**$ 1.21**	**1.12%**
Total Bill on TOU (before Taxes)				**$ 110.51**			**$ 111.48**	**$ 0.97**	**0.88%**
HST		13%		$ 14.37	13%		$ 14.49	$ 0.13	0.88%
Total Bill (including HST)				$ 124.87			$ 125.97	$ 1.10	0.88%
Ontario Clean Energy Benefit [1]				-$ 12.49			-$ 12.60	-$ 0.11	0.88%
Total Bill on TOU (including OCEB)				**$ 112.38**			**$ 113.37**	**$ 0.99**	**0.88%**

Loss Factor (%)		4.8700%			5.4800%

Table 1 -4 : Bill Impact: Commercial

Customer Class: **General Service Less Than 50KW**

Consumption 2000 **kWh** ○ May 1 - October 31 ◉ November 1 - April 30 (Select this radio button for applications filed after Oct 3

	Charge Unit	Current Board-Approved Rate ($)	Volume	Charge ($)	Proposed Rate ($)	Volume	Charge ($)	Impact $ Change	% Change
Monthly Service Charge	Monthly	$ 29.9000	1	$ 29.90	$ 31.1500	1	$ 31.15	$ 1.25	4.18%
Smart Meter Rate Adder	Monthly	$ 6.1500	1	$ 6.15		1	$ -	-$ 6.15	-100.00%
Distribution Volumetric Rate	per kWh	$ 0.0090	2000	$ 18.00	$ 0.0094	2000	$ 18.80	$ 0.80	4.44%
Smart Meter Disposition Rider	Monthly	$ 5.5200	1	$ 5.52	$ 5.5200	1	$ 5.52	$ -	0.00%
LRAM & SSM Rate Rider	per kWh	$ 0.0006	2000	$ 1.20	$ 0.0003	2000	$ 0.60	-$ 0.60	-50.00%
Sub-Total A				$ 60.77			$ 56.07	**-$ 4.70**	**-7.73%**
Deferral/Variance Account Disposition Rate Rider	per kWh	-$ 0.0015	2000	-$ 3.00	-$ 0.0013	2000	-$ 2.60	$ 0.40	-13.33%
Tax Change Rate Rider	per kWh	-$ 0.0004	2000	-$ 0.80		2000	$ -	$ 0.80	-100.00%
Global Adj Disposition Rider	per kWh	-$ 0.0015	2000	-$ 3.00		2000	$ -	$ 3.00	-100.00%
Stranded Meter Rate Rider	Monthly		1	$ -	$ 5.1200	1	$ 5.12	$ 5.12	
Low Voltage Service Charge	per kWh	$ 0.0005	2000	$ 1.00	$ 0.0008	2000	$ 1.60	$ 0.60	60.00%
Smart Meter Entity Charge	Monthly					1	$ -	$ -	
Sub-Total B - Distribution (includes Sub-Total A)				**$ 54.97**			**$ 60.19**	**$ 5.22**	**9.50%**
RTSR - Network	per kWh	$ 0.0060	2097	$ 12.58	$ 0.0057	2110	$ 12.02	-$ 0.56	-4.45%
RTSR - Line and Transformation Connection	per kWh	$ 0.0043	2097	$ 9.02	$ 0.0042	2110	$ 8.86	-$ 0.16	-1.76%
Sub-Total C - Delivery (including Sub-Total B)				**$ 76.57**			**$ 81.08**	**$ 4.50**	**5.88%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	2097	$ 10.91	$ 0.0052	2110	$ 10.97	$ 0.06	0.58%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	2097	$ 2.31	$ 0.0011	2110	$ 2.32	$ 0.01	0.58%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0067	2097	$ 14.05	$ 0.0067	2110	$ 14.13	$ 0.08	0.58%
Energy - RPP - Tier 1		$ 0.0750	1000	$ 75.00	$ 0.0740	1000	$ 74.00	-$ 1.00	-1.33%
Energy - RPP - Tier 2		$ 0.0880	1097	$ 96.57	$ 0.0870	1110	$ 96.54	-$ 0.04	-0.04%
TOU - Off Peak		$ 0.0650	1342	$ 87.25	$ 0.0630	1350	$ 85.06	-$ 2.19	-2.51%
TOU - Mid Peak		$ 0.1000	378	$ 37.75	$ 0.0990	380	$ 37.59	-$ 0.16	-0.42%
TOU - On Peak		$ 0.1170	378	$ 44.17	$ 0.1180	380	$ 44.81	$ 0.64	1.44%
Total Bill on RPP (before Taxes)				**$ 275.66**			**$ 279.29**	**$ 3.62**	**1.31%**
HST		13%		$ 35.84	13%		$ 36.31	$ 0.47	1.31%
Total Bill (including HST)				$ 311.50			$ 315.59	$ 4.10	1.31%
Ontario Clean Energy Benefit [1]				-$ 31.15			-$ 31.56	-$ 0.41	1.32%
Total Bill on RPP (including OCEB)				**$ 280.35**			**$ 284.03**	**$ 3.69**	**1.31%**
Total Bill on TOU (before Taxes)				**$ 273.27**			**$ 276.21**	**$ 2.94**	**1.08%**
HST		13%		$ 35.52	13%		$ 35.91	$ 0.38	1.08%
Total Bill (including HST)				$ 308.79			$ 312.12	$ 3.33	1.08%
Ontario Clean Energy Benefit [1]				-$ 30.88			-$ 31.21	-$ 0.33	1.07%
Total Bill on TOU (including OCEB)				**$ 277.91**			**$ 280.91**	**$ 3.00**	**1.08%**

Loss Factor (%) 4.8700% 5.4800%

Smart Meters:

2013 smart meter costs are included in the 2013 rate base and revenue requirement. PDI is also requesting the recovery of stranded meter amounts as outlined in Exhibit 9 of this Application.

Capital Structure

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

Return on Equity

PDI has assumed a return on equity of 8.93% consistent with the Cost of Capital Parameter Updates for 2013 Cost of Service Applications issued by the OEB on November 15, 2012. PDI understands the Board will be finalizing the cost of capital parameters for May 1, 2013 rates based on January 2013 market interest rate information, and that adjustments to the Application may be required as a result.

Capital Expenditures

PDI continues to expand and reinforce its distribution system in order to meet the demand of new and existing customers in its service territory. Expenditures are also being made to meet regulations set out by both the OEB and IESO.

ACCOUNTING STANDARDS AND BASIS OF APPLICATION

Basis of Accounting

This application is submitted on a CGAAP basis as PDI has elected to delay its implementation of IFRS until 2014 based on the September 18, 2012 announcement from the Accounting Standards Board ("AcSB"). Barring a further deferral, PDI will comply with the requirement to transition to International Financial Reporting Standards on January 1, 2014. PDI has utilized this exemption in an effort to remain eligible for transitional relief that may become available to companies converting to IFRS for the first time. These anticipated changes may permit reporting entities to classify regulatory variance accounts as assets and liabilities on the balance sheet. Such a change would help eliminate differences between PDI's regulatory books and external financial reporting.

Regulatory Accounting Changes with CGAAP Framework

On July 17, 2013 the Board issued a letter to all distributors on "Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013". In that letter the Board indicated it "will not require regulatory accounting and reporting for 2012 to be in modified IFRS ("MIFRS") if a distributor is not required to adopt IFRS for financial reporting and opts to remain on CGAAP." In this letter the Board also required that distributors implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2013. These accounting changes must be consistent with the Board's regulatory accounting policies as set out for modified IFRS, found in the "Report of the Board, Transition to International Financial Reporting Standards, EB-2008-0408, the Kinectrics Report, and the Revised 2012 Accounting Procedures Handbook for Electricity Distributors. ("MIFRS like policies under CGAAP")

In this application PDI has prepared the application with 2012 Bridge Year information on a CGAAP basis and implemented the necessary MIFRS like policies under CGAAP, on January 1, 2013.

These regulatory accounting changes are described in further detail in Exhibit 2 and Exhibit 4.

As a result of this basis of preparation, PDI has not prepared detailed schedules comparing CGAAP to MIFRS. OEB Appendices 2-B Fixed Asset Continuity Schedules on MIFRS Basis, 2-CH Depreciation and Amortization Expense (MIFRS), and 2-EB IFRS –CGAAP Transitional PP&E Amounts were not prepared as they did not apply to PDI.

Impact of Accounting Changes on Revenue Requirement and Rate Base

The transition on January 1, 2013 to MIFRS policies under CGAAP has impacted the 2013 rate base and the 2013 distribution revenue requirement. The impact of adopting MIFRS policies under CGAAP is as a decrease in the revenue requirement of $1.35 million summarized as follows:

Impact of MIFRS Policies under CGAAP on Revenue Requirement			
Revenue Requirement	CGAAP	MIFRS Policies Under CGAAP	Difference
OM&A	8,288,428	9,238,791	950,363
Depreciation	4,409,406	2,673,856	(1,735,550)
PILs	883,178	257,435	(625,743)
Total Impact on Revenue requirement, excluding the regulated return on capital			(1,410,930)
MIFRS impact on Regulated Return on Capital			60,074
Impact on Revenue Requirement			(1,350,856)

The rate base has increased by $991,332, which results in an increase of $60,074 in the regulated rate of return as shown above in the revenue requirment impact.

Rate Base	CGAAP	MIFRS Policies Under CGAAP	Difference
2013 Net Fixed Assets - Opening	53,282,818	53,282,818	-
2013 Net Fixed Assets - Closing	53,458,912	55,194,462	1,735,550
Average Net Fixed Assets	53,370,865	54,238,640	867,775
Working Capital Allowance	11,948,045	12,071,592	123,547
Increase (Decrease) in Rate Base			991,322

BUDGET OVERVIEW:

PDI compiles budget information for the three major components of the budgeting process: revenue forecasts, operating and maintenance expense forecast and capital budget forecast. This budget information is compiled for both the 2012 Bridge Year and the 2013 Test Year. The budget was prepared in September, 2012 and approved by the Board of Directors on November 15, 2012.

Revenue Forecast

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

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

The OM&A expenses for the 2012 Bridge Year and the 2013 Test Year have been based on an in-depth review of operating priorities and requirements and is strongly influenced by prior year experience, year-to-date results and expected changes for the forecast periods. Each item is reviewed account by account for each of the forecast years.

Capital Budget

The capital budget forecast 2012 and 2013 is influenced by, among other factors, the highest priority capital requirements and PDI's capacity to finance capital projects. All proposed capital projects are assessed within the framework of their capital budget priority and are outlined in Exhibit 2, Tab 3.

REVENUE DEFICIENCY:

PDI has provided detailed calculations supporting its 2013 revenue deficiency. PDI ’s net revenue deficiency is $468,419 and when grossed up for PILs PDI’s revenue deficiency is $604,748. Table 1-5 on the following page provides the revenue deficiency calculations for the 2013 Test Year at Existing 2012 Board-approved rates and the 2013 Test Year Revenue Requirement.

Table 1-5 : Calculation of Revenue Deficiency

Description	2012 Bridge Actual	2013 Test Existing Rates	2013 Test - Required Revenue
Revenue			
Revenue Deficiency			604,748
Distribution Revenue	13,882,200	14,424,089	14,424,089
Other Operating Revenue (Net)	1,054,000	1,263,000	1,263,000
Total Revenue	**14,936,200**	**15,687,089**	**16,291,837**
Costs and Expenses			
Administrative & General, Billing & Collecting	4,460,697	5,858,459	5,858,459
Operation & Maintenance	2,894,971	3,380,332	3,380,332
Depreciation & Amortization	4,168,702	2,673,856	2,673,856
Property Taxes	126,150	105,000	105,000
Deemed Interest	1,643,062	1,648,154	1,648,154
Deferred PP&E Adjustment - Depreciation		0	0
Deferred PP&E Adjustment to Return on Rate Base			0
Total Costs and Expenses	**13,293,582**	**13,665,801**	**13,665,801**
Utility Income Before Income Taxes	**1,642,618**	**2,021,288**	**2,626,036**
Income Taxes:			
Corporate Income Taxes	407,400	121,106	257,435
Total Income Taxes	**407,400**	**121,106**	**257,435**
Utility Net Income	**1,235,218**	**1,900,183**	**2,368,601**
Income Tax Expense Calculation:			
Accounting Income	1,642,618	2,021,288	2,626,036
Tax Adjustments to Accounting Income	26,816	(1,484,070)	(1,484,070)
Taxable Income	**1,669,435**	**537,218**	**1,141,966**
Income Tax Expense	407,400	121,106	257,435
Tax Rate Refecting Tax Credits	24.40%	22.54%	22.54%
Actual Return on Rate Base:			
Rate Base	63,267,769	66,310,232	66,310,232
Interest Expense	1,643,062	1,648,154	1,648,154
Net Income	1,235,218	1,900,183	2,368,601
Total Actual Return on Rate Base	**2,878,280**	**3,548,336**	**4,016,755**
Actual Return on Rate Base	4.55%	5.35%	6.06%
Required Return on Rate Base:			
Rate Base	63,267,769	66,310,232	66,310,232
Return Rates:			
Return on Debt (Weighted)	4.33%	4.14%	4.14%
Return on Equity	8.01%	8.93%	8.93%
Deemed Interest Expense	1,643,062	1,648,154	1,648,154
Return On Equity	2,027,099	2,368,601	2,368,601
Total Return	**3,670,161**	**4,016,755**	**4,016,755**
Expected Return on Rate Base	5.80%	6.06%	6.06%
Revenue Deficiency After Tax	**791,881**	**468,419**	**0**
Revenue Deficiency Before Tax	**1,047,510**	**604,748**	**0**

CAUSES OF REVENUE DEFICIENCY:

PDI's net revenue deficiency is calculated as $468,419 and when grossed up for PILs, the revenue deficiency is $604,748. PDI's calculation of its 2013 revenue deficiency is provided in Exhibit 1, Tab 2, Schedule 4 and Exhibit 6, Tab 1, Schedule 1.

PDI has provided a summary of the drivers that contribute to the 2013 revenue deficiency in the table below.

Table 1-6 : Drivers of Revenue Deficiency

Revenue Deficiency Driver	Impact	Reference
Increases in OM&A:		
Wage/Benefit Inflation	1,430,000	Exhibit 4
Capitalized Administration	950,000	Exhibit 4
Other OM&A Increases	184,685	Exhibit 4
Increase in Return on Rate Base	457,697	Exhibit 6
Decrease in Amortization	(866,000)	Exhibit 4
Decrease in PILS	(1,134,024)	Exhibit 4
Decrease in Capital Taxes	(113,781)	Exhibit 4
Decrease in Deemed Interest	(293,508)	Exhibit 5
Other	(10,321)	
Total Deficiency	**604,748**	

The revenue deficiency is primarily the result of:

- Increases in OM&A costs of $2.6 million since PDI's last cost of service in 2009. Changes to capitalization policies account for $950 thousand of this increase. The remainder of this increase is primarily driven by wage and benefit inflation. PDI has provided a detailed explanation of changes in operating expenses in Exhibit 4.

- Increase in Return on Rate Base driven by the installation of smart meters, capital improvements required to accommodate new service demand, and replacement of aging infrastructure.

- Reduction in depreciation expense as a result of adopting changes to the useful life of PDI's distribution assets for purposes of amortizing capital assets.

- Reduction in PILs as a result of the decline in amortization expense described above.

- Reduction in deemed interest as a result of restructuring loans as detailed in Exhibit 5.

CHANGES IN METHODOLOGY:

PDI is not requesting any changes in methodology in the current proceeding.

REVENUE REQUIREMENT

PDI's last rebasing application (EB-2008-0241) was for rates effective July 1, 2009. The table below indicates the last Board Approved Revenue Requirements along with the 2013 Test Year Revenue Requirement.

Table 1-7 : Last Board Approved and 2013 Test Year Revenue Requirement

	2013 Test Year	2009 Board Approved
OM&A Expenses	9,238,791	6,674,105
Amortization Expenses	2,673,856	3,540,000
Total Distribution Expenses	**11,912,647**	**10,214,105**
Regulated Return On Capital	4,016,755	3,852,827
Property Taxes	105,000	
PILs	257,435	1,630,879
Service Revenue Requirement	**16,291,837**	**15,697,811**
Less: Revenue Offsets	1,263,000	1,618,851
Base Revenue Requirement	**15,028,837**	**14,078,960**

The breakdown of PDI's 2013 Revenue Requirement is detailed in the Revenue Requirement Work Form schedules on the subsequent pages.

