April 26, 2013

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

Dear Ms. Walli:

Re: 2014 Rate Application
EB-2013-0125
Request for Annual IR

Request-in-Brief

Through this filing, EnWin Utilities Ltd. ("EnWin") requests that the Ontario Energy Board ("Board") permit EnWin to file its application for 2014 electricity delivery rates according to the Board's Annual Incentive Rate-setting Index ("Annual IR") process.

Background

EnWin is a local electricity distribution company ("LDC") serving the City of Windsor. EnWin's last Cost of Service ("COS") rate application was filed in September 2008 for the setting of rates effective May 1, 2009. In the rate years 2010-2012, EnWin rates were set according to the Board's 3rd Generation Incentive Regulation Mechanism ("3GIRM"), consistent with the Board's established rate cycle framework. Though EnWin was originally scheduled to file according to COS for 2013 rates, on July 24, 2012, the Board approved EnWin's request to use 3GIRM for 2013 rates.

On December 11, 2012, the Board issued a letter to all electricity distributors requesting certain information in respect of the distributors' applications for 2014 distribution rates. EnWin filed its response to the Board on January 30, 2013. EnWin provided a copy of that letter to the active Intervenors from EnWin's 2009 COS, consistent with the Board's usual notice protocols. In its filing, EnWin noted that its plan for 2014 rates was being reassessed, taking into account:

1. The on-going economic hardship facing Windsor, as illustrated by persistently high unemployment for the past 5 years, which requires a delicate balancing of grid sustainment to support new and remaining industry, while holding the line to on rates to the extent possible for residents and businesses alike;

2. The Board's mounting cost of service filing requirements and hearing procedures and thus the mounting expenses to prepare various studies and reports to prepare and present the application;

3. EnWin's success in finding efficiencies, as illustrated by the fact that distribution rates for a Residential ratepayer were $32 in May 2006 and will be $33 in May 2013, all the while delivering strong operational and financial performance; and,

4. The Board's Renewed Regulatory Framework for Electricity Report ("RRFE Report") issued on October 18, 2012, which makes available 3 filing options, including an Annual Incentive Rate-setting ("Annual IR") methodology, which would allow EnWin to continue to hold the line on distribution rates for another year or more.

EnWin did not receive any response to its January 30, 2013 filing from the Board, Board Staff or the Intervenors.

Update

Since the January 30, 2013 filing, three important developments have occurred.

First, the Board set EnWin's rates for 2013. The EnWin portion of the bill will be about $33/mon for a 1,000kWh Residential ratepayer. This is slightly greater than the $32/mon forecasted as a result of the new IESO / Smart Meter Entity charge to pay for the province's MDM/R, which the Board recently approved as $0.79 and embedded within the distribution portion of the bill. Nevertheless, EnWin's $33/mon portion of the bill remains extremely close to the $32/mon from May 1, 2006.

Second, EnWin's 2012 Audited Financial Statements were finalized and approved by its financial auditor, internal management and Board of Directors. These statements marked EnWin's first financial statements prepared in accordance with IFRS. EnWin's trend of strong financial performance continues in 2012 based on the latest audited results. As the Board is likely aware, EnWin has been one of the strongest financial performers in the industry over the past 5 years. In that context, EnWin was surprised to discover that the combined effect of IFRS and regulatory accounting resulted in EnWin falling below the 3GIRM 300 basis point threshold. This is further discussed in Appendix A, along with a review of the primary cause for this result.

Third, EnWin's 2012 Service Quality Requirements have been compiled. The SQR results demonstrate that, once again, EnWin is achieving the Board's performance targets.

Request

EnWin requests that the Board permit EnWin to file its application for 2014 electricity delivery rates according to the Board's Annual IR process.

The Board's Annual IR process is the most appropriate option for EnWin. Without the major growth or infrastructure deficits that are found at some other LDCs, EnWin's capital expenditure requirements are relatively stable from year-to-year and EnWin's financial statements demonstrate that on-going re-investment in the distribution system is occurring. The revenue from current rates along with EnWin's efficiency initiatives are proving to be sufficient for EnWin to meet its obligations to its ratepayers, shareholder, debentureholders, and other stakeholders.

The Board's Renewed Regulatory Framework for Electricity ("RRFE"), and more specifically the Annual IR process, envisions scenarios such as that which is in place at EnWin. That is, the considerable cost of preparing and presenting a COS is not warranted in the circumstances. Here, the change to revenue through COS rate adjustment would not be materially different from that achievable through the cost-effective Annual IR option. It is in the public interest to minimize regulatory and utility costs by choosing the least cost filing option that will allow for reasonable and appropriate rates; in this case, that is Annual IR.

Under 3GIRM and presumably under RRFE, the Board has the prerogative to initiate a review as a result of the 300+ basis point calculation. EnWin takes the position that no such review is warranted in light of EnWin's strong 2012 financial statement performance and operational performance. If the Board does choose to perform a review, EnWin submits that the material enclosed within this filing is sufficient for the Board to determine that EnWin continues meet its obligations to its stakeholders and can be expected to do so in 2014 through rates set using Annual IR.

Smart Meter Application

As part of or concurrent with its 2014 rate application, EnWin intends to seek final disposition of its Smart Meter deferral and variance accounts.

Enclosures

EnWin notes that the Board has established a policy of examining LDC performance as measured by Return on Equity, Audited Financial Statements, Service Quality Requirements, and Credit Rating Agency Reports as part of its decision-making process on COS deferral applications. EnWin has enclosed evidence to assist with that examination in Attachments A, B, C and D.

Summary

EnWin submits that there is sufficient evidence and rationale for the Board to accept this application. EnWin further submits that the relevant performance metrics demonstrate that EnWin's ratepayers are receiving good service and that neither ratepayers nor EnWin will suffer any harm as a result of moving to Annual IR.

As part of its on-going conversation with the Intervenors, EnWin will be providing a copy of this application to the 2009 COS Intervenors at the same time as it files this with the Board.

Yours very truly,

***ENWIN* Utilities Ltd.**

Andrew J Sasso

Per: Andrew J. Sasso
Director, Regulatory Affairs

P.O. Box 1625
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Windsor, ON N9A 5T7

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APPENDIX A

<u>Appendix A</u>

Return on Equity

Enwin's deemed return on equity ("ROE) for 2012 is 3.5% as shown in Appendix B. Enwin's ROE from its most recent COS application is 8.01% and therefore the ROE on a deemed basis is above the maximum deadband of 3% or 300 basis points.

It's important to highlight that the main contributor causing Enwin's ROE to be outside of the 300 basis point threshold relates to the accounting treatment of post retirement expense. This impact of IFRS and the associated change in accounting treatment surrounding post retirement expense can be isolated to the immediate recognition of the actuarial gain or loss related to post retirement benefits. These actuarial gains or losses must be recognised immediately through the profit and loss statement each year. The amount can vary significantly in any one year based on changes in discount rates. Under GAAP, the actuarial gains or losses over a certain threshold was amortized over a specified period (the corridor approach). This is purely an accounting entry and does not have a cash flow impact. The effect of this change in the accounting standard on regulated net income in 2012 would be approximately $1,600,000. Regulated net income would be $1,600,000 higher than the value included in the attached spreadsheet. This would have the effect of increasing the ROE to 5.3% which is within the 300 basis point band. This can be illustrated in Appendix C. Appendix C reflects the removal of the net, after tax impact, of the actuarial loss related to post retirement expense.

Despite that Enwin is outside of the earnings deadband, Enwin takes the position that no regulatory review is required. In 2012, Enwin continues to be profitable and demonstrate strong earnings and financial results (see Appendix D Audited Financial Statements). Net income and cash flows remain strong, along with healthy operating margins, a strong balance sheet and credit profile. Enwin continues to pay dividends to the shareholder as a return on its investment. Enwin continues to exhibit these positive financial metrics, while as the same time continuing to reinvest capital into the distribution system to ensure customers receive safe and reliable service.

Key Financial Metrics from 2012:

Net Income (per audited financial statements) $15,158,000

Net Income (per OEB Trial Balance) $6,567,000

Capital Expenditures $16,226,000

Dividends Paid $3,750,000

Ending Cash Position $15,989,000

2012 Actual

ENWIN - Calculation of ROE on a Deemed Basis

Regulated net income, as per OEB Trial Balance		$ 6,566,707	A
Adjustment to interest expense - for deemed debt		(3,555,459)	B
Adjusted regulated net income		$ 3,011,248	C
Rate Base:			
Cost of Power, as per OEB Trial Balance		$ 213,533,589	
Operating Expenses, as per OEB Trial Balance		$ 26,200,441	
Total		$ 239,734,030	
Working Capital Allowance %		15%	
Total Working Capital Allowance		$ 35,960,105	
Fixed Assets - Excluding AUC			
Opening Balance	$ 176,254,688		
Closing Balance - Include Deferred Revenue- CC Acct 2440	$ 185,044,025		
Average	$ 180,649,357	$ 180,649,357	
Total Rate Base - 2012		$ 216,609,461	D
Regulated Deemed Equity (40%)		$ 86,643,784	E
Regulated Deemed Debt (60%)		$ 129,965,677	F
Regulated Rate of Return on Deemed Equity		**3.5%**	G = C/E
ROE% from most recent Cost of Service application	**2009 EDR**	**8.01%**	
Difference - maximum deadband 3%		**-4.53%**	
Interest adjustment on deemed debt:			
Regulated Deemed Debt - as above	$ 129,965,677		
Weighted Average Interest Rate	6.40%		
	$ 8,317,803		
Interest expense as per the OEB trial balance	3,480,445		
	$ 4,837,358		
Utility Tax rate	26.50%		
Tax effect on interest expense	(1,281,900)		
	$ 3,555,459 B		

Please input based on your utility in the grey cells.

Revised for Post Retirement Actuarial Loss Effect

ENWIN - Calculation of ROE on a Deemed Basis

Regulated net income, as per OEB Trial Balance		$ 8,130,862	A
Adjustment to interest expense - for deemed debt		(3,555,459)	B
Adjusted regulated net income		$ 4,575,403	C
Rate Base:			
Cost of Power, as per OEB Trial Balance		$ 213,533,589	
Operating Expenses, as per OEB Trial Balance		$ 26,200,441	
Total		$ 239,734,030	
Working Capital Allowance %		15%	
Total Working Capital Allowance		$ 35,960,105	
Fixed Assets - Excluding AUC			
Opening Balance	$ 176,254,688		
Closing Balance - Include Deferred Revenue- CC Acct 2440	$ 185,044,025		
Average	$ 180,649,357	$ 180,649,357	
Total Rate Base - 2012		$ 216,609,461	D
Regulated Deemed Equity (40%)		$ 86,643,784	E
Regulated Deemed Debt (60%)		$ 129,965,677	F
Regulated Rate of Return on Deemed Equity		**5.3%**	G = C/E
ROE% from most recent Cost of Service application	**2009 EDR**	**8.01%**	
Difference - maximum deadband 3%		**-2.73%**	

<u>Interest adjustment on deemed debt:</u>

Regulated Deemed Debt - as above	$ 129,965,677	
Weighted Average Interest Rate	6.40%	
	$ 8,317,803	
Interest expense as per the OEB trial balance	3,480,445	
	$ 4,837,358	
Utility Tax rate	26.50%	
Tax effect on interest expense	(1,281,900)	
	$ 3,555,459	B

Please input based on your utility in the grey cells.

APPENDIX B

Financial Statements of

ENWIN UTILITIES LTD.

Years ended December 31, 2012 and 2011

KPMG LLP
Chartered Accountants
618 Greenwood Centre
3200 Deziel Drive
Windsor ON N8W 5K8

Telephone (519) 251-3500
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Enwin Utilities Ltd.

We have audited the accompanying financial statements of Enwin Utilities Ltd., which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enwin Utilities Ltd., as at December 31, 2012, December 31, 2011 and January 1, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 19, 2013
Windsor, Canada

ENWIN UTILITIES LTD

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ENWIN UTILITIES LTD.

Balance Sheets
(In thousands of Canadian dollars)

December 31, 2012, December 31, 2011 and January 1, 2011

	Notes	December 31, 2012	December 31, 2011	January 1, 2011
Assets				
Current assets:				
Cash and cash equivalents	4	$ 15,989	$ 3,989	$ -
Accounts receivable	5	37,428	33,520	31,094
Income taxes receivable		-	976	3,155
Due from related parties	18	770	34	1,470
Inventory	6	3,111	2,617	4,009
Other assets		1,292	849	787
Total current assets		**58,590**	**41,985**	**40,515**
Property, plant and equipment	7	193,615	184,471	176,695
Intangible assets	8	9,236	10,251	12,484
Work in progress		349	267	331
Due from related party	18	7,808	-	-
Deferred income taxes	13	7,979	9,339	11,308
Total non-current assets		**218,987**	**204,328**	**200,818**
Total assets		$ **277,577**	$ **246,313**	$ **241,333**
Liabilities				
Current liabilities:				
Bank indebtedness		$ -	$ -	$ 8,187
Accounts payable and accruals		26,420	26,839	26,697
Payments in lieu of income taxes payable	13	2,901	-	-
Due to related parties	18	21,358	21,116	19,534
Current portion of customer deposits	9	935	847	1,040
Current portion of long term borrowings	10	-	49,888	-
Deferred revenue		1,551	888	-
Total current liabilities		**53,165**	**99,578**	**55,458**
Customer deposits	9	8,684	6,667	6,973
Vested sick leave		12	21	20
Deferred revenue customer contributions		1,804	329	-
Long-term borrowings	10	50,470	-	49,708
Employee future benefits	11	41,724	29,408	26,984
Total non-current liabilities		**102,694**	**36,425**	**83,685**
Total liabilities		**155,859**	**136,003**	**139,143**
Equity				
Common shares	14	62,008	62,008	62,008
Contributed surplus		516	516	516
Retained earnings		59,194	47,786	39,666
Total equity		**121,718**	**110,310**	**102,190**
Commitments and contingencies	20			
Total liabilities and equity		$ **277,577**	$ **246,313**	$ **241,333**

The accompanying notes are an integral part of these financial statements.

ENWIN UTILITIES LTD.

Statements of Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Notes	2012	2011
Customer billing for electricity and service charges		$ 260,368	$ 257,698
Cost of electricity purchased		208,106	208,212
Gross profit		**52,262**	**49,486**
Services provided to Windsor Utilities Commission	18	12,105	11,209
Services provided to Enwin Energy Ltd.	18	695	1,040
Other income	15	5,518	4,632
Total revenue		**18,318**	**16,881**
Distribution expenses		8,695	8,130
Administration expenses		38,018	37,946
Total expenses		**46,713**	**46,076**
Results from operating activities		**23,867**	**20,291**
Finance costs	17	3,141	4,192
		3,141	4,192
Profit for the year		**20,726**	**16,099**
Income taxes:			
Provision for payments in lieu of corporate taxes	13	4,208	2,260
Deferred income taxes	13	1,360	1,969
		5,568	4,229
Total comprehensive income for the year		$ **15,158**	$ **11,870**

The accompanying notes are an integral part of these financial statements.

ENWIN UTILITIES LTD.