Data Input [1]

		Initial Application	(2)		(6)		Per Board Decision	
1	**Rate Base**							
	Gross Fixed Assets (average)	$94,339,306		$ 94,339,306			$94,339,306	
	Accumulated Depreciation (average)	($40,100,666)	(5)	($40,100,666)			($40,100,666)	
	Allowance for Working Capital:							
	Controllable Expenses	$9,343,791		$ 9,343,791			$9,343,791	
	Cost of Power	$83,514,611		$ 83,514,611			$83,514,611	
	Working Capital Rate (%)	13.00%	(9)	13.00%	(9)		13.00%	(9)
2	**Utility Income**							
	Operating Revenues:							
	Distribution Revenue at Current Rates	$14,424,089						
	Distribution Revenue at Proposed Rates	$15,028,837						
	Other Revenue:							
	Specific Service Charges	$650,000						
	Late Payment Charges	$200,000						
	Other Distribution Revenue	$338,000						
	Other Income and Deductions	$75,000						
	Total Revenue Offsets	$1,263,000	(7)					
	Operating Expenses:							
	OM+A Expenses	$9,238,791		$ 9,238,791			$9,238,791	
	Depreciation/Amortization	$2,673,856	(10)	$ 2,673,856			$2,673,856	
	Property taxes	$105,000		$ 105,000			$105,000	
	Other expenses							
3	**Taxes/PILs**							
	Taxable Income:							
	Adjustments required to arrive at taxable income	($1,484,070)	(3)					
	Utility Income Taxes and Rates:							
	Income taxes (not grossed up)	$199,401						
	Income taxes (grossed up)	$257,435						
	Federal tax (%)	15.00%		15.00%				
	Provincial tax (%)	7.54%		7.54%				
	Income Tax Credits							
4	**Capitalization/Cost of Capital**							
	Capital Structure:							
	Long-term debt Capitalization Ratio (%)	56.0%		56.0%				
	Short-term debt Capitalization Ratio (%)	4.0%	(8)	4.0%	(8)			(8)
	Common Equity Capitalization Ratio (%)	40.0%		40.0%				
	Prefered Shares Capitalization Ratio (%)							
		100.0%		100.0%				
	Cost of Capital							
	Long-term debt Cost Rate (%)	4.29%		4.3%				
	Short-term debt Cost Rate (%)	2.08%		2.1%				
	Common Equity Cost Rate (%)	8.93%		8.9%				
	Prefered Shares Cost Rate (%)							
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS ($)		(11)	$ -	(11)	$0	$ -	(11)

Rate Base and Working Capital

Rate Base

Line No.	Particulars		Initial Application				Per Board Decision
1	Gross Fixed Assets (average)	(3)	$94,339,306	$ -	$94,339,306	$ -	$94,339,306
2	Accumulated Depreciation (average)	(3)	($40,100,666)	$ -	($40,100,666)	$ -	($40,100,666)
3	Net Fixed Assets (average)	(3)	$54,238,640	$ -	$54,238,640	$ -	$54,238,640
4	Allowance for Working Capital	(1)	$12,071,592	$ -	$12,071,592	$ -	$12,071,592
5	**Total Rate Base**		$66,310,232	$ -	$66,310,232	$ -	$66,310,232

Allowance for Working Capital - Derivation

(1)

Line No.	Particulars		Initial Application				Per Board Decision
6	Controllable Expenses		$9,343,791	$ -	$9,343,791	$ -	$9,343,791
7	Cost of Power		$83,514,611	$ -	$83,514,611	$ -	$83,514,611
8	Working Capital Base		$92,858,402	$ -	$92,858,402	$ -	$92,858,402
9	Working Capital Rate %	(2)	13.00%	0.00%	13.00%	0.00%	13.00%
10	Working Capital Allowance		$12,071,592	$ -	$12,071,592	$ -	$12,071,592

Revenue Requirement Workform

Utility Income

Line No.	Particulars	Initial Application				Per Board Decision
	Operating Revenues:					
1	Distribution Revenue (at Proposed Rates)	$15,028,837	($15,028,837)	$ -	$ -	$ -
2	Other Revenue (1)	$1,263,000	($1,263,000)	$ -	$ -	$ -
3	Total Operating Revenues	$16,291,837	($16,291,837)	$ -	$ -	$ -
	Operating Expenses:					
4	OM+A Expenses	$9,238,791	$ -	$9,238,791	$ -	$9,238,791
5	Depreciation/Amortization	$2,673,856	$ -	$2,673,856	$ -	$2,673,856
6	Property taxes	$105,000	$ -	$105,000	$ -	$105,000
7	Capital taxes	$ -	$ -	$ -	$ -	$ -
8	Other expense	$ -	$ -		$ -	
9	Subtotal (lines 4 to 8)	$12,017,647	$ -	$12,017,647	$ -	$12,017,647
10	Deemed Interest Expense	$1,648,154	$ -	$1,648,154	$ -	$1,648,154
11	Total Expenses (lines 9 to 10)	$13,665,801	$ -	$13,665,801	$ -	$13,665,801
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**	$2,626,036	($16,291,837)	($13,665,801)	$ -	($13,665,801)
14	Income taxes (grossed-up)	$257,435	$ -	$257,435	$ -	$257,435
15	**Utility net income**	$2,368,601	($16,291,837)	($13,923,236)	$ -	($13,923,236)

Notes

Other Revenues / Revenue Offsets

(1)	Specific Service Charges	$650,000		$ -		$ -
	Late Payment Charges	$200,000		$ -		$ -
	Other Distribution Revenue	$338,000		$ -		$ -
	Other Income and Deductions	$75,000		$ -		$ -
	Total Revenue Offsets	$1,263,000	$ -	$ -	$ -	$ -

Revenue Requirement Workform

Taxes/PILs

Line No.	Particulars	Application		Per Board Decision
	Determination of Taxable Income			
1	Utility net income before taxes	$2,368,601	$2,368,601	$2,368,601
2	Adjustments required to arrive at taxable utility income	($1,484,070)	$ -	($1,484,070)
3	Taxable income	$884,531	$2,368,601	$884,531
	Calculation of Utility income Taxes			
4	Income taxes	$199,401	$199,401	$199,401
6	Total taxes	$199,401	$199,401	$199,401
7	Gross-up of Income Taxes	$58,034	$58,034	$58,034
8	Grossed-up Income Taxes	$257,435	$257,435	$257,435
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	$257,435	$257,435	$257,435
10	Other tax Credits	$ -	$ -	$ -
	Tax Rates			
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	7.54%	7.54%	7.54%
13	Total tax rate (%)	22.54%	22.54%	22.54%

Revenue Requirement Workform

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Initial Application			
		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	56.00%	$37,133,730	4.29%	$1,592,984
2	Short-term Debt	4.00%	$2,652,409	2.08%	$55,170
3	Total Debt	60.00%	$39,786,139	4.14%	$1,648,154
	Equity				
4	Common Equity	40.00%	$26,524,093	8.93%	$2,368,601
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	Total Equity	40.00%	$26,524,093	8.93%	$2,368,601
7	Total	100.00%	$66,310,232	6.06%	$4,016,755

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	56.00%	$37,133,730	4.29%	$1,592,984
2	Short-term Debt	4.00%	$2,652,409	2.08%	$55,170
3	Total Debt	60.00%	$39,786,139	4.14%	$1,648,154
	Equity				
4	Common Equity	40.00%	$26,524,093	8.93%	$2,368,601
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	Total Equity	40.00%	$26,524,093	8.93%	$2,368,601
7	Total	100.00%	$66,310,232	6.06%	$4,016,755

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Per Board Decision			
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$37,133,730	4.29%	$1,592,984
9	Short-term Debt	4.00%	$2,652,409	2.08%	$55,170
10	Total Debt	60.00%	$39,786,139	4.14%	$1,648,154
	Equity				
11	Common Equity	40.00%	$26,524,093	8.93%	$2,368,601
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	Total Equity	40.00%	$26,524,093	8.93%	$2,368,601
14	Total	100.00%	$66,310,232	6.06%	$4,016,755

Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application: At Current Approved Rates	Initial Application: At Proposed Rates	At Current Approved Rates	At Proposed Rates	Per Board Decision: At Current Approved Rates	Per Board Decision: At Proposed Rates
1	Revenue Deficiency from Below		$604,748		$1,867,748		$16,723,761
2	Distribution Revenue	$14,424,089	$14,424,089	$14,424,089	$13,161,089	$ -	($16,723,761)
3	Other Operating Revenue Offsets - net	$1,263,000	$1,263,000	$ -	$ -	$ -	$ -
4	**Total Revenue**	$15,687,089	$16,291,837	$14,424,089	$15,028,837	$ -	$ -
5	Operating Expenses	$12,017,647	$12,017,647	$12,017,647	$12,017,647	$12,017,647	$12,017,647
6	Deemed Interest Expense	$1,648,154	$1,648,154	$1,648,154	$1,648,154	$1,648,154	$1,648,154
7	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$ - **(2)**	$ -	$ - **(2)**	$ -	$ - **(2)**	$ -
8	**Total Cost and Expenses**	$13,665,801	$13,665,801	$13,665,801	$13,665,801	$13,665,801	$13,665,801
9	**Utility Income Before Income Taxes**	$2,021,288	$2,626,036	$758,288	$1,363,036	($13,665,801)	($13,665,801)
10	Tax Adjustments to Accounting Income per 2013 PILs model	($1,484,070)	($1,484,070)	($1,484,070)	($1,484,070)	$ -	$ -
11	**Taxable Income**	$537,218	$1,141,966	($725,782)	($121,034)	($13,665,801)	($13,665,801)
12	Income Tax Rate	22.54%	22.54%	22.54%	22.54%	22.54%	22.54%
13	**Income Tax on Taxable Income**	$121,106	$257,435	($163,614)	($27,285)	($3,080,695)	($3,080,695)
14	**Income Tax Credits**	$ -	$ -	$ -	$ -	$ -	$ -
15	**Utility Net Income**	$1,900,183	$2,368,601	$921,902	($13,923,236)	($10,585,105)	($13,923,236)
16	**Utility Rate Base**	$66,310,232	$66,310,232	$66,310,232	$66,310,232	$66,310,232	$66,310,232
17	Deemed Equity Portion of Rate Base	$26,524,093	$26,524,093	$26,524,093	$26,524,093	$26,524,093	$26,524,093
18	Income/(Equity Portion of Rate Base)	7.16%	8.93%	3.48%	-52.49%	-39.91%	-52.49%
19	Target Return - Equity on Rate Base	8.93%	8.93%	8.93%	8.93%	8.93%	8.93%
20	Deficiency/Sufficiency in Return on Equity	-1.77%	0.00%	-5.45%	-61.42%	-48.84%	-61.42%
21	Indicated Rate of Return	5.35%	6.06%	3.88%	-18.51%	-13.48%	-18.51%
22	Requested Rate of Return on Rate Base	6.06%	6.06%	6.06%	6.06%	6.06%	6.06%
23	Deficiency/Sufficiency in Rate of Return	-0.71%	0.00%	-2.18%	-24.57%	-19.54%	-24.57%
24	Target Return on Equity	$2,368,601	$2,368,601	$2,368,601	$2,368,601	$2,368,601	$2,368,601
25	Revenue Deficiency/(Sufficiency)	$468,419	($0)	$1,446,700	($16,291,837)	$12,953,707	($16,291,837)
26	**Gross Revenue Deficiency/(Sufficiency)**	$604,748 **(1)**		$1,867,748 **(1)**		$16,723,761 **(1)**	

Revenue Requirement

Line No.	Particulars	Application				Per Board Decision	
1	OM&A Expenses	$9,238,791		$9,238,791		$9,238,791	
2	Amortization/Depreciation	$2,673,856		$2,673,856		$2,673,856	
3	Property Taxes	$105,000		$105,000		$105,000	
5	Income Taxes (Grossed up)	$257,435		$257,435		$257,435	
6	Other Expenses	$ -					
7	Return						
	Deemed Interest Expense	$1,648,154		$1,648,154		$1,648,154	
	Return on Deemed Equity	$2,368,601		$2,368,601		$2,368,601	
	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)	$16,291,837		$16,291,837		$16,291,837	
9	Revenue Offsets	$1,263,000		$ -		$ -	
10	Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment)	$15,028,837		$16,291,837		$16,291,837	
11	Distribution revenue	$15,028,837		$ -		$ -	
12	Other revenue	$1,263,000		$ -		$ -	
13	Total revenue	$16,291,837		$ -		$ -	
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	($0)	(1)	($16,291,837)	(1)	($16,291,837)	(1)

RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND REGULATORY ACCOUNTING:

Copies of the Audited Financial Statements of PDI for the years 2010 and 2011 are provided in Exhibit 1, Appendix A. The only reconciliation required between financial statements and regulatory accounting relate to those expenses which the OEB has disallowed for rate application purposes. These have been identified in the table below. These expenses have been removed from requested OM&A expenses for 2013 Test Year in Exhibit 4 of this application.

Table 1-8 – Reconciliation from Audited OM&A Expense to Regulatory OM&A Expense

	2009	2010	2011
OM&A as per Audited Financial Statements	$6,819,276	$6,340,679	$6,990,106
Add: 5681 - Special Purpose Charge Conservation Assessment (net with 4324)		$187,168	$130,178
Less: Property Taxes	($121,846)	($121,929)	($101,960)
Less: Capital Taxes	($134,997)	($40,158)	$4,890
Total OM&A Expense	**$6,562,433**	**$6,365,760**	**$7,023,214**

PRO FORMA FINANCIAL STATEMENTS - 2012 AND 2013:

The Pro Forma Statements for the 2012 Bridge Year and the 2013 Test Year appear in the following pages.

PETERBOROUGH DISTRIBUTION INC.

2012 PRO FORMA FINANCIAL STATEMENTS - CGAAP

PDI 2012 BALANCE SHEET - CGAAP

Account Description	Total
1050-Current Assets	
1005-Cash	2,792,615
1100-Customer Accounts Receivable	4,860,000
1110-Other Accounts Receivable	305,000
1120-Accrued Utility Revenues	8,320,000
1180-Prepayments	125,000
1050-Current Assets Total	**16,402,615**
1100-Inventory	
1330-Plant Materials and Operating Supplies	1,376,000
1100-Inventory Total	**1,376,000**
1150-Non-Current Assets	
1460-Other Non-Current Assets	1,797,000
1150-Non-Current Assets Total	**1,797,000**
1200-Other Assets and Deferred Charges	
1508-Other Regulatory Assets	15,000
1550-LV Charges - Variance	499,000
1555-Smart Meters Recovery	2,000,543
1565-C & DM Costs	24,012
1566-C & DM Costs Contra	(24,012)
1580-RSVA - Wholesale Market Services	(2,325,000)
1584-RSVA - Network Charges	(225,000)
1586-RSVA - Connection Charges	55,000
1588-RSVA - Commodity (Power)	1,505,000
1589-RSVA power adj - main glob adj	1,027,000
1595-Disposition and Recovery of Regulatory Balances	355,245
1200-Other Assets and Deferred Charges Total	**2,906,788**
1450-Distribution Plant	
1805-Land	134,968
1808-Buildings and Fixtures	466,331
1820-Distribution Station Equipment - Normally Primary below 50 kV	3,685,495
1830-Poles, Towers and Fixtures	23,637,658
1835-Overhead Conductors and Devices	10,691,311
1840-Underground Conduit	16,231,541
1845-Underground Conductors and Devices	5,629,005
1850-Line Transformers	19,965,777
1855-Services	15,060,849
1860-Meters	1,204,068
1860-Meters	5,702,472
1450-Distribution Plant Total	**102,409,475**
1500-General Plant	
1920-Computer Equipment - Hardware	44,877
1925-Computer Software	1,134,711
1950-Power Operated Equipment	82,385
1955-Communication Equipment	1,638,219
1995-Contributions and Grants	(13,263,111)
1500-General Plant Total	**(10,362,919)**
1550-Other Capital Assets	
2055-Construction Work in Progress--Electric	922,609
1550-Other Capital Assets Total	**922,609**
1600-Accumulated Amortization	
2105-Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment	(38,763,738)
1600-Accumulated Amortization Total	**(38,763,738)**
Total Assets	**76,687,830**

PDI 2012 BALANCE SHEET – CGAAP (cont'd)

1650-Current Liabilities	
2205-Accounts Payable	6,785,641
2210-Current Portion of Customer Deposits	710,000
2220-Miscellaneous Current and Accrued Liabilities	1,200,000
2260-Current Portion of Long Term Debt	1,562,701
1650-Current Liabilities Total	**10,258,342**
1700-Non-Current Liabilities	
2306-Employee Future Benefits	18,000
2310-Vested Sick Leave Liability	53,000
2335-Long Term Customer Deposits	941,000
1700-Non-Current Liabilities Total	**1,012,000**
1800-Long-Term Debt	
2520-Other Long Term Debt	31,838,969
2550-Advances from Associated Companies	5,157,680
1800-Long-Term Debt Total	**36,996,649**
1850-Shareholders' Equity	
3005-Common Shares Issued	21,657,680
3045-Unappropriated Retained Earnings	6,814,807
3046-Balance Transferred From Income	1,231,352
3049-Dividends Payable-Common Shares	(1,283,000)
1850-Shareholders' Equity Total	**28,420,839**
Total Liabilities & Shareholder's Equity	**76,687,830**
Balance Sheet Total	0

PDI 2012 INCOME STATEMENT – CGAAP

Account Description	Total
3000-Sales of Electricity	
4006-Residential Energy Sales	(24,853,048)
4010-Commercial Energy Sales	(9,714,569)
4015-Industrial Energy Sales	(28,864,505)
4020-Energy Sales to Large Users	(4,427,465)
4025-Street Lighting Energy Sales	(455,414)
4030-Sentinel Energy Sales	(60,845)
4062-WMS	(5,575,896)
4066-NS	(5,213,778)
4068-CS	(3,653,012)
4075-LV Charges	(684,342)
3000-Sales of Electricity Total	**(83,502,874)**
3050-Revenues From Services - Distirbution	
4080-Distribution Services Revenue	(14,256,794)
4082-RS Rev	(22,000)
4084-Serv Tx Requests	(11,000)
4086-SSS Administration Revenue	(95,000)
3050-Revenues From Services - Distirbution Total	**(14,384,794)**
3100-Other Operating Revenues	
4210-Rent from Electric Property	(210,000)
4225-Late Payment Charges	(200,000)
4235-Miscellaneous Service Revenues	(644,000)
3100-Other Operating Revenues Total	**(1,054,000)**
3150-Other Income & Deductions	
3150-Other Income & Deductions Total	**0**
3200-Investment Income	
4405-Interest and Dividend Income	(82,000)
3200-Investment Income Total	**(82,000)**
3350-Power Supply Expenses	
4705-Power Purchased	68,375,846
4708-WMS	5,575,896
4714-NW	5,213,778
4716-NCN	3,653,012
4750-LV Charges	684,342
3350-Power Supply Expenses Total	**83,502,874**
3500-Distribution Expenses - Operation	
5005-Operation Supervision and Engineering	121,478
5010-Load Dispatching	275,876
5012-Station Buildings and Fixtures Expense	76,420
5016-Distribution Station Equipment - Operation Labour	122,933
5017-Distribution Station Equipment - Operation Supplies and Expenses	104,320
5020-Overhead Distribution Lines and Feeders - Operation Labour	68,926
5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	24,300
5030-Overhead Subtransmission Feeders - Operation	28,548
5035-Overhead Distribution Transformers - Operation	11,241
5040-Underground Distribution Lines and Feeders - Operation Labour	157,669
5045-Underground Distribution Lines and Feeders - Operation Supplies and Expenses	42,500
5055-Underground Distribution Transformers - Operation	40,426
5065-Meter Expense	296,153
5085-Miscellaneous Distribution Expense	278,914
3500-Distribution Expenses - Operation Total	**1,649,704**

PDI 2012 INCOME STATEMENT – CGAAP (cont'd)

3550-Distribution Expenses - Maintenance	
5110-Maintenance of Structures	40,483
5125-Maintenance of Overhead Conductors and Devices	444,531
5130-Maintenance of Overhead Services	180,377
5135-Overhead Distribution Lines and Feeders - Right of Way	253,255
5150-Maintenance of Underground Conductors and Devices	106,987
5155-Maintenance of Underground Services	149,572
5160-Maintenance of Line Transformers	68,104
5175-Maintenance of Meters	1,958
3550-Distribution Expenses - Maintenance Total	**1,245,267**
3650-Billing and Collecting	
5305-Supervision	271,543
5315-Customer Billing	946,764
5320-Collecting	839,584
5335-Bad Debt Expense	230,000
3650-Billing and Collecting Total	**2,287,891**
3700-Community Relations	
3700-Community Relations Total	**0**
3800-Administrative and General Expenses	
5605-Executive Salaries and Expenses	233,219
5615-General Administrative Salaries and Expenses	628,115
5630-Outside Services Employed	196,939
5635-Property Insurance	96,000
5655-Regulatory Expenses	120,000
5660-General Advertising Expenses	59,733
5665-Miscellaneous Expenses	88,800
5670-Rent	735,000
5680-Electrical Safety Authority Fees	15,000
3800-Administrative and General Expenses Total	**2,172,806**
3850-Amortization Expense	
5705-Amortization Expense - Property, Plant and Equipment	4,168,702
3850-Amortization Expense Total	**4,168,702**
3900-Interest Expense	
6005-Interest on Long Term Debt	795,000
6030-Interest on Debt to Associated Companies	1,353,605
3900-Interest Expense Total	**2,148,605**
3950-Taxes Other Than Income Taxes	
6105-Taxes Other Than Income Taxes	126,150
3950-Taxes Other Than Income Taxes Total	**126,150**
4000-Income Taxes	
6110-Income Taxes	430,317
6115-Provision for Future Income Taxes	13,000
4000-Income Taxes Total	**443,317**
4100-Extraordinary & Other Items	
6205-Donations	20,000
6310-Extraordinary Deductions	27,000
4100-Extraordinary & Other Items Total	**47,000**
Net Income - (Gain)/Loss	**(1,231,352)**

PETERBOROUGH DISTRIBUTION INC.

2013 PRO FORMA STATEMENTS - CGAAP

PDI 2013 BALANCE SHEET – CGAAP

Account Description	Total
1050-Current Assets	
1005-Cash	6,491,175
1100-Customer Accounts Receivable	4,909,000
1110-Other Accounts Receivable	308,000
1120-Accrued Utility Revenues	8,403,000
1180-Prepayments	201,000
1050-Current Assets Total	**20,312,175**
1100-Inventory	
1330-Plant Materials and Operating Supplies	1,390,000
1100-Inventory Total	**1,390,000**
1150-Non-Current Assets	
1460-Other Non-Current Assets	1,133,143
1150-Non-Current Assets Total	**1,133,143**
1200-Other Assets and Deferred Charges	
1550-LV Charges - Variance	390,000
1565-C & DM Costs	24,012
1566-C & DM Costs Contra	(24,012)
1580-RSVA - Wholesale Market Services	(2,400,000)
1586-RSVA - Connection Charges	(320,000)
1595-Disposition and Recovery of Regulatory Balances	(500,000)
1200-Other Assets and Deferred Charges Total	**(2,830,000)**
1450-Distribution Plant	
1805-Land	264,968
1808-Buildings and Fixtures	506,331
1820-Distribution Station Equipment - Normally Primary below 50 kV	3,760,495
1830-Poles, Towers and Fixtures	24,402,708
1835-Overhead Conductors and Devices	12,360,811
1840-Underground Conduit	16,856,741
1845-Underground Conductors and Devices	5,881,005
1850-Line Transformers	20,935,527
1855-Services	16,094,849
1860-Meters	1,409,068
1860-Meters	5,702,472
1450-Distribution Plant Total	**108,174,975**
1500-General Plant	
1920-Computer Equipment - Hardware	44,877
1925-Computer Software	1,134,711
1950-Power Operated Equipment	82,385
1955-Communication Equipment	1,638,219
1995-Contributions and Grants	(14,443,111)
1500-General Plant Total	**(11,542,919)**
1550-Other Capital Assets	
2055-Construction Work in Progress--Electric	1,271,000
1550-Other Capital Assets Total	**1,271,000**
1600-Accumulated Amortization	
2105-Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment	(41,437,594)
1600-Accumulated Amortization Total	**(41,437,594)**
Total Assets	**76,470,780**

PDI 2013 BALANCE SHEET – CGAAP (cont'd)

1650-Current Liabilities	
2205-Accounts Payable	8,066,000
2210-Current Portion of Customer Deposits	717,000
2220-Miscellaneous Current and Accrued Liabilities	515,991
2260-Current Portion of Long Term Debt	947,128
1650-Current Liabilities Total	**10,246,119**

1700-Non-Current Liabilities	
2306-Employee Future Benefits	18,000
2310-Vested Sick Leave Liability	54,000
2335-Long Term Customer Deposits	951,000
1700-Non-Current Liabilities Total	**1,023,000**

1800-Long-Term Debt	
2520-Other Long Term Debt	33,934,052
2550-Advances from Associated Companies	1,500,000
1800-Long-Term Debt Total	**35,434,052**

1850-Shareholders' Equity	
3005-Common Shares Issued	21,657,680
3045-Unappropriated Retained Earnings	6,763,159
3046-Balance Transferred From Income	2,346,770
3049-Dividends Payable-Common Shares	(1,000,000)
1850-Shareholders' Equity Total	**29,767,609**

Total Liabilities & Shareholder's Equity	**76,470,780**

Balance Sheet Total	(0)

PDI 2013 INCOME STATEMENT – CGAAP

Account Description	Total
3000-Sales of Electricity	
4006-Residential Energy Sales	(24,994,416)
4010-Commercial Energy Sales	(9,649,702)
4015-Industrial Energy Sales	(29,216,332)
4020-Energy Sales to Large Users	(4,318,053)
4025-Street Lighting Energy Sales	(449,889)
4030-Sentinel Energy Sales	(58,323)
4062-WMS	(5,601,335)
4066-NS	(4,970,815)
4068-CS	(3,571,404)
4075-LV Charges	(684,342)
3000-Sales of Electricity Total	**(83,514,611)**
3050-Revenues From Services - Distribution	
4080-Distribution Services Revenue	(15,537,374)
4082-RS Rev	(22,000)
4084-Serv Tx Requests	(11,000)
4086-SSS Administration Revenue	(95,000)
3050-Revenues From Services - Distribution Total	**(15,665,374)**
3100-Other Operating Revenues	
4210-Rent from Electric Property	(210,000)
4225-Late Payment Charges	(200,000)
4235-Miscellaneous Service Revenues	(650,000)
3100-Other Operating Revenues Total	**(1,060,000)**
3200-Investment Income	
4405-Interest and Dividend Income	(75,000)
3200-Investment Income Total	**(75,000)**
3350-Power Supply Expenses	
4705-Power Purchased	68,686,715
4708-WMS	5,601,335
4714-NW	4,970,815
4716-NCN	3,571,404
4750-LV Charges	684,342
3350-Power Supply Expenses Total	**83,514,611**
3500-Distribution Expenses - Operation	
5005-Operation Supervision and Engineering	121,247
5010-Load Dispatching	332,563
5012-Station Buildings and Fixtures Expense	73,504
5016-Distribution Station Equipment - Operation Labour	181,492
5017-Distribution Station Equipment - Operation Supplies and Expenses	141,100
5020-Overhead Distribution Lines and Feeders - Operation Labour	51,767
5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	23,800
5030-Overhead Subtransmission Feeders - Operation	28,684
5035-Overhead Distribution Transformers - Operation	9,685
5040-Underground Distribution Lines and Feeders - Operation Labour	166,303
5045-Underground Distribution Lines and Feeders - Operation Supplies and Expenses	67,500
5055-Underground Distribution Transformers - Operation	12,060
5065-Meter Expense	335,758
5085-Miscellaneous Distribution Expense	394,047
3500-Distribution Expenses - Operation Total	**1,939,510**
3550-Distribution Expenses - Maintenance	
5110-Maintenance of Structures	37,833
5125-Maintenance of Overhead Conductors and Devices	480,690
5130-Maintenance of Overhead Services	209,981
5135-Overhead Distribution Lines and Feeders - Right of Way	260,938
5150-Maintenance of Underground Conductors and Devices	123,877
5155-Maintenance of Underground Services	193,237
5160-Maintenance of Line Transformers	132,485
5175-Maintenance of Meters	1,781
3550-Distribution Expenses - Maintenance Total	**1,440,822**

PDI 2013 INCOME STATEMENT – CGAAP (cont'd)

3650-Billing and Collecting	
5305-Supervision	253,267
5315-Customer Billing	1,080,326
5320-Collecting	880,874
5335-Bad Debt Expense	260,000
3650-Billing and Collecting Total	**2,474,467**
3700-Community Relations	
3700-Community Relations Total	**0**
3800-Administrative and General Expenses	
5605-Executive Salaries and Expenses	221,609
5615-General Administrative Salaries and Expenses	1,800,642
5630-Outside Services Employed	321,939
5635-Property Insurance	110,000
5655-Regulatory Expenses	121,250
5660-General Advertising Expenses	62,000
5665-Miscellaneous Expenses	103,802
5670-Rent	739,000
5680-Electrical Safety Authority Fees	15,000
6205 - Donations - LEAP	20,000
3800-Administrative and General Expenses Total	**3,515,242**
3850-Amortization Expense	
5705-Amortization Expense - Property, Plant and Equipment	2,673,856
3850-Amortization Expense Total	**2,673,856**
3900-Interest Expense	
6005-Interest on Long Term Debt	1,493,820
6030-Interest on Debt to Associated Companies	
6035-Other Interest Expense	26,250
3900-Interest Expense Total	**1,520,070**
3950-Taxes Other Than Income Taxes	
6105-Taxes Other Than Income Taxes	105,000
3950-Taxes Other Than Income Taxes Total	**105,000**
4000-Income Taxes	
6110-Income Taxes	391,358
6115-Provision for Future Income Taxes	393,279
4000-Income Taxes Total	**784,637**
4100-Extraordinary & Other Items	
6205-Donations	
4100-Extraordinary & Other Items Total	**0**
Net Income - (Gain)/Loss	**(2,346,770)**

RECONCILIATION BETWEEN PRO FORMA STATEMENTS AND REVENUE DEFICIENCY STATEMENTS

The reconciliation between PDI's 2013 Pro Forma financial statements and the revenue deficiency statement in the Revenue Requirement Work Form is provided in the following table.

This reconciliation identifies the adjustments PDI has made in preparing this application in accordance with the Filing Requirements including:

- Removal of expected revenues from rate riders as outlined in Exhibit 9
- Amortization of non-recurring costs related to the preparation and review of this application over a four year period
- Adjustment of actual interest expense to deemed interest expense based on OEB prescribed rates
- Deduction of future income tax based on accounting income timing differences

Table 1-9 – Reconciliation from 2013 Pro Forma Income to Revenue Deficiency Income

			Adjustments					
Line No.	Particulars	2013 Pro Forma	LRAM Rate Rider	SMDR Rate Rider	Rate App Costs Amortized	Actual vs Deemed Interest	Deferred Tax Expense	2013 RRWF
1	Revenue Deficiency from Below	$604,748						$604,748
2	Distribution Revenue	$14,932,626	(132,578)	(375,959)				$14,424,089
3	Other Operating Revenue Offsets - net	$1,263,000						$1,263,000
4	Total Revenue	$16,800,374						$16,291,837
5	Operating Expenses	$12,148,897			(131,250)			$12,017,647
6	Deemed Interest Expense	$1,520,070				128,084		$1,648,154
7	PP&E Adjustment							$ -
8	Total Cost and Expenses	$13,668,967						$13,665,801
9	Utility Income Before Income Taxes	$3,131,407						$2,626,036
10	Tax Adjustments to Accounting Income per 2013 PILs model	($1,484,070)						($1,484,070)
11	Taxable Income	$1,647,337						$1,141,966
12	Income Tax Rate	26.50%						22.54%
13	Income Tax on Taxable Income	$784,637	(35,133)	(99,629)	34,781	(33,942)	(393,279)	$257,435
14	Income Tax Credits							$ -
15	Utility Net Income	$2,346,770						$2,368,602

MATERIALITY THRESHOLDS:

Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, issued by the Board June 28, 2011 states the relevant default materiality threshold as:

"0.5% of distribution revenue requirement for distributors with a revenue requirement greater than $10 million and less than or equal to $200 million."

As the table below indicates, the lowest materiality during the past 4 years for PDI is $71,369. To ensure a thorough analysis, all variances greater than $70,000 have been analyzed.

Table 1-10 Materiality Thresholds

Description	2009 Actual	2010 Actual	2011 Actual	2012 Bridge Year	2013 Test Year
Distribution Revenue Requirement	$ 14,273,765	$ 15,211,996	$ 15,205,392	$ 15,520,794	$ 15,028,837
Materiality - 0.5%	$ 71,369	$ 76,060	$ 76,027	$ 77,604	$ 75,144

Appendix A

Copy of Audited Financial Statements for 2010 and 2011

This page is blank intentionally.

FINANCIAL STATEMENTS OF

PETERBOROUGH DISTRIBUTION INC.

December 31, 2010

TABLE OF CONTENTS

Collins Barrow
Chartered Accountants

Collins Barrow Kawarthas LLP
418 Sheridan Street
Peterborough, Ontario
K9H 3J9

T. 705.742.3418
F. 705.742.9775

www.collinsbarrow.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Peterborough Distribution Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Peterborough Distribution Inc., which comprise the balance sheet as at December 31, 2010, and the statements of retained earnings, income and cash flows for the for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010 and the results of its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
March 17, 2011

PETERBOROUGH DISTRIBUTION INC.
BALANCE SHEET
As at December 31, 2010

	2010 $	2009 $
ASSETS		
Current assets		
Cash and equivalents	7,338,786	7,627,379
Accounts receivable	13,673,951	11,920,131
Due from related party (note 7)	22,795,000	-
Inventories	1,209,115	1,256,379
Prepaid expenses	162,961	206,476
	45,179,813	21,010,365
Other assets		
Property, plant and equipment (note 3)	48,005,934	48,400,371
Regulatory assets (note 4)	7,874,360	7,878,770
Future income taxes (note 9)	1,930,000	1,845,000
	57,810,294	58,124,141
	102,990,107	79,134,506

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
BALANCE SHEET
As at December 31, 2010

	2010 $	2009 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Bank indebtedness (note 5)	22,795,000	-
Accounts payable and accrued liabilities	9,930,279	9,712,146
Income taxes payable	108,052	301,828
Customer deposits refundable within one year	1,600,000	823,000
Current portion of regulatory liabilities (note 4)	-	66,220
Current portion of long-term debt (note 6)	814,959	775,161
	35,248,290	11,678,355
Long-term liabilities		
Customer deposits	691,284	1,042,105
Regulatory liabilities (note 4)	913,902	-
Long-term debt (note 6)	14,695,888	15,510,743
Due to related parties (note 7)	23,157,680	23,157,680
	39,458,754	39,710,528
Shareholder's equity		
Share capital (note 8)	21,657,680	21,657,680
Retained earnings	6,625,384	6,087,943
	28,283,064	27,745,623
	102,990,107	79,134,506

Approved on behalf of the Board

________________ Director ________________ Director

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 2010

	2010 $	2009 $
Retained earnings - beginning of year	6,087,943	6,067,864
Net income for the year	2,505,128	1,876,807
Dividends paid	(1,967,688)	(1,856,728)
Retained earnings - end of year	6,625,384	6,087,943

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
INCOME STATEMENT

For the year ended December 31, 2010

	2010 $	2009 $
Revenue		
Power recovery	64,275,503	61,066,555
Distribution	14,109,729	13,144,224
Other (note 11)	917,255	947,859
	79,302,487	75,158,638
Expenses		
Purchased power	64,275,503	61,066,555
Operations and administration	6,340,679	6,819,276
Amortization	3,325,168	3,222,790
	73,941,350	71,108,621
Income before the undernoted items and corporate taxes	5,361,137	4,050,017
Other expense (income)		
Interest expense (note 7)	2,440,831	1,694,699
Interest income	(613,602)	(303,178)
Other income	(148,166)	(143,311)
	1,679,064	1,248,210
Income before income taxes	3,682,074	2,801,807
Provision for (recovery of) income taxes (note 9)		
Current	1,261,945	1,045,000
Future	(85,000)	(120,000)
	1,176,945	925,000
Net income for the year	2,505,128	1,876,807

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CHANGES IN CASH POSITION

For the year ended December 31, 2010

	2010 $	2009 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,505,128	1,876,807
Charges to operations not requiring a current cash payment -		
Amortization	3,325,168	3,222,790
Future income tax recovery	(85,000)	(120,000)
	5,745,296	4,979,597
Change in non-cash working capital items	(1,638,684)	(548,094)
Increase in customer deposits	426,179	8,382
	4,532,792	4,439,885
Investing activities		
Purchase of property, plant and equipment	(5,443,662)	(6,804,755)
Proceeds from disposal of property, plant and equipment	1,064,386	942,093
Decrease (increase) in regulatory assets and liabilities	852,092	(6,016,594)
Advances to related company (note 7)	(22,795,000)	-
	(26,322,185)	(11,879,256)
Financing activities		
Proceeds from long-term debt	-	10,000,000
Repayment of long-term debt	(775,057)	(314,096)
Contributions in aid of construction	1,448,546	900,355
Dividends paid	(1,967,688)	(1,856,728)
	(1,294,199)	8,729,531
Net increase (decrease) in cash and equivalents	(23,083,592)	1,290,160
Cash and equivalents - beginning of year	7,627,379	6,337,220
Cash and equivalents - end of year	(15,456,214)	7,627,379
Cash and Equivalents consist of:		
Cash	7,338,786	7,627,379
Bank indebtedness	(22,795,000)	-
	(15,456,214)	7,627,379

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. NATURE OF OPERATIONS

Peterborough Distribution Inc. is an electricity distribution company, wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough. The company's distribution rates and conditions for providing services are regulated by the Ontario Energy Board.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Revenue Recognition

In accordance with the Ontario Energy Board regulations, the company recognizes as revenue the regulated distribution service charges associated with the distribution of energy.