Statements of Changes in Equity
(In thousands of Canadian dollars)

Years ended December 31, 2012, and 2011.

		Share Capital		Contributed surplus		Retained earnings		Total
Balance at January 1, 2011	$	62,008	$	516	$	39,666	$	102,190
Total comprehensive income for the year		-		-		11,870		11,870
Dividends declared		-		-		(3,750)		(3,750)
Balance at December 31, 2011	$	62,008	$	516	$	47,786	$	110,310
Total comprehensive income for the year		-		-		15,158		15,158
Dividends declared		-		-		(3,750)		(3,750)
Balance at December 31, 2012	$	62,008	$	516	$	59,194	$	121,718

The accompanying notes are an integral part of these financial statements.

ENWIN UTILITIES LTD.

Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Note		2012		2011
Cash flows from operating activities:					
Total comprehensive income for the year		$	15,158	$	11,870
Adjustments for:					
Depreciation and amortization	7, 8		8,921		10,084
Amortization of deferred revenue customer contribution			(21)		(4)
Loss on sale of property, plant and equipment			604		1,307
Finance costs	17		3,141		4,192
Income tax expense	13		5,568		4,229
			33,371		31,678
Changes in:					
Inventory			(494)		1,392
Other assets			(443)		(62)
Accounts receivable			(3,908)		(2,426)
Due from related parties			(736)		1,436
Work in process			(82)		64
Accounts payable and accruals			(419)		142
Due to related parties			242		1,582
Deferred revenue			663		888
Customer deposits			2,105		(499)
Vested sick leave			(9)		1
Employee benefits			12,316		2,424
			9,235		4,942
Interest paid			(3,029)		(4,012)
Taxes paid			(331)		(81)
Net cash from operating activities			**39,246**		**32,527**
Cash flows from investing activities:					
Acquisition of property, plant and equipment	7, 8		(17,722)		(17,061)
Deferred revenue customer contributions			1,496		333
Proceeds on sale of property, plant and equipment			68		127
Net cash used in investing activities			**(16,158)**		**(16,601)**
Cash flows from financing activities:					
Payment of transaction costs related to debentures	10		(530)		-
Decrease in bank indebtendness			-		(8,187)
Issuance of debenture	10		51,000		-
Principle repayment of debenture	10		(50,000)		-
Increase in due from related parties	18		(7,808)		-
Dividends paid			(3,750)		(3,750)
Net cash used in financing activities			**(11,088)**		**(11,937)**
Net increase in cash and cash equivalents			12,000		3,989
Cash and cash equivalents at January 1			3,989		-
Cash and cash equivalents at December 31		$	15,989	$	3,989

The accompanying notes are an integral part of these financial statements.

ENWIN UTILITIES LTD

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1. Reporting entity:

Enwin Utilities Ltd. is a local distribution Corporation (the “Corporation” or the “LDC”) responsible for the transmission and distribution of electricity, as well as the service and maintenance of the City of Windsor’s powerline infrastructure. Enwin Utilities Ltd. also provides billing, credit, financial and customer service on behalf of Enwin Energy Ltd. (“Energy”), Windsor Utilities Commission (“the Commission”) and the City of Windsor (“the City”). The address of the Corporation’s registered office is 787 Ouellette Avenue, Windsor, Ontario, Canada. The Corporation is 100% owned by Windsor Canada Utilities Ltd.

On November 6, 2012, the Corporation and the Commission entered into a Water System Operating Agreement (“WSOA”), whereby the Corporation has agreed to provide services to the Commission with respect to the performance of the Business. The services are to include: management, administrative services, construction operations and maintenance services. The Corporation is responsible for hiring all labor, administrative, professional and supervisory personnel required to perform and provide the services in accordance with the WSOA. Pursuant to the terms of the WSOA the Commission has transferred all non-unionized employees and all unionized employees of the Business to the Corporation; per the terms of an Employee Arrangement agreement dated November 6, 2012.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation’s financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

(b) Adoption of IFRS:

These are the Corporation’s first financial statements prepared in accordance with IFRS. In prior years, the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Corporation has restated its opening balance sheet at January 1, 2011, its IFRS transition date, by applying IFRS retrospectively, except with regard to specific items, in respect of which IFRS 1: *First-time Adoption of IFRS* either, prohibits or modifies the retrospective application of IFRS.

2. Basis of preparation (continued):

(b) Adoption of IFRS:

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 21.

(c) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 19, 2013.

(d) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) The accrued benefit related to the Corporation's underfunded defined benefit plan is actuarially determined and is measured at the present value of the defined benefit obligation.

(e) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand dollars.

(f) Use of estimates and judgements:

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

2. Basis of preparation (continued):

(f) Use of estimates and judgements (continued):

In particular, information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in these financial statements, include:

(i) Note 5 – Trade accounts receivables: allowance for impairment. Unbilled revenue: measurement of revenues not yet billed
(ii) Note 7 – Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment
(iii) Note 11 – Employee future benefits: measurement of the defined benefit obligation
(iv) Note 19 – Financial instruments and risk management: valuation of financial instruments

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, include:

(i) the Corporation's determination that they are acting as a principal for electricity distribution and therefore have presented the electricity revenues on a gross basis

(g) Rate regulation:

Effect of rate-setting regulations on the Corporation's activities and on these financial statements:

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1988). The OEB has the power and responsibility to approve or set rates for the transmission and distributions of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers.

Smart Meter Initiative

The OEB has established dates by which eligible Ontario Ratepayers are required to be billed for commodity using Time-of-Use ("TOU") pricing. TOU pricing requires the use of Smart Meters which permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. Bill 21, Energy Conservation and Responsibility Act, provides the legislative framework and regulations to support this initiative. The Corporation has installed all of its Smart Meters by the end of 2012.

2. Basis of preparation (continued):

(g) Rate regulation (continued):

On September 18, 2008, the Corporation submitted an application to the OEB for the consideration and approval of a Utility-Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery guideline of the OEB. On April 9, 2009, the Application was approved as filed. The Application provided for a new rate adder of the $1.00 per metered customer per month, representing an increase of $0.73 per customer per month beginning May 1, 2009 to April 30, 2012. Total Smart Meters installed at the end of 2012 were 85,814.

Energy Consumer Protection Act

In December 2009, the government introduced the Energy Consumer Protection Act, 2009, (“Bill 235”) that would amend several statues, including the Ontario Energy Board Act, 1998, The Electricity Act, 1998, The Consumer Protection Act, 2002, and The Residential Tenancies Act, 2006.

In summary, Bill 235 contains additional measures that are designed to: i) protect consumers from hidden contract costs, excessive cancellation fees and “negative-option” contract renewals; ii) provide greater fairness and transparency for consumers through rate comparisons, and plain language contract disclosure; iii) enhance the ability and rights of consumers to cancel contracts; iv) create a new licensing and training regime that includes mandatory oral disclosure and identification badges for energy retailers; v) enable individual suite metering in apartment buildings; and vi) grant OEB more authority to set polices on customers security deposits and termination of electricity procedures by local distribution companies.

The continuing restructuring of Ontario’s electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

New LDC Licence Requirements – Conservation and Demand Management (“CDM”) Targets:

2. Basis of preparation (continued):

(g) Rate regulation (continued):

On November 12, 2010, the OEB amended LDC licences to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 26.810 MW and a consumption reduction target of 117.890 GWh. LDCs must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and the eligibility criteria for performance incentive payments.

On December 21, 2012 the Minister of Energy gave direction to the Ontario Power Authority ("OPA") to extend the province-wide CDM programs for an additional one-year period from January 01, 2015 to December 31, 2015. The directive stated that the "OPA shall take steps to enhance collaboration with distributors and seek to maximize administrative and delivery efficiencies".