Revenue is recorded using the accrual basis of accounting, as energy is consumed by customers. Unbilled revenue is the estimated distribution revenue earned but not invoiced to customer between the date the meters were last read and the end of the year.

(b) Accounting for Electricity Regulation

The company accounts for the impact of rate regulation by the Ontario Energy Board (OEB) as follows:

(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 company distribution rates, such occurrences are immediately reflected in the company's accounts.

(ii) Regulatory Accounting Practice

In the absence of a regulatory decision impacting rates, and where the company 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 income 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 4.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Significant estimates and assumptions used in the preparation of the consolidated financial statements include, but are not limited to: estimates of revenue; carrying values of regulatory assets and liabilities; allowance for doubtful accounts; amortization rates and carrying values of property, plant and equipment; income taxes; fair values of financial instruments; and contingencies. Actual results could differ from these estimates.

(d) Inventory

Inventories consist of distribution system maintenance and construction materials and are valued at the lower of moving average cost and replacement cost. Major spare parts and stand-by equipment are recorded in property, plant and equipment

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and purchased services.

The cost and related accumulated amortization for identifiable property, plant and equipment, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Property, plant and equipment which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the company nets the customer contributions against the acquisition cost.

Amortization is provided annually on a basis designed to amortize the assets over their estimated useful lives as follows:

Substations	25 – 40 years straight-line
Overhead lines	20 – 25 years straight-line
Underground lines	20 – 25 years straight-line
Transformers	17 – 25 years straight-line
Meters	17 – 25 years straight-line
Other	4 – 5 years straight-line

(f) Customer deposits

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits. In accordance with the Ontario Energy Board regulation, interest is paid on customer balances at the Bank of Canada prime rate, adjusted quarterly, less 2%.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Corporate taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). The payments in lieu of taxes are calculated on a basis as if the company was a taxable company under the Income Tax Act (Canada).

Corporate taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are measured using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future taxes of a change in tax rates is recognized in income in the year in which the change occurs.

(h) Financial instruments

(i) Comprehensive income

Comprehensive income consists of net income and other comprehensive income (OCI). OCI consists of the changes in the fair value of financial instruments, which have not been included in net income

(ii) Recognition and measurement

Financial assets and liabilities are initially recognized and measured at fair value, except for certain related party transactions and are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale or other liabilities. After initial recognition, financial assets, including derivatives that are assets, are measured at fair values, except for held-to-maturity investments and certain loans and receivables which are measured at amortized cost using the effective interest method. All financial liabilities are measured at amortized cost using the effective interest rate method, except for financial liabilities that are classified as held-for-trading.

A gain or loss on a financial asset or financial liability classified as held-for-trading is recognized in net income for the period in which it arises. A gain or loss on an available-for-sale financial asset is recognized directly in other comprehensive income, a permanent component of shareholder’s equity. For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net income when the financial asset or financial liability is derecognized or impaired and through the amortization process.

(iii) Hedge accounting

Hedge accounting standards establish how and when hedge accounting is used, and in particular, the criteria to be met for the application of hedge accounting. Under hedge accounting, all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. The company presents the earnings and cash flow effects of hedging items with the hedged transaction. Ordinarily, the effective portion of the change in fair value of the cash flow hedging instrument is recorded in OCI and reclassified to earnings when the hedge ceases to be effective

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(i) International Financial Reporting Standards (IFRS)

On February 13, 2008 the AcSB confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010 the AcSB granted an optional one year deferral of IFRS adoption for entities subject to rate regulation. This decision was a result of uncertainty created by the International Accounting Standards Board (IASB) in regard to the rate-regulated project which is assessing the potential impact of regulatory assets and liabilities under IFRS.

Given these recent developments and due to uncertainty around timing, scope and final adoption of rate-regulated accounting (RRA) standard under IFRS, the company has decided to elect the one year deferral.

The company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information

(j) Other Accounting Changes

Other accounting changes apply to fiscal years commencing on or after January 1, 2011. The company expects that the application of these standards will not have a material impact on these financial statements.

(i) Financial Instruments – Recognition and Measurement

Section 3855, “Financial Instruments – Recognition and Measurement”, has been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This Section has also been amended to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes.

(ii) Comprehensive Revaluation of Assets and Liabilities

Section 1625, “Comprehensive Revaluation of Assets and Liabilities” was amended to be consistent with Section 1582, “Business Combinations”.

(iii) Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements“, and Section 1602, “Non-Controlling Interests” were amended.

Under Section 1582, “Business Combinations”, identifiable assets and liabilities are measured at fair value and non-controlling interest is measured at fair value or the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Section 1601, “Consolidated Financial Statements” was amended carrying forward existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition.

Section 1602, “Non-Controlling Interests”, provides guidance on accounting for non-controlling interests subsequent to a business combination. The new standard requires that the non-controlling interests in subsidiaries are presented in the consolidated balance sheet within equity, separate from the parent shareholders equity. Non-controlling interests are not deducted in arriving at consolidated net income, but net income and each component of other comprehensive income are allocated to the controlling interest and non-controlling interests according to percentage ownership.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost $	Accumulated amortization $	2010 Net book value $	2009 Net book value $
Land	134,968	-	134,968	134,968
Buildings	411,558	63,437	348,121	243,079
Substations	2,201,004	721,322	1,479,682	1,419,382
Overhead lines	30,644,182	11,854,904	18,789,278	18,187,882
Underground lines	21,279,396	7,959,092	13,320,304	12,714,403
Transformers	15,973,853	6,696,514	9,277,339	8,659,899
Meters	1,786,280	628,995	1,157,285	2,138,180
Other	1,773,350	1,695,186	78,164	112,483
Construction in process	3,420,793	-	3,420,793	4,790,095
	77,625,384	29,619,450	48,005,934	48,400,371

4. REGULATORY ASSETS AND LIABILITIES

The company has recorded the following regulatory assets and liabilities:

Regulatory Assets	2010 $	2009 $
Retail settlement variance	-	1,791,588
Smart Meter variance	7,431,986	6,042,872
Other	146,172	93,095
Regulatory assets approved for recovery	296,202	(48,785)
	7,874,360	7,878,770

4. REGULATORY ASSETS AND LIABILITES, continued

Regulatory Liabilities	2010 $	2009 $
Retail settlement variance	913,902	-
Due to Hydro One	-	66,220
	931,902	66,220

Retail settlement variance accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes, the timing of which have yet to be determined. It is fully expected that the approved disposition of any asset or liability accumulated at that time will be through the adjustment of future rates. In the absence of rate regulation supporting the accumulation of these amounts, the company would expense the amounts outstanding resulting in incremental net income of approximately $1,158,000 (2009 – reduction of $527,000), and a cumulative reduction to retained earnings of $37,000 (2009 - $1,195,000).

The Smart Meter variance account includes authorized expenditures on the Smart Meter program in the aggregate amount of $6,341,213 (2009 - $5,603,732), which has been partially funded and offset by approved interim rate recoveries in the amount of $914,705 (2009 - $502,953). During the year, older meter assets that had been replaced with Smart Meters and having a carrying value of $1,064,386 (cumulative - $2,006,478) were transferred to regulatory assets, for disposition in future rate setting processes. It is fully expected these amounts will be approved and recoverable in future rate setting processes.

In the absence of rate regulation supporting the accumulation of these amounts, the company would capitalize smart meter expenditures as equipment and the current year net income would be reduced by $842,374 for additional amortization of $495,451 (2009 - $273,094), revenue received from the rate adder of $411,750 (2009 - $231,592), incremental operating costs of $90,698 (2009 - $81,649) and for the writedown of $1,064,386 for the meter assets no longer in service (2009 - $942,092).

The liability due to Hydro One at December 31, 2009 represented the remaining balance of the company’s share of regulatory asset recovery by Hydro One charged to the local distribution companies in Ontario. The amount was paid in 2010.

5. BANK INDEBTEDNESS

(a) Committed Bank Credit Facility

During the year, the company arranged a $27,900,000 committed bank credit facility. Under the terms of the facility the company may make multiple draws by way of Prime rate based loans or Bankers’ Acceptances.

As at December 31, 2010 $22,795,000 (2009 – nil) of Bankers’ Acceptances have been utilized with $8,000,000 due January 12, 2011, $6,795,000 due January 21, 2011 and $8,000,000 due February 1, 2011. The amounts bear interest at an average rate of 2.10%. Subsequent to December 31, 2010, the company repaid $8,000,000 of the outstanding credit amount.

5. BANK INDEBTEDNESS, continued

(b) Letters of Credit

The company has posted $6,563,922 in stand-by letters of credit with the Electricity System Operator, as required by regulation. The company has also arranged a $4,000,000 Euro denominated letter of credit with the bank. As at December 31, 2010, $3,782,000 (2009 – nil) was utilized.

The bank indebtedness is secured as more fully described in note 6 to these financial statements.

6. LONG-TERM DEBT

Long-term debt consists of committed variable bank term loans in the amount of $15,510,847 (2009 - $16,285,904). The company has entered into receive-variable/pay-fixed interest rate swap agreements whereby the company cash flow hedged the variable interest rate loan commitment for the bank loans.

For both the bank indebtedness (note 5) and long-term debt, the company has provided a general security agreement covering all company assets, and a subordination of the general security agreement previously provided to the Corporation of the City of Peterborough (note 7).

	2010 $	2009 $
Bank debt, bearing interest at 4.55% per annum payable in blended monthly payments of principal and interest of $50,658, due December 24, 2018	5,957,214	6,285,904
Bank debt, bearing interest at 5.36% per annum payable in blended monthly payments of principal and interest of $80,967, due December 22, 2019	9,553,633	10,000,000
	15,510,847	16,285,904
Less: principal payments due within one year	814,959	775,161
	14,695,888	15,510,743

The aggregate amount of principal payments required is as follows:

	$
2011	814,959
2012	856,815
2013	900,835
2014	947,128
2015	995,822
Thereafter	10,995,288
	15,510,847

7. RELATED PARTY

(a) Due To Related Parties

	2010 $	2009 $
Demand loan from City of Peterborough Holdings Inc., bearing interest at 6.25% (2009 - 6.15%), per annum	21,657,680	21,657,680
Demand loan from the Corporation of the City of Peterborough, bearing interest at the bank Prime rate less 1.25%	1,500,000	1,500,000
	23,157,680	23,157,680

The demand loans are without specified maturity dates or repayment terms, and are secured by a general security agreement in favour of the Corporation of the City of Peterborough. The company does not expect repayment of the loans in fiscal 2011. The security has been subordinated to the security for the company's bank indebtedness (note 5) and long-term debt (note 6).

Included in interest expense is interest on the demand loans for the year ended December 31, 2010 in the amount of $1,373,660 (2009 - $1,349,752).

(b) Due From Related Party

As at December 31, 2010 the company has an outstanding loan from Peterborough Utilities Inc, (PUI) in the amount of $22,795,000, (2009 – nil). During the year, the company charged PUI interest in the amount of $190,702. The company and PUI are related by virtue of common ownership by the City of Peterborough Holdings Inc.

8. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	2010 $	2009 $
1,000 common shares	21,657,680	21,657,680

9. INCOME TAXES

(a) The tax effects of the temporary differences that give rise to the future income tax assets are as follows:

	2010 $	2009 $
Future income tax asset		
Tax basis of equipment in excess of carrying amount	1,930,000	1,845,000

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 31% (2009 – 33%) to the income for the years as follows.

	2010 $	2009 $
Income for the year before income taxes	3,682,074	2,801,807
Anticipated income tax expense	1,094,250	924,596
Impact of tax rate changes and other	82,695	404
Provision for income taxes	1,176,945	925,000

10. SUPPLEMENTARY CASH FLOW INFORMATION

	2010 $	2009 $
Interest paid	2,440,831	1,694,699
Income taxes paid	1,115,000	850,000

11. OTHER SERVICES

	2010 $	2009 $
Customer fees	481,605	488,387
Occupancy charges	189,600	176,347
Building and pole rentals	204,294	216,325
Miscellaneous	38,756	66,800
	917,255	947,859

12. RELATED PARTY TRANSACTIONS

The company provides electricity and services to the shareholder of its parent, the City of Peterborough and to affiliate companies. Electrical energy is sold to these parties at the same prices and terms as other electricity customers.

The company is also engaged in transactions in the normal course of operations with affiliated companies and the Peterborough Utilities Commission. The parties are related by virtue of common control.

Details of related party transactions are as follows:

	2010 $	2009 $
Revenue		
Rental revenue	13,342	12,153
Interest revenue	223,365	-
	236,707	12,153
Expenses		
Professional services	3,145,754	3,901,373
Operating costs	2,025,242	1,586,775
Building rent	503,276	514,062
	5,674,272	6,002,210
Other – Capital expenditures	2,246,230	2,214,694

13. CAPITAL DISCLOSURES

The company's primary objective when managing capital is to address the expectations as outlined in the Unanimous Shareholder Declaration between the company's parent company, the City of Peterborough Holdings Inc., and its shareholder, the Corporation of the City of Peterborough. The expectation is that the company will maintain a prudent financial and capitalization structure consistent with industry norms and on the basis that it is intended to be a self-financed entity.

The industry norm for capital structure, as supported by the Ontario Energy Board as regulator, suggests that companies operating in the distribution industry would have capital comprised of 60% debt and 40% equity. The company is targeting to attain that structure, to the extent possible, in future years. The company's current capital structure is defined as follows:

	2010 $	2009 $
Debt		
Long-term debt	15,510,847	16,285,904
Due to related parties (note 7)	23,157,680	23,157,680
	38,668,527	39,443,584

13. CAPITAL DISCLOSURES, continued

	2010 $	2009 $
Equity		
Share capital	21,657,680	21,657,680
Retained earnings	6,625,384	6,087,943
	28,283,064	27,745,623

The bank indebtedness (note 5) which has been principally used to finance short-term related party advances (note 7(b)) are not considered part of the company's permanent capital structure.

Changes to the company's capital structure are constrained by an existing lending agreement provision that limits the amount of dividend distributions and the repayment of related party debt subject to certain cash flow tests. Additionally the agreements provide for a restriction on the incurrence of new debt or the posting of security without prior lender consent. The company has complied with these requirements during the year.

14. FINANCIAL INSTRUMENTS

As a rate regulated entity, the company's operations and risks are also substantially influenced by regulation, limiting the necessity to actively engage in derivative financial products.

(a) Measurement

The following classes of financial assets and liabilities are recorded:

Current assets and liabilities

Cash and equivalents are classified as assets held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. The carrying value of the accounts receivable, accounts payable and accruals and short term debt approximates their fair value due to their short-term nature.

Due to related party

Demand loans due to related parties (note 7) in the aggregate amount of $23,157,680, which originated on the establishment of the company and from purchases of Asphodel Norwood Distribution Inc. and Lakefield Distribution Inc., were originally recorded at the exchange amount and have been classified as other financial liabilities. In applying the effective interest rate method, the fair value of that instrument does not differ from its carrying value.

14. FINANCIAL INSTRUMENTS, continued

(b) Credit risk

By regulation, in addition to the distribution service charges that the company earns, the customers' electricity bills include, transmission charges, non-competitive energy charges, debt retirement and electricity commodity charges. The company acts as an agent for billing and collecting these charges on behalf of other market participants and under regulation the company bears the risk of non-collection of these amounts.

To mitigate credit risk the company is permitted to request certain customers to provide security deposits for a prescribed period. Furthermore, relief from substantial or catastrophic collection loss relief may be afforded by applying for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator.

The company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. The allowance for collection of doubtful accounts included in accounts receivable is in the amount of $272,000 (2009 - $311,359).

(c) Interest rate risk

The company is not exposed to any significant interest rate risk. As more fully described in note 6 to the financial statements the company has entered into interest rate swap arrangements which are being used to manage the impact of fluctuating interest rates on existing debt. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. The swap instruments are not recognized on the balance sheet.

(d) Foreign currency risk

The company conducts the majority of its business without significant exposure to foreign currency.

(e) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they occur. Subsequent to December 31, 2010 the company repaid $8,000,000 of its outstanding bank indebtedness and has additional unutilized existing debt capacity, and sufficient cash flow to address existing debt obligations.

15. CONTINGENCIES

(a) The company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual loses, claims and costs experienced.

PETERBOROUGH DISTRIBUTION INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

15. CONTINGENCIES, continued

(b) Griffith et al. v. Toronto Hydro-Electric Commission et al.

By order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of two class actions. The July 22, 2010 court order formalized a settlement to which the defendant LDC's will pay the amount of $17,000,000 plus costs and taxes in the settlement of all claims. The amount allocated to each LDC is its proportionate share of the settlement based on its percentage of distribution service revenue over the period for which it has exposure for repayment of the late payment penalties. The company's share of the settlement is $110,278, payable on June 30, 2011.

On February 22, 2011 the Ontario Energy Board issued its Decision on this matter confirming that the defendant LDC's could recover the settlement amounts through future distribution rates. As the settlement amount will become recoverable in the upcoming fiscal year, the company has not reflected either the liability or the corresponding regulatory asset.

(c) The company assets are pledged as security and the company has provided an unlimited guarantee to support the indebtedness of the company's parent company, City of Peterborough Holdings Inc., to its shareholder, the Corporation of the City of Peterborough.

FINANCIAL STATEMENTS OF

PETERBOROUGH DISTRIBUTION INC.

December 31, 2011

TABLE OF CONTENTS

Collins Barrow
Chartered Accountants

Collins Barrow Kawarthas LLP
272 Charlotte Street
Peterborough, Ontario
K9J 2V4

T. 705.742.3418
F. 705.742.9775

www.collinsbarrowkawarthas.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Peterborough Distribution Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Peterborough Distribution Inc., which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statements of retained earnings, income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company'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 company's internal controls. 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 Peterborough Distribution Inc. as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
March 15, 2012

PETERBOROUGH DISTRIBUTION INC.
BALANCE SHEET
As at December 31, 2011

	2011 $	2010 $
ASSETS		
Current assets		
Cash and equivalents	5,343,222	7,338,786
Accounts receivable	13,851,707	13,673,951
Due from related party (note 7)	11,795,000	22,795,000
Inventories	1,361,916	1,209,115
Prepaid expenses	121,213	162,961
	32,473,058	45,179,813
Other assets		
Property, plant and equipment (note 3)	49,373,941	48,005,934
Regulatory assets (note 4)	7,308,411	7,874,360
Future income taxes (note 9)	1,810,000	1,930,000
	58,492,352	57,810,294
	90,965,410	102,990,107

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
BALANCE SHEET
As at December 31, 2011

	2011 $	2010 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Bank indebtedness (note 5)	11,795,000	22,795,000
Accounts payable and accrued liabilities	11,017,179	9,930,278
Income taxes payable	107,099	108,052
Customer deposits refundable within one year	703,000	1,600,000
Current portion of long-term debt (note 6)	856,815	814,959
	24,479,093	35,248,289
Long-term liabilities		
Customer deposits	931,812	691,284
Regulatory liabilities (note 4)	85,265	913,902
Long-term debt (note 6)	13,839,073	14,695,888
Due to related parties (note 7)	23,157,680	23,157,680
	38,013,830	39,458,754
Shareholder's equity		
Share capital (note 8)	21,657,680	21,657,680
Retained earnings	6,814,807	6,625,384
	28,472,487	28,283,064
	90,965,410	102,990,107

Approved on behalf of the Board

Director Director

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 2011

	2011 $	2010 $
Retained earnings - beginning of year	6,625,384	6,087,944
Net income for the year	1,830,423	2,505,128
Dividends paid	(1,641,000)	(1,967,688)
Retained earnings - end of year	6,814,807	6,625,384

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
INCOME STATEMENT
For the year ended December 31, 2011

	2011 $	2010 $
Revenue		
Power recovery	68,935,891	64,275,503
Distribution	14,090,895	14,109,729
Other (note 11)	831,628	917,255
	83,858,414	79,302,487
Expenses		
Purchased power	68,935,891	64,275,503
Operations and administration	6,990,106	6,340,679
Amortization	3,424,461	3,325,168
	79,350,458	73,941,350
Income before the undernoted items and corporate taxes	4,507,956	5,361,137
Other expense (income)		
Interest expense (note 7)	2,558,345	2,440,832
Interest income	(711,220)	(613,602)
Other income	(44,978)	(148,166)
	1,802,147	1,679,064
Income before income taxes	2,705,809	3,682,073
Provision for (recovery of) income taxes (note 9)		
Current	755,386	1,261,945
Future	120,000	(85,000)
	875,386	1,176,945
Net income for the year	1,830,423	2,505,128

The accompanying notes are an integral part of these financial statements

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CHANGES IN CASH POSITION
For the year ended December 31, 2011

	2011 $	2010 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	1,830,423	2,505,128
Charges to operations not requiring a current cash payment -		
Amortization	3,424,461	3,325,168
Future income tax recovery	120,000	(85,000)
	5,374,884	5,745,296
Change in non-cash working capital items	797,140	(1,638,685)
Increase in customer deposits	(656,473)	426,179
	5,515,551	4,532,790
Investing activities		
Purchase of property, plant and equipment	(6,203,278)	(5,443,662)
Proceeds from disposal of property, plant and equipment	-	1,064,386
Decrease (increase) in regulatory assets and liabilities	(262,688)	852,092
Decrease (increase) in advances to related party (note 7)	11,000,000	(22,795,000)
	4,534,034	(26,322,184)
Financing activities		
Repayment of long-term debt	(814,959)	(775,057)
Contributions in aid of construction	1,410,810	1,448,546
Dividends paid	(1,641,000)	(1,967,688)
	(1,045,149)	(1,294,199)
Net increase (decrease) in cash and equivalents	9,004,436	(23,083,593)
Cash and equivalents - beginning of year	(15,456,214)	7,627,379
Cash and equivalents - end of year	(6,451,778)	(15,456,214)
Cash and equivalents consist of:		
Cash	5,343,222	7,338,786
Bank indebtedness	(11,795,000)	(22,795,000)
	(6,451,778)	(15,456,214)

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Peterborough Distribution Inc. is an electricity distribution company, wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough. The company's distribution rates and conditions for providing services are regulated by the Ontario Energy Board.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Revenue Recognition

In accordance with the Ontario Energy Board regulations, the company recognizes as revenue the regulated distribution service charges associated with the distribution of energy.

Revenue is recorded using the accrual basis of accounting, as energy is consumed by customers. Unbilled revenue is the estimated distribution revenue earned but not invoiced to customers between the date the meters were last read and the end of the year.

(b) Accounting for Electricity Regulation

The company accounts for the impact of rate regulation by the Ontario Energy Board (OEB) as follows:

(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 company distribution rates, such occurrences are immediately reflected in the company's accounts.

(ii) Regulatory Accounting Practice

In the absence of a regulatory decision impacting rates, and where the company 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 income 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 4.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Significant estimates and assumptions used in the preparation of the consolidated financial statements include, but are not limited to: estimates of revenue; carrying values of regulatory assets and liabilities; allowance for doubtful accounts; amortization rates and carrying values of property, plant and equipment; income taxes; fair values of financial instruments; and contingencies. Actual results could differ from these estimates.

(d) Inventory

Inventories consist of distribution system maintenance and construction materials and are valued at the lower of moving average cost and replacement cost. Major spare parts and stand-by equipment are recorded in property, plant and equipment.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and purchased services.

The cost and related accumulated amortization for identifiable property, plant and equipment, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Property, plant and equipment which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the company nets the customer contributions against the acquisition cost.

Amortization is provided annually on a basis designed to amortize the assets over their estimated useful lives as follows:

Substations	25 – 50 years straight-line
Overhead lines	20 – 25 years straight-line
Underground lines	20 – 25 years straight-line
Transformers	17 – 25 years straight-line
Meters	17 – 25 years straight-line
Other	4 – 5 years straight-line

(f) Customer deposits

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits. In accordance with the Ontario Energy Board regulation, interest is paid on customer balances at the Bank of Canada prime rate, adjusted quarterly, less 2%.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Corporate taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). The payments in lieu of taxes are calculated on a basis as if the company was a taxable company under the Income Tax Act (Canada).

Corporate taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are measured using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future taxes of a change in tax rates is recognized in income in the year in which the change occurs.

(h) Financial instruments

(i) Comprehensive income

Comprehensive income consists of net income and other comprehensive income (OCI). OCI consists of the changes in the fair value of financial instruments, which have not been included in net income.

(ii) Recognition and measurement

Financial assets and liabilities are initially recognized and measured at fair value, except for certain related party transactions and are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale or other liabilities. After initial recognition, financial assets, including derivatives that are assets, are measured at fair values, except for held-to-maturity investments and certain loans and receivables which are measured at amortized cost using the effective interest method. All financial liabilities are measured at amortized cost using the effective interest rate method, except for financial liabilities that are classified as held-for-trading.

A gain or loss on a financial asset or financial liability classified as held-for-trading is recognized in net income for the period in which it arises. A gain or loss on an available-for-sale financial asset is recognized directly in other comprehensive income, a permanent component of shareholder's equity. For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net income when the financial asset or financial liability is derecognized or impaired and through the amortization process.

(iii) Hedge accounting

Hedge accounting standards establish how and when hedge accounting is used, and in particular, the criteria to be met for the application of hedge accounting. Under hedge accounting, all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. The company presents the earnings and cash flow effects of hedging items with the hedged transaction. Ordinarily, the effective portion of the change in fair value of the cash flow hedging instrument is recorded in OCI and reclassified to earnings when the hedge ceases to be effective.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(i) International Financial Reporting Standards (IFRS)

On February 13, 2008 the AcSB confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010 the AcSB granted an optional one year deferral of IFRS adoption for entities subject to rate regulation, the company has elected the one year deferral and will commence reporting under IFRS January 1, 2012.

The company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information. The impact of new IFRS standards and interpretations not yet effective has also not been assessed.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost $	Accumulated amortization $	2011 Net book value $	2010 Net book value $
Land	134,968	-	134,968	134,968
Buildings	444,814	74,207	370,607	348,121
Substations	2,211,324	802,975	1,408,349	1,479,682
Overhead lines	33,133,470	13,326,711	19,806,759	18,789,278
Underground lines	22,371,284	8,963,844	13,407,440	13,320,304
Transformers	16,768,198	7,449,417	9,318,781	9,277,339
Meters	2,163,815	715,645	1,448,170	1,157,285
Other	1,773,350	1,711,112	62,238	78,164
Construction in process	3,416,629	-	3,416,629	3,420,793
	82,417,852	33,043,911	49,373,941	48,005,934

4. REGULATORY ASSETS AND LIABILITIES

The company has recorded the following regulatory assets and liabilities:

Regulatory Assets

	2011 $	2010 $
Smart Meter variance	7,215,646	7,431,986
Other	-	146,172
Regulatory assets approved for recovery	92,765	296,202
	7,308,411	7,874,360

4. REGULATORY ASSETS AND LIABILITES, continued

Regulatory Liabilities

	2011 $	2010 $
Retail settlement variance	39,868	913,902
Other	45,397	-
	85,265	913,902

Retail settlement variance accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes, the timing of which have yet to be determined. It is fully expected that the approved disposition of any asset or liability accumulated at that time will be through the adjustment of future rates. In the absence of rate regulation supporting the accumulation of these amounts, the company would expense the amounts outstanding resulting in a reduction of net income of approximately $482,000 (2010 – net income increase of $1,158,000), and a cumulative reduction to retained earnings of $519,000 (2010 - $37,000).

The Smart Meter variance account includes authorized expenditures on the Smart Meter program in the aggregate amount of $6,543,489 (2010 - $6,340,213), which has been partially funded and offset by approved interim rate recoveries in the amount of $1,334,322 (2010 - $914,705). During the year, older meter assets that had been replaced with Smart Meters and having a carrying value of $0 (cumulative - $2,006,478) were transferred to regulatory assets, for disposition in future rate setting processes. It is fully expected these amounts will be approved and recoverable in future rate setting processes.

In the absence of rate regulation supporting the accumulation of these amounts, the company would capitalize smart meter expenditures as equipment and the current year net income would be increased by $4,542 for additional amortization of $413,288 (2010 - $495,451), revenue received from the rate adder of $419,617 (2019 - $411,750), incremental operating costs of $0 (2010 - $90,698) and for the write-down of $0 for the meter assets no longer in service (2010 - $1,064,386).

5. BANK INDEBTEDNESS

a) Committed Bank Credit Facility

The company has a $27,900,000 committed bank credit facility. Under the terms of the facility the company may make multiple draws by way of prime rate based loans or Bankers' Acceptances.

As at December 31, 2011 $11,795,000 (2010 – $22,795,000) of Bankers' Acceptances have been utilized with $11,795,000 due January 23, 2012. The amounts bear interest at an average rate of 2.00% (2010 – 2.10%).

5. BANK INDEBTEDNESS, continued

b) Letters of Credit

The company has posted $6,563,922 in stand-by letters of credit with the Electricity System Operator, as required by regulation. In 2010 the company had also arranged a $4,000,000 Euro denominated letter of credit (“LOC”) with the bank. As at December 31, 2011 the LOC has been discharged (2010 – $3,782,000).

The bank indebtedness is secured as described in note 6 to these financial statements.

6. LONG-TERM DEBT

Long-term debt consists of committed bank term loans in the amount of $14,695,888 (2010 - $15,510,847). The company has entered into receive-variable/pay-fixed interest rate swap agreements whereby the company cash flow hedged the variable interest rate loan commitment for the bank loans.

For both the bank indebtedness (note 5) and long-term debt, the company has provided a general security agreement covering all company assets, and a subordination of the general security agreement previously provided to the Corporation of the City of Peterborough (note 7).

	2011 $	2010 $
Bank debt, bearing interest at 4.55% per annum payable in blended monthly payments of principal and interest of $50,658, due December 24, 2018	5,613,253	5,957,214
Bank debt, bearing interest at 5.36% per annum payable in blended monthly payments of principal and interest of $80,967, due December 22, 2019	9,082,635	9,553,633
	14,695,888	15,510,847
Less: principal payments due within one year	856,815	814,959
	13,839,073	14,695,888

The aggregate amount of principal payments required is as follows:

	$
2012	856,815
2013	900,835
2014	947,128
2015	995,822
2016	1,047,034
Thereafter	9,948,254
	14,695,888

7. RELATED PARTIES

a) Due To Related Parties

	2011 $	2010 $
Demand loan from City of Peterborough Holdings Inc., bearing interest at 6.25% (2010 - 6.25%), per annum	21,657,680	21,657,680
Demand loan from the Corporation of the City of Peterborough, bearing interest at bank Prime less 1.25%	1,500,000	1,500,000
	23,157,680	23,157,680

The demand loans are without specified maturity dates or repayment terms, and are secured by a general security agreement in favour of the Corporation of the City of Peterborough. The company does not expect repayment of the loans in fiscal 2012. The security has been subordinated to the security for the company's bank indebtedness (note 5) and long-term debt (note 6).

Included in interest expense is interest on the demand loans for the year ended December 31, 2011 in the amount of $1,379,855 (2010 - $1,373,660).

(b) Due From Related Party

As at December 31, 2011 the company has an outstanding loan from Peterborough Utilities Inc, (PUI) in the amount of $11,795,000, (2010 – $22,795,000). Included in interest revenue is interest earned from PUI for the year ended December 31, 2011 of $308,369 (2010 - $190,702). The company and PUI are related by virtue of common ownership by the City of Peterborough Holdings Inc.

8. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	2011 $	2010 $
1,000 common shares	21,657,680	21,657,680

9. INCOME TAXES

(a) The tax effects of the temporary differences that give rise to the future income tax assets are as follows:

	2011 $	2010 $
Future income tax asset		
Tax basis of equipment in excess of carrying amount	1,810,000	1,930,000

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 28% (2010 – 31%) to the income for the years as follows.

	2011 $	2010 $
Income for the year before income taxes	2,705,809	3,682,073
Anticipated income tax expense	764,391	1,094,250
Impact of tax rate changes and other	110,995	82,695
Provision for income taxes	875,386	1,176,945

10. SUPPLEMENTARY CASH FLOW INFORMATION

	2011 $	2010 $
Interest paid	2,558,345	2,440,832
Income taxes paid	642,000	1,115,000

11. OTHER SERVICES

	2011 $	2010 $
Customer fees	385,947	481,605
Occupancy charges	179,250	189,600
Building and pole rentals	210,681	204,294
Miscellaneous	55,750	41,756
	831,628	917,255

12. RELATED PARTY TRANSACTIONS

The company provides electricity and services to the shareholder of its parent, the City of Peterborough and to affiliate companies. Electrical energy is sold to these parties at the same prices and terms as other electricity customers.

The company is also engaged in transactions in the normal course of operations with affiliated companies and the Peterborough Utilities Commission. The parties are related by virtue of common control.

Details of related party transactions are as follows:

	2011 $	2010 $
Revenue		
Rental revenue	12,800	13,342
Interest revenue	308,369	223,365
	321,169	236,707
Expenses		
Professional services	3,239,531	3,145,754
Operating costs	2,287,642	2,025,242
Building rent	513,860	503,276
	6,041,033	5,674,272,
Other – Capital expenditures	2,055,988	2,246,230

13. CAPITAL DISCLOSURES

The company's primary objective when managing capital is to address the expectations as outlined in the Unanimous Shareholder Declaration between the company's parent company, the City of Peterborough Holdings Inc., and its shareholder, the Corporation of the City of Peterborough. The expectation is that the company will maintain a prudent financial and capitalization structure consistent with industry norms and on the basis that it is intended to be a self-financed entity.

The industry norm for capital structure, as supported by the Ontario Energy Board as regulator, suggests that companies operating in the distribution industry would have capital comprised of 60% debt and 40% equity. The company is targeting to attain that structure, to the extent possible, in future years. The company's current capital structure is defined as follows:

	2011 $	2010 $
Debt		
Long-term debt	14,695,888	15,510,847
Due to related parties (note 7)	23,157,680	23,157,680
	37,853,568	38,668,527

13. CAPITAL DISCLOSURES, continued

	2011 $	2010 $
Equity		
Share capital	21,657,680	21,657,680
Retained earnings	6,814,807	6,625,384
	28,472,487	28,283,064

The bank indebtedness (note 5) which has been principally used to finance short-term related party advances (note 7(b)) are not considered part of the company's permanent capital structure.