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the opening IFRS balance sheet at January 1, 2011 for the purposes of the transition to IFRS.

(a) Financial instruments:

All financial assets and liabilities of the Corporation are classified into one of the following categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables, available for sale financial assets, financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accruals	Financial liabilities at amortized cost
Due to related parties	Financial liabilities at amortized cost
Long-term borrowings	Financial liabilities at amortized cost
Bank indebtedness	Financial liabilities at amortized cost

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments classified as loans and receivables and financial liabilities at amortized cost, are measured at amortized cost. Financial instruments classified as fair value through profit and loss are measured at fair value.

The Corporation does not use derivative instruments.

(b) Inventory:

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis. Net realizable value is determined on a replacement cost basis.

(c) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost or deemed cost on transition date, less accumulated depreciation and accumulated impairment losses. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously determined under Canadian GAAP as the deemed cost for items of property, plant and equipment used in rate regulated operations at January 1, 2011, the transition date to IFRS.

3. Significant accounting policies (continued):

(c) Property, plant and equipment (continued):

(i) Recognition and measurement (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Borrowing costs on qualifying assets are capitalized as part of the cost of the asset and are based on the Corporation's average cost of borrowing.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative years are as follows:

Buildings	10 – 50 years
Distribution and metering equipment	8 – 80 years
Other assets	5 – 60 years

3. Significant accounting policies (continued):

(c) Property, plant and equipment (continued):

(iii) Depreciation (continued):

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within other income in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased, which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative years are:

Computer software	5 - 10 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date.

(e) Work in process:

Work in process is recorded at cost with cost being determined based on material purchased services, internal labour and overhead as applicable.

3. Significant accounting policies (continued):

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventory and work-in-progress and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment losses recognized in prior periods are assessed at each reporting date of any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss and are allocated to reduce the carrying amount of the assets in the cash-generating unit on a pro-rata basis.

(g) Employee future benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards in Ontario. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings.

3. Significant accounting policies (continued):

(g) Employee future benefits (continued):

(i) Pension plan:

OMERS is a defined benefit plan. However, as sufficient information is not available to enable the Corporation to account for the plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due. At December 31, 2012 the OMERS plan is in a deficit position, which will be addressed through temporary rate increases which continue in 2013.

Pursuant to the WSOA agreement dated November 6, 2012, the Commission has transferred all non-unionized employees and all unionized employees of the Business to the Corporation, as referenced in note 1.

(ii) Post-employment benefits, other than pension:

The Corporation pays certain health, dental and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Corporation is the legal sponsor of the plan. There is a policy in place to allocate the net defined benefit cost to the entities participating in the group plan. The allocation is based on the obligation attributable to the plan participants. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements.

The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. The current service cost for a period is equal to the actuarial present value of benefits attributed to that period in which employees rendered their services.

The Corporation recognizes actuarial gains and losses immediately into income.

3. Significant accounting policies (continued):

(g) Employee future benefits (continued):

(ii) Post-employment benefits, other than pension (continued):

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Gains and losses on account of curtailment or settlement of these employee future benefits are recognized immediately in profit or loss.

In accordance with the Employee Arrangement Agreement between Windsor Utilities Commission and Enwin Utilities Ltd., the plan was amended such that all Windsor Utilities Commission management and union active employees are included as part of the plan, and have their coverage sponsored by Enwin Utilities Ltd. A date of December 31, 2012 was assumed by the actuary to reflect this event in the plan. Reference note 1 for further information.

(h) Deferred revenue:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as current liabilities. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to a customers' capital contribution account.

The customers' capital contribution account, which represents the Corporation's obligation to continue to provide the customers access to electricity, is reported as deferred revenue, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

3. Significant accounting policies (continued):

(i) Customer deposits:

Customer deposits include cash collections from customers, which are applied against any unpaid portion of individual customer accounts. Effective January 1, 2011, the OEB provided Customer Service Amendments (CSA) that provided guidelines that required customer deposits to be applied to a customer's account prior to the severance process commencing. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their service. Customer deposits are also refundable to customers demonstrating an acceptable level of credit risk, as determined by the Corporation. Customer deposits also include refundable maintenance deposits from developers, deposits for recoverable work orders, and prudential deposits from retailers.

(j) Revenue recognition:

Revenue for the Corporation is recognized at approved rates as electricity is delivered to customers and is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to the regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that they are acting as a principal for the electricity distribution and therefore have presented the electricity revenues on a gross basis.

Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges and any regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Revenue includes an estimate of unbilled revenue. Unbilled revenue represents an estimate of electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from those estimates.

3. Significant accounting policies (continued):

(j) Revenue recognition (continued):

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Revenue is measured at the fair value of the consideration received or receivable, net of any taxes which may be applicable.

Other income for work orders is recorded on a net basis as the Corporation is acting as an agent for this revenue stream. All other amounts in other income are recorded on a gross basis and are recognized when services are rendered.

(k) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Finance costs:

Finance costs comprise interest expense on borrowings and unwinding of the discount rate on provisions.

(m) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Under the Electricity Act 1998, the Corporation makes payments in lieu of corporate taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Payments in lieu of taxes (PILS) are referred to as income taxes.

3. Significant accounting policies (continued):

(m) Income taxes (continued):

Current tax is the expected PILs payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(n) Set-off and reporting on a net basis:

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. For financial assets and financial liabilities, offsetting is permitted when, and only when, the Corporation has a legally enforceable right to set-off and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued):

(o) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these financial statements. New standards, amendments to standards and interpretations which management believes are likely to be relevant to the Corporation. These are set out below:

(i) IFRS 9, *Financial Instruments*, addresses classification and measurement of financial instruments and replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2015. The Corporation is evaluating the standard and has not yet determined the impact, if any, on its financial statements. It plans to adopt this standard on its effective date, January 1, 2015.

(ii) IFRS 13, *Fair Value Measurement,* will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. IFRS 13 is required to be applied for accounting periods beginning on or after January 1, 2013. The Corporation has not yet assessed the impact of the standard.

(iii) Amendments to IAS 1, *Presentation of Financial Statements*, requires the Corporation to present separately the items of other comprehensive income that may be classified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Corporation does not expect that this standard will have any impact on its financial statements.

(in thousands of Canadian dollars)

4. Cash and cash equivalents:

The Corporation has an agreement with a Canadian chartered bank for an operating line of credit in the amount of $75,000 (December 31, 2011 – $75,000; January 1, 2011 - $75,000) bearing interest at prime minus 0.25%. The line of credit restricts the availability of the Corporation to lien assets.

5. Accounts receivable:

	December 31, 2012	December 31, 2011	January 1, 2011
Trade receivables	$ 20,307	$ 17,487	$ 16,250
Unbilled revenue	17,955	16,869	15,608
Allowance for doubtful accounts	(834)	(836)	(764)
Accounts receivable	$ 37,428	$ 33,520	$ 31,094

6. Inventory:

Inventory consists of parts and supplies acquired for internal construction, maintenance or recoverable work.

The amount of inventory consumed by the Corporation and recognized as an expense during 2012 was $219 (2011 - $318).

(in thousands of Canadian dollars)

7. Property, plant and equipment:

(a) Cost:

	Land and buildings	Distribution and metering equipment	Other assets	Construction -in- progress	Total
Balance at January 1, 2011	$ 18,682	$ 141,376	$ 12,960	$ 3,677	$ 176,695
Additions	356	14,359	691	887	16,293
Disposals/retirements	(6)	(1,467)	-	-	(1,473)
Balance at December 31, 2011	$ 19,032	$ 154,268	$ 13,651	$ 4,564	$ 191,515
Balance at January 1, 2012	$ 19,032	$ 154,268	$ 13,651	$ 4,564	$ 191,515
Additions	595	12,996	772	2,892	17,255
Disposals/retirements	-	(744)	-	-	(744)
Balance at December 31, 2012	$ 19,627	$ 166,520	$ 14,423	$ 7,456	$ 208,026

(b) Accumulated depreciation:

	Land and buildings	Distribution and metering equipment	Other assets	Construction -in- progress	Total
Balance at January 1, 2011	$ -	$ -	$ -	$ -	$ -
Depreciation charge for the year	862	4,399	1,820	-	7,081
Disposals/retirements	-	(37)	-	-	(37)
Balance at December 31, 2011	$ 862	$ 4,362	$ 1,820	$ -	$ 7,044
Balance at January 1, 2012	$ 862	4,362	1,820	-	7,044
Depreciation charge for the year	879	4,754	1,806	-	7,439
Disposals/retirements	-	(72)	-	-	(72)
Balance at December 31, 2012	$ 1,741	$ 9,044	$ 3,626	$ -	$ 14,411

(in thousands of Canadian dollars)

7. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution and metering equipment	Other assets	Construction -in- progress	Total
January 1, 2011	$ 18,682	$ 141,376	$ 12,960	$ 3,677	$ 176,695
December 31, 2011	18,170	149,906	11,831	4,564	184,471
December 31, 2012	17,886	157,476	10,797	7,456	193,615

(d) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment has been allocated to profit or loss as follows:

	Distribution expenses	Administration expenses	Total
December 31, 2011:			
Depreciation of property, plant and equipment	$ 4,403	$ 2,678	$ 7,081
	$ 4,403	$ 2,678	$ 7,081
December 31, 2012:			
Depreciation of property, plant and equipment	$ 4,757	$ 2,682	$ 7,439
	$ 4,757	$ 2,682	$ 7,439

(in thousands of Canadian dollars)

8. Intangible assets:

(a) Cost or deemed cost:

		Computer software
Balance at January 1, 2011	$	12,484
Additions		768
Disposals/retirements		-
Balance at December 31, 2011	$	13,252
Balance at January 1, 2012	$	13,252
Additions		467
Disposals/retirements		-
Balance at December 31, 2012	$	13,719

(b) Accumulated amortization:

		Computer software
Balance at January 1, 2011	$	-
Amortization charge for the year		3,001
Disposals/retirements		-
Balance at December 31, 2011	$	3,001
Balance at January 1, 2012	$	3,001
Amortization charge for the year		1,482
Disposals/retirements		-
Balance at December 31, 2012	$	4,483

(in thousands of Canadian dollars)

8. Intangible assets (continued):

(c) Carrying amounts:

		Computer software
January 1, 2011	$	12,484
December 31, 2011		10,251
December 31, 2012		9,236

Amortization expense of $1,482 (2011 - $3,001) is included in administration expenses on the statements of comprehensive income.

9. Customer deposits:

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(in thousands of Canadian dollars)

9. Customer deposits (continued):

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue or a customer capital contribution account.

Customer deposits comprise:

	December 31, 2012	December 31, 2011	January 1, 2011
Customer deposits	$ 6,598	$ 6,389	$ 7,847
Construction deposits	3,021	1,125	166
	9,619	7,514	8,013
Less: Current portion	935	847	1,040
	$ 8,684	$ 6,667	$ 6,973

10. Long-term borrowings:

Long-term borrowings comprise:

	December 31, 2012	December 31, 2011	January 1, 2011
Debentures payable	$ 51,000	$ 50,000	$ 50,000
Less: Unamortized debt issuance costs	(530)	(112)	(292)
	50,470	49,888	49,708
Less: Current portion	-	49,888	-
	$ 50,470	$ -	$ 49,708

10. Long-term borrowings (continued):

In 2002, the Corporation, along with four other Ontario Local distribution companies, entered into an agreement with Electricity Distributors Finance Corporation (“EDFIN”), whereby EDFIN acquired unsecured debentures in the amount of $175,000 from the participants. The Corporation’s share of these debentures amounted to $50,000. EDFIN, in turn, issued unsecured debentures for these amounts to TD Securities Inc. who sold them to external investors. The Corporation paid semi-annual payments of interest at a rate of 6.45% per annum, on February 15 and August 15 in each year until and including maturity on August 15, 2012. All principal and interest due was paid at the maturity date of August 15, 2012.

Senior unsecured debentures, which have a maturity date of November 6, 2042 and bearing interest at a rate of 4.134% per annum, interest is payable in equal semi-annual instalments, in arrears, on May 6 and November 6 each year commencing May 6, 2013 until maturity, were issued on November 6, 2012. The debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, the Corporation incurred debt issuance costs in the amount of $530. The debentures require annual interest payments only to 2042 of $2,108, with a final principal payment of $51,000 due November 2042.

The Corporation incurred interest expense in respect of the debentures of $2,339 (2011 - $3,225), which is recognized as part of finance expense on the statements of comprehensive income.

11. Employee future benefits:

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. Significant assumptions underlying the actuarial valuation include management’s best estimate of the interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

From November 2012, the plan was amended such that all Windsor Utilities Commission (“WUC”) management and union active employees covered under the WUC collective agreement from July 1, 2012, would be included as part of the Plan and have their coverage sponsored by Enwin Utilities Ltd. The December 31, 2012 date was chosen to reflect this event in the plan. Referenced note 1 for further information.

(in thousands of Canadian dollars)

11. Employee future benefits (continued):

The amendment resulted in a past service cost of $7,808 being recognized as of December 31, 2012. The vested portion of the past service cost of $2,849 is recognized immediately as of December 31, 2012 and the unvested portion of $4,959 is amortized through expense over the average period to full eligibility of 4.7 years. This amendment resulted in a long term receivable from the Commission for $7,808.

The Corporation measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2011, with extrapolation to December 31, 2012, has been used to calculate the current obligation. The Corporation's employee future benefit liability consists of the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Defined benefit liability	$ 36,765	$ 29,408	$ 26,984
Unamortized past service costs	4,959	-	-
Defined benefit obligation, end of year	$ 41,724	$ 29,408	$ 26,984

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

Changes in the present value of the defined benefit obligation:

	December 31, 2012	December 31, 2011
Defined benefit obligation, beginning of year	$ 29,408	$ 26,984
Current service cost	1,407	1,501
Interest cost	1,390	1,480
Actuarial losses on obligation	2,798	573
Benefits paid for the year	(1,087)	(1,130)
Past service cost	2,849	-
Defined benefit liability, end of year	$ 36,765	$ 29,408
Past service cost	4,959	-
Defined benefit obligation, end of year	$ 41,724	$ 29,408

(in thousands of Canadian dollars)

11. Employee future benefits (continued):

Components of net benefit expense recognized are as follows:

	2012	2011
Current service cost	$ 1,407	$ 1,501
Interest cost	1,390	1,480
Actuarial losses on obligation	2,798	573
Net benefit expense recognized	$ 5,595	$ 3,554

Net benefit expense for the year is recognized as administrative expense on the statements of comprehensive income.

The main actuarial assumptions underlying the valuation are as follows:

(a) Health care cost trend rates:

The health care cost trend for prescription drugs is estimated to decrease at a declining rate from 7.5% to 4.5% by 2027. Other health expenses are estimated to decrease at a declining rate from 6.5% to 4.5% by 2027. Dental expenses are estimated to increase at 4.0% per year.