Changes to the company's capital structure are constrained by an existing lending agreement provision that limits the amount of dividend distributions and the repayment of related party debt subject to certain cash flow tests. Additionally the agreements provide for a restriction on the incurrence of new debt or the posting of security without prior lender consent. The company has complied with these requirements during the year.

14. FINANCIAL INSTRUMENTS

As a rate regulated entity, the company's operations and risks are also substantially influenced by regulation, limiting the necessity to actively engage in derivative financial products.

(a) Measurement

The following classes of financial assets and liabilities are recorded:

Financial assets and liabilities

Cash and equivalents are classified as assets held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. The carrying value of the accounts receivable, accounts payable and accruals and short term debt approximates their fair value due to their short-term nature.

Due to related parties

Demand loans due to related parties (note 7) in the aggregate amount of $23,157,680, which originated on the establishment of the company and from purchases of Asphodel Norwood Distribution Inc. and Lakefield Distribution Inc., were originally recorded at the exchange amount and have been classified as other financial liabilities. In applying the effective interest rate method, the fair value of that instrument does not differ from its carrying value.

14. FINANCIAL INSTRUMENTS, continued

(b) Credit risk

By regulation, in addition to the distribution service charges that the company earns, the customers' electricity bills include, transmission charges, non-competitive energy charges, debt retirement and electricity commodity charges. The company acts as an agent for billing and collecting these charges on behalf of other market participants and under regulation the company bears the risk of non-collection of these amounts.

To mitigate credit risk the company is permitted to request certain customers to provide security deposits for a prescribed period. Furthermore, relief from substantial or catastrophic collection loss relief may be afforded by applying for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator.

The company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. The allowance for collection of doubtful accounts included in accounts receivable is in the amount of $328,000 (2010 - $272,000).

(c) Interest rate risk

The company is not exposed to any significant interest rate risk. As more fully described in note 6 to the financial statements the company has entered into interest rate swap arrangements which are being used to manage the impact of fluctuating interest rates on existing debt. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. The swap instruments are not recognized on the balance sheet.

(d) Foreign currency risk

The company conducts the majority of its business without significant exposure to foreign currency.

(e) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they occur. At the present time the liquidity risk of the company is low as it has unutilized existing debt capacity, additional room within its capital structure to obtain additional financing as required, and sufficient cash flow to address existing debt obligations.

15. CONTINGENCIES

a) The company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual loses, claims and costs experienced.

15. CONTINGENCIES, continued

(b) The company assets are pledged as security and the company has provided an unlimited guarantee to support the indebtedness of the company's parent company, City of Peterborough Holdings Inc., to its shareholder, the Corporation of the City of Peterborough.

Appendix B

2011 Annual Report - Parent Company

This page is blank intentionally.

City of Peterborough Holdings Inc.

2011 Annual Report

June 25, 2012

Report to the Peterborough Community

On behalf of all Peterborough Utilities Group ("PUG") employees and its Board of Directors, we are pleased to present the fiscal 2011 Annual Report to the City of Peterborough community.

Fiscal 2011 was a year of strong performance in a climate of significant change and challenge. Reported net earnings of $6.30 million are 18% higher than the prior year, as a result of continued growth and investment in the electricity generation business. Distributions to the City of Peterborough continued to increase with total distributions to the City of $5.04 million, representing a 9% increase over the prior year, after previous years of successive planned distribution increases of 3%.

The past year saw significant change for the Ontario electricity industry. Slow economic growth coupled with a Provincial Government mandate to reduce reliance on coal fired generation while developing cleaner renewable energy sources, has put increasing pressure on electricity rates in the Province. With future electricity prices projected to increase, the Provincial Government has recently announced substantial changes to energy policy impacting both renewable generation development and the future of the electricity distribution sector, both of which will have considerable impact on the PUG electricity businesses. A review of distribution sector efficiency will be completed within the year and it is expected that its recommendations will prompt consolidation and change in the distribution sector.

While approximately 23% of the total electricity bill is controlled by PUG, we are sensitive to all rate impacts for our customers. Local businesses and consumers in the community can take comfort that their rates are subject to Ontario Energy Board ("OEB") review and regulation and that PUG continues to take further measures to ensure that its rates are some of the lowest in the region. We are pleased to report that PUG's average electricity distribution rates rank third lowest compared to utilities in the region.

In addition to the regulated business, PUG's development of renewable generation has grown both capital assets and net earnings by 51% and 74%, respectively over the last 5 years. Growth in this business provides sustaining value through assets that will benefit the community for generations to come. These investments also continue to build the company's ability to deliver continued growth in financial returns to the Peterborough community, without impact to local distribution rates paid by its customers.

A large component of the PUG business provides services to the Peterborough Utilities Commission through the dedicated work of employees in the water business and at the Riverview Park and Zoo. In fiscal 2011, the group continued to meet its financial and operational targets while making substantial progress in the water meter implementation program, which will advance water conservation programs for years to come.

PUG remains committed to providing a safe workplace for its employees. In February 2012 the group was recognized for achieving 6 years (1.75 million hours) with no lost time injuries.

Notwithstanding this past year of change, and challenges on the horizon, PUG continues to provide significant support to the Peterborough community:

- *Over the past five years PUG has increased annual City distributions by 19% or approximately $815,000. PUG's annual dividends to earnings rank the third highest in a sample of 28 Ontario utilities;*

- *PUG's Electricity Distribution rates rank as one of the lowest in the region and to comparable utilities in Ontario;*

- *PUG's ongoing commitment to the community continues by providing strong financial contribution and assistance to those having difficulty in addressing their energy costs;*

- *PUG is committed to delivering tools and programs to assist all consumers in conserving electricity through the delivery of Conservation and Demand Management programs;*

- *PUG employees are committed to excellence to the community, and personal and public safety; and*

- *PUG's Board of Directors are committed to governance standards that are best in practice.*

PUG's future is bright and is driven by the hard work and commitment of all of its employees, the Board of Directors and the support of its customers and the community.

David Nichols
Chair of the Board
City of Peterborough Holdings Inc.

John Stephenson
President & CEO
Peterborough Utilities Group

Peterborough Utilities Group

Overview

The City of Peterborough Holdings Inc. (CoPHI), operating as the Peterborough Utilities Group is wholly owned by the Corporation of the City of Peterborough.

CoPHI is comprised of three wholly owned subsidiaries, Peterborough Distribution Inc. (PDI), Peterborough Utilities Inc. (PUI) and Peterborough Utilities Services Inc. (PUSI).

COPHI's revenues are derived from both inside and outside of the Municipality of Peterborough from both regulated and unregulated activities.

As a result of CoPHI's strategic direction, there is expected to be a steady increase in revenues derived from outside the municipal boundaries.

In pursuit of this strategic objective CoPHI has recently made significant progress. In 2011 48.4% of CoPHI's net income was derived from outside of the Municipality, up from 5.6% in 2007. This trend is expected to continue.

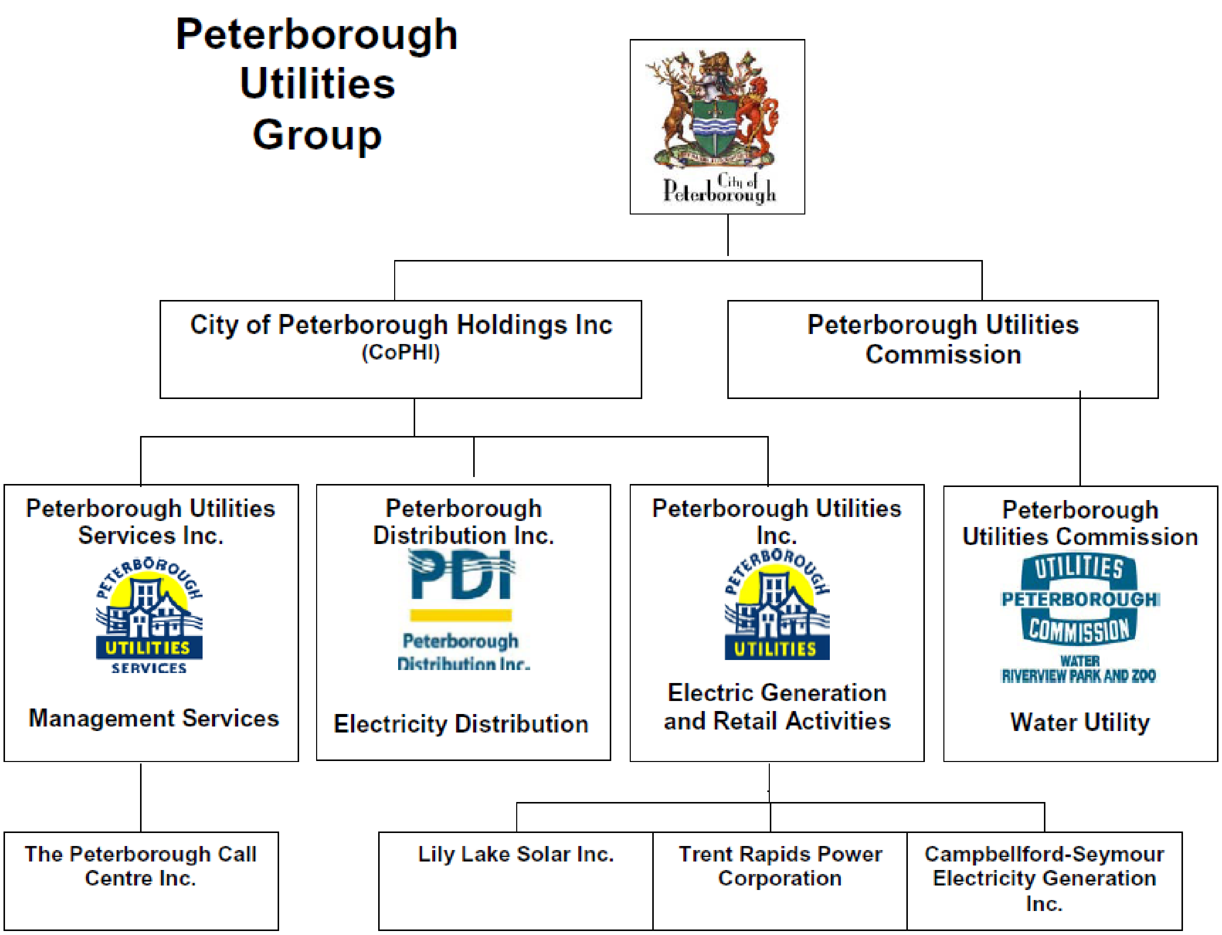
Our Business

Through these subsidiaries CoPHI provides the following services;

- PDI – distributes electricity in Peterborough, Lakefield and Norwood. The business is regulated by the OEB which has broad powers relating to licensing, standards of conduct and services and the regulation of rates.

- PUI – operates electricity generation, rental equipment and provides MDMA/MSP Metering services to PDI and other third parties.

- PUSI – provides professional human resources, office facilities, and equipment to affiliated companies and other third parties involved in municipal government, electric distribution, electric generation and water utility activities.



CITY OF PETERBOROUGH HOLDINGS INC.

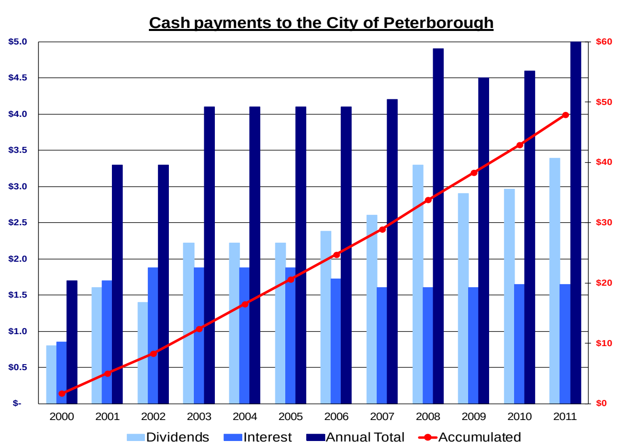
Results of Operations

CoPHI's earnings before interest, taxes, depreciation and amortization (EBITDA) for the period ended December 31, 2011 are $18.34 million compared to $15.39 million for the same period in 2010. The increase is mainly attributable to generation revenues from the Lily Lake Solar operations.

After adjustments for amortization, interest expense and taxes, CoPHI earned net income of $6.30 million for the period ended December 31, 2011 as compared to $5.32 million in 2010.

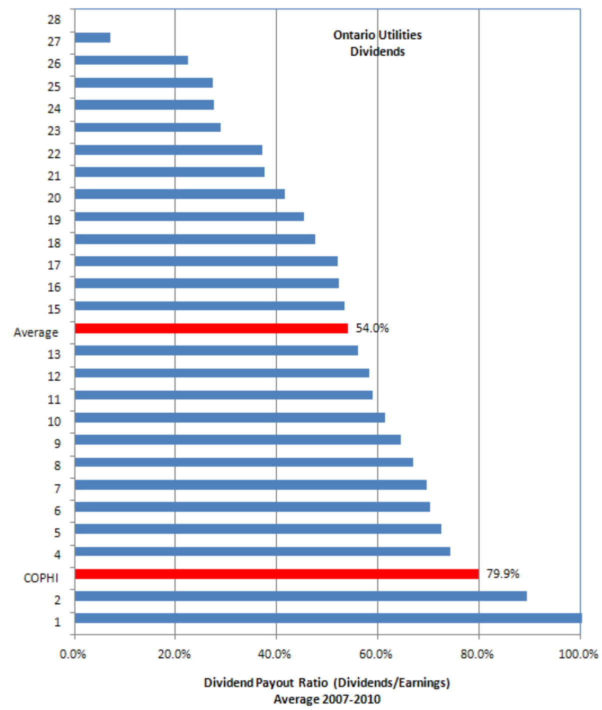
(in thousands of $'s)	2011	2010
EBITDA	**18,339**	**15,394**
Amortization	6,677	4,922
Interest - City of Peterborough	1,748	1,724
Interest - Other	1,407	931
	9,832	**7,577**
Income before taxes	**8,507**	**7,817**
Corporate taxes	2,208	2,500
Net Income	**6,299**	**5,317**
Retained earnings, beginning of period	23,056	20,707
Dividends	(3,391)	(2,968)
Retained earnings, end of period	**25,964**	**23,056**

Shareholder Returns



Since incorporation on January 1, 2000 CoPHI has paid the City of Peterborough a total of $47.89 million in interest and dividends. During this time Shareholder's equity has increased by 92% from $28.33 million to $54.36 million.

During the last four year period, distributions to the City (in relation to net earnings) are the third highest in a sample of 28 utilities in Ontario:



Customer Care

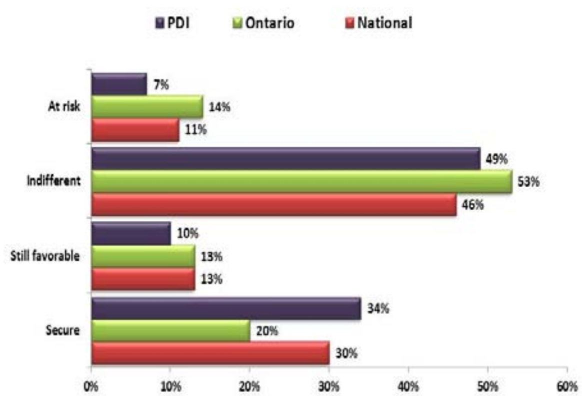
The level of service we provided to our customers is very important to PUG. Customer service arranged close to 9,000 pay arrangements in 2011 to assist those customers that experienced difficulty paying their utility accounts. The number of pay arrangements decreased by 4,000 from 2010. The reduction can be attributed to the new code amendments on collection of overdue accounts introduced by the Ontario Energy Board (OEB). In addition, introduction of programs like LEAP (Low Income Energy Assistance Program) that assists low income customers who are having difficulties paying their energy bills has resulted in fewer pay arrangements and a reduction in the number of final collection notices issued.

We continued to exceed the Performance Based Regulation (PBR) set by the OEB which states that calls to customer service must be answered in 30 seconds or less 65% of the time. In 2011, 80% of all phone calls to PUG customer service department were answered in 30 seconds or less.

PUG participated in the UtilityPULSE Customer Satisfaction Survey in April of 2012. This survey is conducted by many utilities in the Province and provides a health check on customers' opinion and overall satisfaction. PUG participated in this same study in 2010.

Results show that we continue to improve our overall customer satisfaction in all areas as indicated on the chart. We have reduced the number of customers "At Risk" by 3% and increased the number of "Secure" customers by 10%. This is in contrast to the Provincial and National numbers where they have seen a decrease in the "Secure" customers and a status quo or increase in the number of customers "At Risk". "At Risk" customers are customers that have a poor perception of PUG or may be "At Risk" of moving in this direction. "Secure" customers are customers that have favourable comments or attitudes towards PUG and are unlikely to change.

Results of Customer Survey



2012	Secure	Still favorable	Indifferent	At risk
PDI	34%	10%	49%	7%
National	30%	13%	46%	11%
Ontario	20%	13%	53%	14%

PUG has successfully integrated to the provincial Meter Data Management Repository (MDMR) by successfully passing both the System Testing (ST) and Quality Testing (QT). This process ensures our systems and processes will effectively exchange Smart Metering data to facilitate Time of Use Billing. The first Time of Use bills will be issued to residential and small commercial businesses in July/August of 2012.

John Stephenson, President & CEO took a tour of all PUG facilities and met with staff when he took on the position of President & CEO in April 2011.

PETERBOROUGH DISTRIBUTION INC.

Revenues

The total revenues, excluding interest, earned from Peterborough Distribution Inc. (PDI) for the period ended December 31, 2011 were $83.86 million compared to $79.30 million in 2010.

Total revenues earned from PDI including the flow through revenues that are collected on behalf of and remitted to others was $68.94 million in 2011 as compared to $64.28 million in 2010. The flow through revenue includes the cost of electricity, transmission and wholesale charges.