The approximate effect on the accrued benefit obligation and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Defined benefit obligation	Periodic benefit cost
1% increase in health care trend rate	$ 7,253	$ 760
1% decrease in health care trend rate	(5,742)	(589)

11. Employee future benefits (continued):

(b) Discount rate:

The obligations at the period end and the present value of future liabilities were determined using a discount rate of 4.0% (December 31, 2011 – 4.6%; January 1, 2011 – 5.3%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

(c) Salary levels:

Future general salary and wage levels were assumed to increase at 3% per year.

(d) Mortality decrement:

Assumptions regarding future mortality rates are based on published statistics and mortality tables.

12. Pension plan:

The Corporation participates in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan. Contributions during the year were 8.3% (2011 – 7.4%) for employee earnings below the year's maximum pensionable earnings and 12.8% (2011 – 10.7%) thereafter. During 2012, the Corporation expensed contributions totalling $2,030 (2011 - $1,698) made to OMERS in respect of the employer's required contributions to the plan. Estimated contributions for 2013 are $2,757.

Pursuant to the WSOA agreement dated November 6, 2012, the Commission has transferred all non-unionized employees and all unionized employees of the Business to the Corporation, as referenced in note 1.

(in thousands of Canadian dollars)

13. Income taxes (provision for payment in lieu of corporate taxes):

	2012	2011
Current tax expense:		
Current year	$ 4,156	$ 2,260
Adjustments for prior years	52	–
Deferred tax expense:		
Origination and reversal of temporary differences	1,360	1,969
Total income taxes expense	$ 5,568	$ 4,229

The provision for income taxes expense varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2012	2011
Basic rate applied to income before income tax	26.50%	28.25%
Increase (decrease) in income tax resulting from:		
Items not deductible (taxable) for tax purposes and other	0.05%	(4.27%)
Change in enacted taxes rates and other	0.31%	2.29%
Effective rate applied to income before income taxes	26.86%	26.27%

The components of the future income tax assets and liabilities are summarized as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:			
Property, plant and equipment	$ 4,411	$ 5,663	$ 7,791
Employee benefits	3,032	1,906	1,300
Intangible assets	1,354	1,463	1,587
Other	180	213	180
Regulatory assets	–	94	512
Deferred tax liabilities:			
Deferred debt issuance costs	–	–	62
Regulatory liabilities	998	–	–
Net deferred income tax asset	$ 7,979	$ 9,339	$ 11,308

(in thousands of Canadian dollars)

13. Income taxes (continued):

At December 31, 2012, a future tax asset of $7,979 (December 31, 2011 - $9,339; January 1, 2011 - $11,308) has been recorded. The utilisation of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Corporation believes that this asset should be recognized as it will be recovered through future rates.

14. Share capital:

	December 31, 2012	December 31, 2011	January 1, 2011
Authorized:			
Unlimited common shares			
Issued:			
22,000 common shares	$ 62,008	$ 62,008	$ 62,008

15. Other income:

Other income comprises:

	2012	2011
Change in occupancy	$ 372	$ 360
Late payment and collection charges	1,132	1,008
Other operating revenues	861	1,102
Loss on disposal of property, plant and equipment	(604)	(1,307)
Pole rental	502	483
Sale of scrap	345	324
Sewer surcharge billing and collecting	2,910	2,662
Total other income	$ 5,518	$ 4,632

(in thousands of Canadian dollars)

16. Employee benefits:

	Note		2012		2011
Salaries and wages		$	17,352	$	17,597
Contributions to multi-employer plan	12		2,030		1,698
Expenses related to defined benefit plans	11		5,595		3,555
		$	24,977	$	22,850

Pursuant to the WSOA agreement dated November 6, 2012, the Commission has transferred all non-unionized employees and all unionized employees of the Business to the Corporation, as referenced in note 1.

17. Finance costs:

		2012		2011
Interest expense on financial liabilities measured at amortized cost	$	3,027	$	4,012
Discount on debentures		114		180
Finance costs recognized in profit or loss	$	3,141	$	4,192

(in thousands of Canadian dollars)

18. Related party transactions:

(a) Parent and ultimate controlling party:

The parent is Windsor Canada Utilities Ltd ("WCUL"). The parent of WCUL and the ultimate controlling party of the Corporation is the Corporation of the City of Windsor ("the City"). The City produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members.

Key management compensation:

	2012	2011
Salaries and other short-term benefits	$ 694	$ 820
Post-employment benefits	16	13
	$ 710	$ 833

(c) Transactions with parent and ultimate controlling party:

The Corporation provides sewer surcharge billing and collecting for the City for which it charges a fee. The total amount charged to the City for the year ended December 31, 2012 was $2,910 (2011- $2,662). The sewer surcharge is recognized as other income on the statements of comprehensive income.

The Corporation collects and remits the sewer surcharge on behalf of the City. The total amount owing to the City at December 31, 2012, relating to sewer surcharge was $4,977 (December 31, 2011 - $4,552; January 1, 2011 - $4,312).

(in thousands of Canadian dollars)

18. Related party transactions (continued):

(d) Transactions with entities under common control:

On November 6, 2012 the Corporation and the Commission entered into a Water System Operating Agreement ("WSOA"), whereby the Corporation has agreed to provide, services to the Commission with respect to the performance of the Business. Pursuant to the terms of the WSOA the Commission has transferred all non-unionized employees and all unionized employees of the Business to the Corporation; per the terms of an Employee Arrangement agreement dated as of the date of the WSOA, as referenced in note 1.

Prior to November 6, 2012 and Under a Managed Services Agreement effective January 1, 2007, the Corporation provided certain finance, administration, human resource, management and other support services to the Windsor Utilities Commission ("the Commission").

The total amount charged to the Commission for the year ended December 31, 2012 was $12,105 (2011 – $11,209).

Under a Management Services Agreement effective January 1, 2000, the Corporation provided certain finance, administration, human resources, management and other support services to Enwin Energy Ltd. ("Energy"). The total amount charged to Energy for the year ended December 31, 2012 was $695 (2011 - $1,040).

(e) Amounts due from (to) related parties:

The accounts receivable from corporations under common control consist of:

	December 31, 2012	December 31, 2011	January 1, 2011
Due from companies under common control:			
Due from Windsor Utilities Commission	$ 749	$ –	$ 1,241
Due from Enwin Energy Ltd.	21	34	229
	$ 770	$ 34	$ 1,470

(in thousands of Canadian dollars)

18. Related party transactions (continued):

(e) Amounts due from (to) related parties (continued):

Long term receivable from corporations under common control consist of:

	December 31, 2012	December 31, 2011	January 1, 2011
Due from Windsor Utilities Commission	$ 7,808	$ –	$ –
	$ 7,808	$ –	$ –

The accounts payable to related parties consist of:

	December 31, 2012	December 31, 2011	January 1, 2011
Due to companies under common control:			
Promissory note to Enwin Energy Ltd.	$ 15,000	$ 15,000	$ 15,000
Due to Enwin Energy Ltd.	354	–	–
Due to Windsor Utilities Commission	1,282	1,961	–
Due to ultimate parent:			
Due to the City of Windsor (net)	4,722	4,155	4,534
	$ 21,358	$ 21,116	$ 19,534

The promissory note to Energy is due on demand, unsecured and bears interest at the Royal Bank of Canada prime rate.

The amounts due to the City are non-interest bearing.

(in thousands of Canadian dollars)

19. Financial instruments and risk management:

The carrying values of cash and cash equivalents, accounts receivable, amounts due from (to) related parties, bank indebtedness and accounts payable and accruals approximate fair values because of the short maturity of these instruments.