The percentage of a typical residential customer's electricity bill directly controlled by PDI is approximately 23%.

PDI's rates for a typical residential customer consuming 800 kWh of electricity a month are the third lowest of its peer group as illustrated in the following table.

Residential Customer Bill - 800 kWh	2011
Oshawa	100.18
Veridian	101.65
Peterborough	**104.44**
Oakville	105.42
Kingston	107.19
Sudbury	108.76
Guelph	109.08
Northbay	109.10
Barrie - Power Stream	110.63
Horizon	111.24
Whitby	112.76

Expenses

Operating expenses for 2011 were above the amount recorded in 2010 as labour and benefit increases continue to add pressure to operating costs. There were four severe thunderstorms in 2011 that drove operating expenses above budget but staff responded well to make repairs and return power to customers. The distribution system performed well throughout the year and carried near record high loads during a significant hot and humid spell of weather in July.

Capital

PDI had capital expenditures of $6.2 million in 2011 to invest locally in its distribution system infrastructure. Major expenditures during the fiscal year included $0.41 million for the second phase of the Lansdowne St. W. City of Peterborough widening project. There was additional spending of $0.45 million for various other City road projects that were completed in 2011. Investments of $0.60 million went to annual pole replacements, $0.81 million to underground feeders, $1.2 million for transformer replacements (near completion of PCB transformer replacement) and $ 1.0 million to customer upgrades and new connections.

Backyard pole replacement.

The Control Room on Ashburnham Drive has been updated with new equipment.

PETERBOROUGH UTILITIES INC.

Revenues

The total revenues, excluding other income, earned by Peterborough Utilities Inc. (PUI) for the period ended December 31, 2011 were $10.08 million compared to $6.02 million in 2010.

Generation activities for the period ended December 31, 2011 earned 67% of the total revenues as compared to 47% for the same period in 2010. The increase in 2011 is primarily due to commencement of operation at the Lily Lake Solar project. The Lily Lake solar facility is a 10 MW photovoltaic solar project in Smith–Ennismore-Lakefield and is the largest of its kind owned and operated by a Municipal Utility corporation in Ontario.

Excluding the flow through cost of power, generation revenues accounted for 17% of the total revenues earned by CoPHI for the period ended December 31, 2011 as compared to 8% for the same period in 2010. It is anticipated that generation revenues will increase to 28% of the total revenues earned by CoPHI by the end of 2015.

Expenses

On a combined basis, PUI operating and finance costs were on plan for the year, and higher than 2010 due to increased operating activity at the Lily Lake facility.

Generation Activities

In keeping with the CoPHI strategic directive to grow net income from competitive business outside of the Municipality, PUI is continuing development of the land fill gas generation facility in cooperation with the City of Peterborough and County of Peterborough. This facility is expected to be in service in late 2013.

In addition to this project, Management is presently exploring redevelopment possibilities at many of its existing generating facilities as well as evaluating new generation available under the recently updated Feed in Tariff program.

Lily Lake Solar celebrated its official opening with local dignitaries in attendance. The solar farm is now in full operation.

Work continues at the various dams with respect to public safety.

PETERBOROUGH UTILITIES SERVICES INC.

Revenues

The total revenues earned from Peterborough Utilities Services Inc. (PUSI) for the period ended December 31, 2011 were better than budget at $20.63 million compared to $19.84 million in 2010.

Expenses

PUSI operating expenses were slightly higher than plan and prior year.

The Minister of Labour stopped into the Riverview Park & Zoo as part of the Summer Student Safety Blitz. All summer students receive a full day of safety training at the beginning of each summer.

Annually PUG participates in the "Take Your Kids to Work Day." They always start with a lesson in safety, then move onto the solar farm, water treatment plant, the Riverview Park & Zoo and even enjoy a bucket ride and have a chance to try climbing a hydro pole with all of the gear on.

Riverview Park & Zoo celebrated the grand opening of the Zoo Animal Health Centre facility. The Peterborough Utilities Commission (PUC) is governed by the PUC but operated by staff from Peterborough Utilities Services Inc.

PUG is very proud to have celebrated Five Years and 1.5 Million Hours with No Lost Time Injuries with a breakfast meeting at the Trentwinds for all staff.

Honorable Stephen Mahoney from WSIB, Mayor Daryl Bennett along with representatives from Jeff Leal's Office and from the Infrastructure Health & Safety Association were in attendance.

Board of Directors

Brian Baker^
Chair, Audit Committee

Scott Baker+^
Chair, PUI

David Bignell+^
Vice-Chair, PUI

Mayor Daryl Bennett+^

John Connolly*^

Charles Kidd*^
Chair, PDI

Stephen Kylie+^
Chair, CoPHI

Gary Lounsbury^
Past Chair, CoPHI

Dean MacDonald*
Independent Director,
PDI

David Nichols+^
Chair, Governance &
Nominating Committee,
Vice-Chair CoPHI

David Paterson*^

Councillor Dan
McWilliams*^

Bryan Weir*
Vice-Chair, PDI
Independent Director, PDI

^ City of Peterborough Holdings Inc. (CoPHI) & Peterborough Utilities Services Inc. (PUSI)
* Peterborough Distribution Inc. (PDI)
+ Peterborough Utilities Inc. (PUI)

Executive Leadership Team

John Stephenson
President & CEO

Byron Thompson
CFO

Larry Franks
Vice-President Information Technology

Jeff Guilbeault
Vice-President Electric Services

Carrissa McCaw
Director, Human Resources & Safety

Wayne Stiver
Vice-President Water Services

David Whitehouse
Director, Customer & Corporate Services

John Wynsma
Vice-President, Generation & Retail Services

CONSOLIDATED FINANCIAL STATEMENTS OF

CITY OF PETERBOROUGH HOLDINGS INC.

December 31, 2011

TABLE OF CONTENTS

Collins Barrow
Chartered Accountants

Collins Barrow Kawarthas LLP
272 Charlotte Street
Peterborough, Ontario
K9J 2V4

T. 705.742.3418
F. 705.742.9775

www.collinsbarrowkawarthas.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
City of Peterborough Holdings Inc.

Report on the Consolidated Financial Statements
We have audited the accompanying financial statements of City of Peterborough Holdings Inc., which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statements of retained earnings, income and cash flows for the for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of City of Peterborough Holdings Inc. and its subsidiaries as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
March 15, 2012

CITY OF PETERBOROUGH HOLDINGS INC.
CONSOLIDATED BALANCE SHEET

As at December 31, 2011

	2011 $	2010 $
ASSETS		
Current assets		
Cash	15,524,645	9,604,908
Accounts receivable	16,114,565	17,202,937
Income taxes receivable	2,007,166	-
Inventories	1,927,216	1,532,451
Prepaid expenses	602,533	557,063
	36,176,125	28,897,359
Other assets		
Investment in significantly influenced company (note 3)	5,280,782	5,060,471
Intangible asset (note 4)	2,913,333	3,040,000
Property, plant and equipment (note 5)	111,044,589	96,751,507
Regulatory assets (note 6)	7,308,411	7,874,360
Future income taxes (note 13)	3,233,000	4,255,000
	129,780,115	116,981,338
	165,956,240	145,878,697

The accompanying notes are an integral part of these financial statements

CITY OF PETERBOROUGH HOLDINGS INC.
CONSOLIDATED BALANCE SHEET

As at December 31, 2011

	2011 $	2010 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Bank indebtedness (note 7)	11,795,000	22,795,000
Accounts payable and accrued liabilities	14,937,127	15,610,749
Income taxes payable	-	31,401
Security deposits refundable within one year	712,000	1,622,000
Construction loan (note 8)	29,500,400	-
Current portion of long-term debt (note 9)	856,815	814,959
	57,801,342	40,874,109
Long-term liabilities		
Security deposits	953,497	727,707
Regulatory liabilities (note 6)	85,265	913,902
Long-term debt (note 9)	13,839,073	14,695,888
Future income taxes (note 13)	2,017,000	364,500
Employee future liabilities (note 10)	5,197,960	5,147,853
Due to shareholder (note 11)	31,699,205	31,699,205
	53,792,000	53,549,055
Shareholder's equity		
Share capital (note 12)	28,399,205	28,399,205
Retained earnings	25,963,693	23,056,328
	54,362,898	51,455,533
	165,956,240	145,878,697

Subsequent event (note 19)

Approved on behalf of the Board

David A Nichols Director

D Bignell Director

The accompanying notes are an integral part of these financial statements

CITY OF PETERBOROUGH HOLDINGS INC.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 2011

	2011 $	2010 $
Retained earnings - beginning of year	23,056,328	20,707,489
Net income for the year	6,298,365	5,316,527
Dividends paid	(3,391,000)	(2,967,688)
Retained earnings - end of year	25,963,693	23,056,328

The accompanying notes are an integral part of these financial statements

CITY OF PETERBOROUGH HOLDINGS INC.
CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2011

	2011 $	2010 $
Revenue	107,684,391	98,586,227
Expenses		
Operations and administration	90,652,038	84,259,790
Amortization	6,677,399	4,922,008
	97,329,437	89,181,798
Income before the undernoted items and corporate taxes	10,354,954	9,404,429
Other expense (income)		
Interest income	(824,132)	(933,232)
Interest expense (note 11)	3,154,848	2,654,993
(Gain) loss in significantly influenced company	(437,556)	14,770
Other income	(44,978)	(148,166)
	1,848,182	1,588,365
Income before income taxes	8,506,772	7,816,064
Provision for (recovery of) income taxes (note 13**)**		
Current	(466,093)	2,468,537
Future	2,674,500	31,000
	2,208,407	2,499,537
Net income for the year	6,298,365	5,316,527

The accompanying notes are an integral part of these financial statements

CITY OF PETERBOROUGH HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION
For the year ended December 31, 2011

	2011 $	2010 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	6,298,365	5,316,527
Charges to operations not requiring a current cash payment -		
Amortization	6,677,400	4,922,008
Future income tax (recovery)	2,674,500	31,000
Change in employee future liabilities	50,107	(69,776)
(Gain) loss from investment in significantly influenced company	(437,556)	14,770
	15,262,816	10,214,529
Change in non-cash working capital items	(2,064,052)	(1,526,004)
Change in security deposits	(684,210)	435,922
	12,514,554	9,124,447
Investing activities		
Purchase of property, plant and equipment	(22,254,625)	(39,064,586)
Purchase of intangible asset	-	(3,040,000)
Proceeds from disposal of property, plant and equipment	-	1,064,386
Decrease (increase) in regulatory assets and liabilites	(262,688)	852,092
Investment in significantly influenced company	217,245	(384,531)
	(22,300,068)	(40,572,639)
Financing activities		
Proceeds from construction loan	29,500,400	-
Repayment of long-term debt	(814,959)	(775,057)
Contributions in aid of construction	1,410,810	1,448,546
Dividends paid	(3,391,000)	(2,967,688)
	26,705,251	(2,294,199)
Net increase (decrease) in cash and equivalents	16,919,737	(33,742,391)
Cash and equivalents - beginning of year	(13,190,092)	20,552,299
Cash and equivalents - end of year	3,729,645	(13,190,092)
Cash and Equivalents consist of:		
Cash	15,524,645	9,604,908
Bank indebtedness	(11,795,000)	(22,795,000)
	3,729,645	(13,190,092)

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

City of Peterborough Holdings Inc. is the holding company which is wholly owned by the Corporation of the City of Peterborough. The company and its subsidiary companies operate electricity generation, distribution and other competitive businesses.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Basis of accounting

The consolidated financial statements include the accounts of City of Peterborough Holdings Inc. and its wholly owned subsidiaries: Peterborough Utilities Services Inc., Peterborough Distribution Inc. and Peterborough Utilities Inc. Inter-company account balances and transactions have been eliminated.

The equity method is used to account for the company's investment in Trent Rapids Power Corporation. This method brings into earnings the company's share of the income (loss) of the investment, which is added to (deducted from) the carrying amount of the investment.

(b) Revenue recognition

Revenue on the sale of electricity is recognized when the service is provided. Unbilled revenues are calculated by estimating the number of kilowatt hours delivered but not billed. Other revenues are recognized when services are rendered.

(c) Accounting for Electricity Regulation

The company accounts for the impact of rate regulation by the Ontario Energy Board (OEB) as follows:

(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 company distribution rates, such occurrences are immediately reflected in the company's accounts.

(ii) Regulatory Accounting Practice

In the absence of a regulatory decision impacting rates, and where the company 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 the decision and such adjustment is reflected in not income for the period.

2. SIGNIFICANT ACCOUNTING POLICIES, 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 further uncertainty, are more fully described in note 6.

(d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Significant estimates and assumptions used in the preparation of the consolidated financial statements include, but are not limited to: estimates of revenue; carrying values of regulatory assets and liabilities; allowance for doubtful accounts; amortization rates and carrying values of property, plant and equipment; income taxes; employee future benefits; fair values of financial instruments; and contingencies. Actual results could differ from these estimates.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined to be the lower of moving average cost and replacement cost.

(f) Intangible assets

Intangible assets are recorded at cost and amortized on a straight-line basis over their expected useful lives.

(g) Property, plant and equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and purchased services.

The cost and related accumulated amortization for identifiable property, plant and equipment, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Property, plant and equipment which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the company nets the customer contributions against the acquisition cost. The company provides for amortization using the straight-line method at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows.

Buildings	35 years
Transmission and distribution	17 – 35 years
Generation	20 - 35 years
Meters	17 – 25 years
Vehicles	4 – 8 years
Water heaters and controllers	10 years
Computer software	5 years
Computer equipment	5 years
Equipment and other	2 – 30 years

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) O.M.E.R.S.

Pension benefits are provided to employees through the Ontario Municipal Employees Retirement Systems (O.M.E.R.S.), which is a multi-employer defined benefit plan. The company's share of the annual contribution to the pension plan for current service is charged to operations in the year in which the contribution is made.

(i) Vested sick leave benefits

After five years of service upon retirement or termination, the company has agreed to pay at the employee's then current pay rate; the lesser of one-half of the employee's accumulated sick leave benefits or 130 days. For those employees who commenced employment on or after April 1, 1982, the amount will not exceed 130 days or the number of years of service prior to April 1, 2007, times six days.

For financial statement purposes the liability is valued at the total of each employee's current vested sick leave hours at current pay rates in accordance with the above formula.

(j) Employee future benefits

The company provides certain health care, dental care, life insurance and other benefits, for certain retired employees pursuant to company policy. The company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The costs of benefits are based on management's estimate of the allocation of those actuarially determined benefits to the company.

(k) Customer deposits

Customers may be required to post security to obtain electrical or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits. In accordance with Ontario Energy Board regulation, interest is paid on customer balances at the Bank of Canada prime rate, adjusted quarterly, less 2%.

(l) Corporate taxes

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). The payments in lieu of taxes are calculated on a basis as if the company was a taxable company under the Income Tax Act (Canada).

Corporate taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are measured using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future taxes of a change in tax rates is recognized in income in the year in which the change occurs.

The company charges refundable dividend taxes which, are refunded to the company at a rate of $1 for $3 of taxable dividends paid, to retained earnings.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(m) Financial instruments

(i) Comprehensive income

Comprehensive income consists of net income and other comprehensive income (OCI). OCI consists of the changes in the fair value of financial instruments, which have not been included in net income.

(ii) Recognition and measurement

Financial assets and liabilities are initially recognized and measured at fair value, except for certain related party transactions and are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale or other liabilities. After initial recognition, financial assets, including derivatives that are assets, are measured at fair values, except for held-to-maturity investments and certain loans and receivables which are measured at amortized cost using the effective interest method. All financial liabilities are measured at amortized cost using the effective interest rate method, except for financial liabilities that are classified as held-for-trading.

A gain or loss on a financial asset or financial liability classified as held-for-trading is recognized in net income for the period in which it arises. A gain or loss on an available-for-sale financial asset is recognized directly in other comprehensive income, a permanent component of shareholder's equity. For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net income when the financial asset or financial liability is derecognized or impaired and through the amortization process.

(iii) Hedge accounting

Hedge accounting standards establish how and when hedge accounting is used, and in particular, the criteria to be met for the application of hedge accounting. Under hedge accounting, all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. The company presents the earnings and cash flow effects of hedging items with the hedged transaction. Ordinarily, the effective portion of the change in fair value of the cash flow hedging instrument is recorded in OCI and reclassified to earnings when the hedge ceases to be effective.

(n) International Financial Reporting Standards (IFRS)

On February 13, 2008 the AcSB confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

On September 10, 2010 the AcSB granted an optional one year deferral of IFRS adoption for entities subject to rate regulation, the company has elected the one year deferral and will commence reporting under IFRS January 1, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

The company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information. The impact of new IFRS standards effective January 1, 2012 and interpretations not yet effective has also not been assessed.

3. INVESTMENT IN SIGNIFICANTLY INFLUENCED COMPANY

	2011 $	2010 $
Investment in Trent Rapids Power Corporation		
100% equity investment	102,000	102,000
6% unsecured promissory note	4,037,500	4,037,500
Unpaid interest on promissory note	744,495	961,741
Share of equity	396,787	(40,770)
	5,280,782	5,060,471

On July 5, 2010 the company increased its investment in Trent Rapids Power Corporation (TRPC) to 100% ownership of all of the issued and outstanding shares. As a condition of the share acquisition, the company entered into an a Co-Lender Agreement with a subordinated debtholder of TRPC which restricts the company's voting control over TRPC's operations such that control necessary for the consolidation of the TRPC accounts with the company is not present. Further restrictions exist which provide for significant economic costs to be incurred on the distribution of TRPC earnings associated with the additional investment acquired. The company continues to account for its investment in TRPC using the equity method, recording 50% of the earnings of TRPC, which reflects the economic interest that the company controls.

In connection with the share acquisition, the company issued a call option to the same subordinated debtholder of TRPC, providing the debtholder with the option to acquire from the company 50% of the issued and outstanding shares of TRPC for cash consideration of $1,000. The option is not exercisable until July 5, 2015. During the time that the call option is outstanding, the debtholder retains a first ranking security over 50% of the TRPC shares owned by the company and the company is further restricted from transferring the shares during this period.

In 2010, TRPC completed a fifteen year debenture financing which provided a first ranking security on all TRPC assets. The debenture includes several lending restrictions including a requirement that TRPC remain wholly owned by the company. The exercise of the call option during the period when the debenture remains outstanding would violate lending restrictions and trigger economic penalties. Due to these restrictions, the call option is not considered readily exercisable during this period or to have any value to be recognized in the company's accounts.

The company's advances to TRPC are secured by a second ranking charge on all of TRPC assets, subordinated to the security provided to the debenture holders of TRPC.

4. INTANGIBLE ASSET

The company holds a Renewable Energy Standard Offer Contract with the Ontario Power Authority (OPA). The contract is for a period of twenty years providing pricing of $0.42 per kWh for generation production from the Lily Lake Solar project.

The cost of the contract, $3,040,000, is amortized on a straight line basis over the term of the OPA contract commencing on March 2011. Amortization in the amount of $126,667 was recorded in 2011 (2010 - nil), resulting in a net book value of $2,913,333 (2010 - $3,040,000).

5. PROPERTY, PLANT AND EQUIPMENT

	Cost $	Accumulated amortization $	2011 Net book value $	2010 Net book value $
Land	2,280,567	-	2,280,567	2,280,567
Buildings	5,518,058	1,260,696	4,257,362	4,255,391
Transmission and distribution	83,004,819	30,804,835	52,199,984	42,886,690
Generation	44,735,655	4,112,316	40,623,339	8,164,300
Meters	2,163,815	715,645	1,448,170	1,157,285
Vehicles	4,057,486	2,840,781	1,216,705	1,239,912
Water heaters and controllers	6,364,692	4,718,984	1,645,708	1,675,148
Equipment and other	7,192,878	6,386,487	806,391	736,416
Work in process	6,566,363	-	6,566,363	34,355,798
	161,884,333	50,839,744	111,044,589	96,751,507

6. REGULATORY ASSETS AND LIABILITIES

The company has recorded the following regulatory assets and liabilities:

Regulatory Assets

	2011 $	2010 $
Smart Meter variance	7,215,646	7,431,986
Other	-	146,172
Regulatory assets approved for recovery	92,765	296,202
	7,308,411	7,874,360

Regulatory Liabilities

	2011 $	2010 $
Retail settlement variance	39,868	913,902
Other	45,397	-
	85,265	931,902

6. REGULATORY ASSETS AND LIABILITIES, continued

Retail settlement variance accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes, the timing of which have yet to be determined. It is fully expected that the approved disposition of any asset or liability accumulated at that time will be through the adjustment of future rates. In the absence of rate regulation supporting the accumulation of these amounts, the company would expense the amounts outstanding resulting in a reduction of net income of approximately $482,000 (2010 – net income increase of $1,158,000), and a cumulative reduction to retained earnings of $519,000 (2010 - $37,000).

The Smart Meter variance account includes authorized expenditures on the Smart Meter program in the aggregate amount of $6,543,489 (2010 - $6,340,213), which has been partially funded and offset by approved interim rate recoveries in the amount of $1,334,322 (2010 - $914,705). During the year, older meter assets that had been replaced with Smart Meters and having a carrying value of $0 (cumulative - $2,006,478) were transferred to regulatory assets, for disposition in future rate setting processes. It is fully expected these amounts will be approved and recoverable in future rate setting processes.

In the absence of rate regulation supporting the accumulation of these amounts, the company would capitalize smart meter expenditures as equipment and the current year net income would be increased by $4,542 for additional amortization of $413,288 (2010 - $495,451), revenue received from the rate adder of $419,617 (2019 - $411,750), incremental operating costs of $0 (2010 - $90,698) and for the write-down of $0 for the meter assets no longer in service (2010 - $1,064,386).

7. BANK INDEBTEDNESS

(a) Committed Term Facility

The company has a $27,900,000 committed bank credit facility. Under the terms of the facility the company may make multiple draws by way of prime rate based loans or Bankers' Acceptances.

As at December 31, 2011 $11,795,000 (2010 – $22,795,000) of Bankers' Acceptances have been utilized with $11,795,000 due January 23, 2012. The amounts bear interest at an average rate of 2.00% (2010 – 2.10%).

(b) Letters of Credit

The company has posted $6,563,922 in stand-by letters of credit ("LOC") with the Electricity System Operator, as required by regulation. In 2010 the company had also arranged a $4,000,000 Euro denominated letter of credit with the bank. As at December 31, 2011 the LOC has been discharged (2010 – $3,782,000).

The bank indebtedness is secured as described in note 9 to these financial statements.

8. CONSTRUCTION LOAN

In 2011 the company entered into a financing agreement to provide construction and permanent long-term financing upon completion of the Lily Lake Solar project. The credit facilities available are as follows

(a) A construction demand loan has been authorized to a maximum of $34,475,000. As at December 31, 2011 $29,500,400 of the construction loan has been utilized. The loan bears interest on annual basis at an average rate 2.0%.

(b) A debenture, not to exceed eligible advance under the facility of $34,475,000 may be issued by the group to repay the construction loan. Subsequent to the year-end, all construction demand loans were converted to a debenture (note 19)

(c) The construction loan is secured by a first charge on all real property and construction assets of the Lily Lake Solar project. At December 31, 2011 the carry value of capital assets secured was $43,537,597.

9. LONG-TERM DEBT

Long-term debt consists of committed variable bank term loans in the amount of $14,695,888 (2010 - $15,510,847). The company has entered into receive-variable/pay-fixed interest rate swap agreements whereby the company cash flow hedged the variable interest rate loan commitment for the bank loans.

For both the bank indebtedness (note 7) and long-term debt, the company has provided a general security agreement covering all company assets, and a subordination of the general security agreement previously provided to the Corporation of the City of Peterborough (note 11).

	2011 $	2010 $
Bank debt, bearing interest at 4.55% per annum payable in blended monthly payments of principal and interest of $50,658, due December 24, 2018	5,613,253	5,957,214
Bank debt, bearing interest at 5.36% per annum payable in blended monthly payments of principal and interest of $80,967, due December 22, 2019	9,082,635	9,553,633
	14,695,888	15,510,847
Less: principal payments due within one year	856,815	814,959
	13,839,073	14,695,888

9. LONG-TERM DEBT, continued

The aggregate amount of principal payments required is as follows:

	$
2012	856,815
2013	900,835
2014	947,128
2015	995,822
2016	1,047,034
Thereafter	9,948,254
	14,695,888

10. EMPLOYEE FUTURE LIABILITIES

(a) Employee Future Liabilities

Employee future liabilities are comprised of $1,827,974 (2010 - $1,869,640) in employee vested sick leave and $3,369,986 (2010 - $3,278,214) of accrued benefit liability related to the company's medical and life insurance plan. Under that plan, the company provides certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to the company's policy.

Information about the company's defined benefit plan is as follows:

	2011 $	2010 $
Accrued benefit liability – beginning of year	3,278,214	3,151,083
Current service cost	153,645	124,600
Interest cost	209,066	198,293
Benefits paid	(272,091)	(221,978)
Actuarial losses	1,152	26,216
Accrued benefit obligation – end of year	3,369,986	3,278,214
Unamortized net actuarial loss	1,104,450	586,076
Accrued Benefit Liability	4,474,436	3,864,290

	2011 $	2010 $
Current service cost	153,645	124,600
Interest cost	209,066	198,293
Amortization of actuarial losses	1,152	26,216
Net benefit plan expense	363,863	349,109

10. EMPLOYEE FUTURE BENEFITS, continued

The accrued benefit obligation is based on an actuarial valuation as at December 31, 2011 and is not funded. Accordingly, there are no plan assets.

The amortization period of the net actuarial loss is over 10 years being the remaining average service period of active employees. Significant actuarial assumptions adopted in measuring the company's accrued benefit obligation are a discount rate of 4.75% (2010 – 5.25%) and a salary scale of 2.4% (2010 – 2.5%). For measurement purposes, an 8.0% annual increase in the per capita cost of covered health benefits was assumed for 2011 (2010 – 8.2%). The rate is assumed to decrease gradually to 5% for 2019 and remain at that level thereafter. A 5% annual rate of increase in the per capita cost of covered dental costs was assumed for each year.

(b) Pension Plan

The company's current service cost of $928,809 (2010 - $783,890) under the Ontario Municipal Employees Retirement System has been charged to operations for the year.

11. DUE TO SHAREHOLDER

The shareholder, the Corporation of the City of Peterborough, has provided advances as follows:

	2011 $	2010 $
Demand loan, bearing interest at 6.25%	23,440,528	23,440,528
Demand loan, bearing interest at 7.25%	2,508,677	2,508,677
Demand loan, bearing interest at bank prime, less 1.25%	4,250,000	4,250,000
Demand loan, bearing interest at bank prime, less 1.25%	1,500,000	1,500,000
	31,699,205	31,699,205

The demand loans are without specified maturity dates or repayment terms, and are secured by a general security agreement in favour of the Corporation of the City of Peterborough. The security has been subordinated to security for the company's bank indebtedness (note 7) and long-term debt (note 9) and excluding the investment in 50% of the issued and outstanding shares of TRPC which has been specifically postponed in favour of the security as noted in note 3.

Included in interest expense for the year is interest on the demand loans of $1,747,537 (2010 - $1,723,789).

12. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	2011 $	2010 $
3,000 common shares	28,399,205	28,399,205

13. INCOME TAXES

(a) The tax effects of the temporary differences that give rise to the future income tax assets and liabilities are as follows:

	2011 $	2010 $
Future income tax asset		
Tax basis of equipment in excess of carrying amount	1,810,000	2,651,000
Vested sick leave	493,000	555,000
Employee future benefits	930,000	1,024,000
Other	-	25,000
	3,233,000	4,255,000
Future income tax liability		
Carrying amount of property, plant and equipment in excess of tax basis	2,017,000	364,500

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying for statutory income tax rate of 28% (2010 – 31%) to the income for the years as follows:

	2011 $	2010 $
Income for the year before income taxes	8,506,772	7,816,064
Anticipated income tax expense	2,403,163	2,421,450
Impact of tax losses carried back to prior years	(324,363)	-
Impact of rate changes and other	129,607	78,087
Provision for income taxes	2,208,407	2,499,537

14. SUPPLEMENTARY CASH FLOW INFORMATION

	2011 $	2010 $
Interest paid	3,154,848	2,604,993
Income taxes paid	1,575,750	2,221,000

15. RELATED PARTY TRANSACTIONS

During the year, the company engaged in transactions in the normal course of operations with its subsidiaries and the Peterborough Utilities Commission. The parties are related by virtue of common control. These transactions, and balances owing to/from the subsidiaries have been eliminated.

Details of services provided during the year to the Peterborough Utilities Commission are as follows:

	2011 $	2010 $
Revenue		
Professional services	7,163,591	6,868,441
Building rent	394,011	385,510
Software and equipment rent	171,838	180,384
	7,729,440	7,434,335

16. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectation as outlined in the Unanimous Shareholder Declaration between the company's parent company, the City of Peterborough Holdings Inc., and its shareholder, the Corporation of the City of Peterborough. The expectation is that the company will maintain a prudent financial and capitalization structure consistent with industry norms and on the basis that it is intended to be a self-financed entity.

The company considers that the industry norm for capital structure is comprised of 60% debt and 40% equity. The company is targeting to attain that structure, to the extent possible, in future years.

The company's current capital structure is defined as follows:

	2011 $	2010 $
Long-term bank debt	14,695,888	15,510,847
Construction loan	29,500,400	-
Due to the Corporation of the City of Peterborough	31,699,205	31,699,205
	75,895,493	47,210,052

16. CAPITAL DISCLOSURES, continued

	2011 $	2010 $
Share capital	28,399,205	28,399,205
Retained earnings	25,963,693	23,056,328
	54,362,898	51,455,533

Changes in the company's capital structure are constrained by existing lending agreement provisions that limit the amount of dividend distributions and the repayment of related party debt subject to certain cash flow tests. Additionally the agreements provide for a restriction on the incurrence of new debt or the posting of security without prior lender consent. The company has complied with these requirements during the year.

17. FINANCIAL INSTRUMENTS

Since a subsidiary of the company is a regulated entity, the company's operations and risks are also substantially influenced by regulation, limiting the necessity to actively engage in derivative financial products.

(a) Measurement

The following classes of financial assets and liabilities are recorded:

Financial assets and liabilities

Cash and equivalents are classified as assets held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities. The carrying value of the accounts receivable, accounts payable and accrued liabilities approximates their fair value due to their short-term nature. Long-term debt approximates fair value as the rates are reflective of current market conditions.

Due to shareholder

Demand loans to the parent company in the aggregate amount of $31,699,205, which originated in related party transactions were recorded at the exchange amount and have been classified as other financial liabilities. In applying the effective interest rate method, the fair value of that instrument does not differ from its carrying value.

(b) Credit risk

By regulation, in addition to the distribution service charges that the company earns, the customers' electricity bills include, transmission charges, non competitive energy charges, debt retirement and electricity commodity charges. The company acts as an agent for billing and collecting these charges on behalf of other market participants and under regulation the company bears the risk of non-collection of these amounts.

To mitigate credit risk the company is permitted to request certain customers to provide security deposits for a prescribed period. Furthermore, relief from substantial or catastrophic collection

17. FINANCIAL INSTRUMENTS, continued

loss relief may be afforded by applying for recovery for those losses through distribution rate adjustments in future years, if approved by the regulator.

The company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. The allowance for collection of doubtful accounts included in accounts receivable is in the amount of $345,264 (2010 - $285,928).

(c) Interest rate risk

The company is not exposed to any significant interest rate risk. As more fully described in note 7 to the financial statements the company has entered into an interest rate swap arrangements which are being used to manage the impact of fluctuating interest rates on existing debt. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. The swap instruments are not recognized on the balance sheet.

(d) Foreign currency risk

The company conducts the majority of its business without significant exposure to foreign currency.

(e) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet is financial obligations as they occur. At the present time the liquidity risk of the company is low as it has unutilized existing debt capacity, additional room within its capital structure to attain additional financing as required, and sufficient cash flow to address existing debt obligations.

(f) Commodity price risk

The company is not exposed to electricity commodity price risk as the company entered into 20 year Ontario Power Authority (OPA) Hydroelectric Contract Initiative (HCI) contracts for the Campbellford and London Street generation facilities effective January 1, 2010. The contracts are based upon a contract price of $0.0690 per kWh subject to an inflation escalator.

18. CONTINGENCIES

The company has the following contingent liabilities:

(a) The company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement the company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experiences.

(b) The company assets are pledged as security and the company has provided an unlimited guarantee related to the indebtedness for the company, its subsidiaries and affiliate companies.

(c) The company issued an option providing a land owner with the opportunity to sell underlying land to the company for $305,000. The option was exercised and the company will be acquiring the land in 2012.

19. SUBSEQUENT EVENT

Subsequent to the year-end, on March 1, 2012 the company arranged a 19 year $35,475,000 debenture with Ontario Infrastructure and Lands Corporation. On closing, the Company received additional financing of $5,974,600 and repayment of the construction loan described in note 8. The debenture bears interest at 3.74%. Total principal payment due over the next 5 years are as follows:

	$
2012	2,389,552
2013	3,105,882
2014	3,036,482
2015	2,969,921
2016	2,903,009
Thereafter	21,070,154
	35,475,000

20. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

21. SEGMENTED INFORMATION

Segmented information related to the company and its subsidiaries is included as follows:

For the year ended December 31, 2011

	Peterborough Distribution Inc $	Peterborough Utilities Services Inc. $	Peterborough Utilities Inc $	Other and Eliminations $	Consolidated $
			(thousands)		
Revenue:					
External	84,293	3,962	10,766	-	99,021
Related Party	321	16,748	106	(7,206)	9,969
Total revenues	84,614	20,710	10,872	(7,206)	108,990
Expenses:					
Operations	75,927	18,357	3,267	(6,898)	90,653
Amortization	3,424	881	2,372	-	6,677
Interest	2,558	112	792	(308)	3,154
Total expenses	81,909	19,350	6,431	(7,206)	100,484
					-
Income before income taxes	2,705	1,360	4,441	-	8,506
Income taxes	875	464	869	-	2,208
Net Income	1,830	896	3,572	-	6,298
OTHER INFORMATION:					
Total assets	90,965	14,421	72,488	(11,918)	165,956
Capital asset additions	6,203	949	15,103	-	22,255

(1) Dividend income from subsidiaries in the amount of $ 3,391,000 has been eliminated.

21. SEGMENTED INFORMATION, continued

For the year ended December 31, 2010

	Peterborough Distribution Inc $	Peterborough Utilities Services Inc. $	Peterborough Utilities Inc $	Other and Eliminations $	Consolidated $
			(thousands)		
Revenue:					
External	79,828	3,761	6,192	-	89,781
Related Party	237	16,300	108	(6,773)	9,872
Total revenues	80,065	20,061	6,300	(6,773)	99,653
Expenses:					
Operations	70,617	17,514	2,712	(6,582)	84,261
Amortization	3,325	889	707	-	4,921
Interest	2,441	116	289	(191)	2,655
Total expenses	76,383	18,519	3,708	(6,773)	91,837
					-
Income before income taxes	3,682	1,542	2,592	-	7,816
Income taxes	1,177	538	785	-	2,500
Net Income	2,505	1,004	1,807	-	5,316
OTHER INFORMATION:					
Total assets	102,076	15,396	54,320	(25,913)	145,879
Capital asset additions	5,444	811	35,850	-	42,105

(1) Dividend income from subsidiaries in the amount of $ 2,967,688 has been eliminated.