The fair value of the debentures is $52,707 (December 31, 2011 - $51,772, January 1, 2011 - $52,093). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

The aging of accounts receivables at the reporting date was:

	December 31, 2012	December 31, 2011	January 1, 2011
Not past due	$ 31,442	$ 30,820	$ 28,586
Past due 0 – 30 days	3,394	1,093	1,040
Past due 31 – 60 days	608	273	407
Greater than 60 days	1,984	1,334	1,061
	$ 37,428	$ 33,520	$ 31,094

The Corporation's allowance for doubtful accounts was $834 at December 31, 2012 (December 31, 2011 - $836; January 1, 2011 - $764).

(i) Credit risk:

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Windsor. No single customer accounts for greater than 5% of revenues.

(in thousands of Canadian dollars)

19. Financial instruments and risk management (continued):

(i) Credit risk (continued):

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the statements of comprehensive income. Subsequent recoveries of receivables previously provisioned are credited to the statements of comprehensive income. The balance of the allowance for impairment at December 31, 2012 is $834 (December 31, 2011 - $836; January 1, 2011 - $764). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2012, approximately $1,312 (December 31, 2011 - $1,052; January 1, 2011 - $908) is considered 60 days past due. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2012, the Corporation holds security deposits in the amount of $6,599 (December 31, 2011 - $6,389; January 1, 2011 - $7,847).

(ii) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation has access to a line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The following are the contractual maturities of financial liabilities:

December 31, 2012

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	More than 2 years
Customer deposits	$ 9,619	$ (9,619)	$ (468)	$ (467)	$ (935)	$ (7,749)
Accounts payable and accruals	26,420	(26,420)	(26,231)	(189)	-	-
Due to related parties	21,358	(21,358)	(6,358)	-	-	(15,000)
Debentures	50,470	(51,000)	-	-	-	(51,000)
	$ 107,867	$ (108,397)	$ (33,057)	$ (656)	$ (935)	$ (73,749)

(in thousands of Canadian dollars)

19. Financial instruments and risk management (continued):

(ii) Liquidity risk (continued):

December 31, 2011

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	More than 2 years
Customer deposits	$ 7,514	$ (7,514)	$ (423)	$ (424)	$ (867)	$ (5,800)
Accounts payable and accruals	26,839	(26,839)	(26,676)	-	(163)	-
Due to related parties	21,116	(21,116)	(6,116)	(15,000)	-	-
Debentures	49,888	(50,000)	-	(50,000)	-	-
	$ 105,357	$ (105,469)	$ (33,215)	$(65,424)	$ (1,030)	$ (5,800)

(iii) Market risk:

Market risks primarily refer to the risk of loss that results from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bonds yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

(iv) Capital disclosures:

The main objectives of the Corporation when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2012, shareholder's equity amounts to $121,718 (December 31, 2011 - $110,310; January 1, 2011 - $ 102,190) and long-term debt amounts to $50,470 (December 31, 2011 - $nil; January 1, 2011 - $ 49,708).

(in thousands of Canadian dollars)

19. Financial instruments and risk management (continued):

(iv) Capital disclosures (continued):

The OEB regulates the amount of interest on debt and the maximum allowable return on equity (“MARE”) that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

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

20. Commitments and contingencies:

Commitments

Leases

The Corporation has entered into non-cancellable operating leases for vehicle equipment. Minimum lease payments required are as follows:

2013	$	594
2014-2017		1,301
Greater than 5 years		106
Total	$	2,001

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

20. Commitments and contingencies (continued):

General liability insurance

The Corporation is a member of the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"), a self-insurance plan that pools the liability risks of all the Municipal Electric Utilities in Ontario. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE for the years in which the Corporation was a member.

To December 31, 2012, the Corporation has not been made aware of any additional assessments that have not been accrued.

Participation in MEARIE covers a three-year underwriting period, which expires January 1, 2013. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next three-year underwriting term. The Corporation did not provide any notice to withdraw.

21. Explanation of transition to IFRS:

As stated in note 2(b), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in these financial statements for the year ended December 31, 2011 and in the preparation of an opening IFRS balance sheet at January 1, 2011 (the Corporation's date of transition).

In preparing its opening IFRS balance sheet, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(in thousands of Canadian dollars)

21. Explanation of transition to IFRS (continued):

Reconciliation of Balance Sheet and Equity:

	Note	Canadian GAAP	Presentation differences	Measurement and recognition differences	IFRS	Canadian GAAP	Presentation differences	Measurement and recognition differences	IFRS
		January 1, 2011				December 31, 2011			
Assets									
Cash and cash equivalents		$ -	-	-	$-	$3,989	-	-	3,989
Accounts receivable		15,486	-	-	15,486	16,650	-	-	16,650
Unbilled revenue		15,608	-	-	15,608	16,870	-	-	16,870
Payments in lieu of income taxes receivable		3,155	-	-	3,155	1,427	-	(451)	976
Due from related parties		1,470	-	-	1,470	34	-	-	34
Inventory		4,009	-	-	4,009	2,617	-	-	2,617
Other assets		787	-	-	787	849	-	-	849
Total current assets		**40,515**	-	-	**40,515**	**42,436**	-	-	**41,985**
Property, plant and equipment	*a, b, c, d*	182,972	(12,484)	6,207	176,695	180,901	(9,922)	13,492	184,471
Intangible assets	*d*	-	12,484	-	12,484	-	10,251	-	10,251
Work in progress		331	-	-	331	267	-	-	267
Future payments in lieu of income taxes	*j*	18,774	-	(7,466)	11,308	16,308	-	(6,969)	9,339
Total non-current assets		**202,077**	**-**	**-**	**200,818**	**197,476**	**329**	**6,072**	**204,328**
Total assets		**242,592**	**-**	**(1,259)**	**241,333**	**239,912**	**329**	**6,072**	**246,313**
Liabilities									
Accounts payable and accruals		26,697	-	-	26,697	26,839	-	-	26,839
Bank indebtedness		8,187	-	-	8,187	-	-	-	-
Due to related parties		19,534	-	-	19,534	21,116	-	-	21,116
Current portion of customer deposits		1,040	-	-	1,040	847	-	-	847
Current portion of long-term borrowings		-	-	-	-	49,888	-	-	49,888
Deferred revenue		-	-	-	-	888	-	-	888
Total current liabilities		**55,458**	**-**	**-**	**55,458**	**99,578**	**-**	**-**	**99,578**
Customer deposits		6,973	-	-	6,973	6,667	-	-	6,667
Employee benefits	*e*	33,871	-	(6,887)	26,984	35,270	-	(5,862)	29,408
Regulatory liabilities	*f*	11,771	-	(11,771)	-	7,714	-	(7,714)	-
Long-term borrowings		49,708	-	-	49,708	-	-	-	-
Vested sick leave		20	-	-	20	21	-	-	21
Deferred Revenue Custome r Contributions	*c*	-	-	-	-	-	329	-	329
Total non-current liabilities		**102,343**	**-**	**(18,658)**	**83,685**	**49,672**	**329**	**(13,576)**	**36,425**
Total liabilities		**157,801**	**-**	**(18,658)**	**139,143**	**149,250**	**329**	**(13,576)**	**136,003**
Shareholder's Equity									
Common shares		62,008	-	-	62,008	62,008	-	-	62,008
Contributed surplus		516	-	-	516	516	-	-	516
Retained earnings		22,267	-	17,399	39,666	28,138	-	19,648	47,786
Total equity		**84,791**	**-**	**17,399**	**102,190**	**90,662**	**-**	**19,648**	**110.310**
Total liabilities and equity		**242,592**		**(1,259)**	**241,333**	**239,912**	**329**	**6,072**	**246,313**

(in thousands of Canadian dollars)

21. Explanation of transition to IFRSs (continued):

Reconciliation of profit for 2011:

	Note	Canadian GAAP	Presentation differences	Measurement and recognition differences	IFRS
Revenue:					
Customer billing for electricity and services charges	*g*	255,634	-	2,064	257,698
Cost of electricity purchased		208,212	-	-	208,212
		47,422	-	2,064	49,486
Services provided to Windsor Utilities Commission		11,209	-	-	11,209
Services provided to Enwin Energy Ltd.		1,040	-	-	1,040
Other income	*h*	5,726	(1,307)	213	4,632
Distribution expenses	*i*	-	8,130	-	8,130
Administration expenses	*i*	-	37,946	-	37,946
		65,397	47,383	2,277	20,291
Operating expenses	*i*	34,878	(36,921)	2,043	-
Earnings before undernoted items		**30,519**	**10,462**	**234**	**20,291**
Amortization	*b, i*	14,800	(10,081)	(4,719)	-
Loss on sale of property, plant and equipment	*b, h*	144	(1,307)	1,163	-
Settlement of regulatory assets (liabilities)	*g*	(47)	(1,540)	1,587	-
Interest		4,192	-	-	4,192
		19,089	(12,928)	(1,969)	4,192
Earnings before taxes		**11,430**	**(2,466)**	**2,203**	**16,099**
Income taxes:					
Provision for payment in lieu of corporate taxes	*j*	1,809	-	451	2,260
Deferred income taxes	*j*	-	2,466	(497)	1,969
Profit and comprehensive income for the year		**9,621**	**-**	**2,249**	**11,870**

Notes to the reconciliations

(a) The Corporation has elected under IFRS 1 to use the carrying value of items of property, plant and equipment as the deemed cost for items of property, plant and equipment used in rate regulated operations at the date of transition.

21. Explanation of transition to IFRS (continued):

(b) In accordance with IFRS, the Corporation has revised its accounting policy to address the component accounting requirements for property, plant and equipment. The standard requires more rigorous accounting for significant components of property, plant and equipment than is required under Canadian GAAP.

As part of the componentization exercise, the useful lives of the various components were determined and the amortization has been recorded from January 1, 2011 using the new useful lives. This had the effect of increasing *Property, plant and equipment* by $3,730 on December 31, 2011, decreasing *Depreciation expense* by $4,720 and an increase in *Loss on sale of property, plant and equipment* of $990 at December 31, 2011.

(c) Under IFRS, when the Corporation receives a customer contribution that contribution shall be recognized in the balance sheet and measured on initial recognition at the fair value of the contribution received. This measurement is consistent with Canadian GAAP.

The IFRS, however, results in capital contributions that are received by the Corporation (whether cash or actual assets) being reported as deferred revenue. Under Canadian GAAP, capital contributions were reported as a reduction in the carrying value of property, plant and equipment.

There is no impact at January 1, 2011, as the deemed cost exemption is used (see(a)). At December 31, 2011, the effect is to increase *Property, plant and equipment* by $329, increase *Deferred revenue* by $329, increase *Revenue* by $4, and increase *Depreciation expense* by $4.

(d) In accordance with IFRS, the Corporation has identified and reclassified intangible assets, namely computer software from *Property, plant and equipment*. The effect is to decrease *Property, plant and equipment* by $12,484 at January 1, 2011 (December 31, 2011 - $10,251), with an off-setting adjustment to increase *Intangible assets* by $12,484.

(e) Under IFRS the Corporation's policy is to recognize all actuarial gains and losses immediately into profit or loss. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. The unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the year ended December 31, 2011 under previous GAAP were reversed , and all actuarial gains and losses arising in 2011 were recognized in other comprehensive income.

21. Explanation of transition to IFRS (continued):

(f) The Corporation has adjusted the rate-regulated accounts as rate-regulated assets and liabilities previously recognized under Canadian GAAP are not recognized under IFRS.

The effect is to decrease *Regulatory liabilities* by $11,771 on January 1, 2011 and $7,714 on December 31, 2011.

Under the previous GAAP, the Corporation recorded regulatory liabilities in connection with future income tax deductions that would reduce the amounts charged to customers in future periods. These regulartory liabilities resulted in temporary differences which resulted in deferred tax assets. As these amounts no longer qualify for recognition under IFRS, *Deferred income taxes* decreased by $18,774 at January 1, 2011 and $16,308 at December 31, 2011.

(g) As a result of not recognizing rate-regulated assets and liabilities, revenues increased by $2,064 at December 31, 2011. Under IFRS , there is no recognition of regulatory assets or liabilities, and therefore, the impacts of these transactions are reflected on the balance sheet or statements of comprehensive income, as applicable. In particular, revenue increased at December 31, 2011 as a result of recognizing the impact of settlement variance accounts in the income statement, since the regulatory treatment of these particular qualifying transactions are discontinued under IFRS. Expenses relating to *Settlement of regulatory assets (liabilities)* were reclassified and presented as a component of *Administration expenses* and *Income taxes* in profit or loss for the year ended December 31, 2011.

(h) Consistent with the Corporation's significant accounting policy, gains and losses on disposal of property, plant and equipment were reclassified and presented as a component of other income in profit or loss for the year ended December 31, 2011.

(i) In accordance with IFRS, the Corporation reclassified and presented operating expenses and depreciation and amortization by function. This resulted in a decrease in *Operating expenses* of $36,921 an increase in *Distribution expenses* of $8,130, and an increase in *Administration expenses* of $37,946 at December 31, 2011.

(j) Changes to property, plant and equipment, employee future benefits and regulatory liabilities resulted in a decrease in *Deferred income tax assets* of $7,466 at January 1, 2011 (December 31, 2011 - $6,969). The effect on the statement of comprehensive income for the year ended December 31, 2011 was to increase the previously reported tax charge for the year-ended December 31, 2011 by $2,420.

(in thousands of Canadian dollars)

21. Explanation of transition to IFRS (continued):

Explanation of material adjustments to the cash flow statements for 2011

There are no material differences between the cash flow statements presented under IFRS and the cash flow statements presented under Canadian GAAP, with the exception that cash paid for interest and income taxes is recognized within the body of the cash flows.

22. Regulatory Assets and Liabilities:

Under IFRS, there is no recognition of regulatory assets or liabilities, and therefore, the impacts of these transactions are reflected on the statements of comprehensive income, as applicable. As a result of not recognizing rate-regulated assets and liabilities, the effect was to increase comprehensive income as follows:

	2012	2011
Gross profit	$ 3,450	$ 2,064
Expenses	(670)	(2,814)
Comprehensive income	$ 2,780	(750)

APPENDIX C

OEB Service Quality Requirements

Service Category	OEB Requirement		2012 Actual
Telephone Accessibility	Within 30 seconds, 65% or More	Total Total w/in Goal **% w/in Goal**	110,645 88,882 **80%**
Telephone Call Abandon Rate	Calls abandoned after 30 seconds, Less than 10%	Total Total w/in Goal **% w/in Goal**	110,645 2,825 **3%**
Written Response to Inquiries	Within 10 business days, 80% or More	Total Total w/in Goal **% w/in Goal**	9723 9719 **100%**
New Connections - Low Voltage	Within 5 business days, 90% or more	Total Total w/in Goal **% w/in Goal**	376 376 **100%**
New Connections - High Voltage	Within 10 business days, 90% or more	Total Total w/in Goal **% w/in Goal**	1 1 **100%**
Credit Reconnection Standards	Reconnect within 2 business 85% or More	Total Total w/in Goal **% w/in Goal**	410 410 **100%**
Appointment Scheduling	Within 5 business days, 90% or more	Total Total w/in Goal **% w/in Goal**	46,368 46,368 **100%**
Appointments Met	Within 4 hour timeframe scheduled, 90% or More	Total Total w/in Goal **% w/in Goal**	6,288 6,287 **100%**
Rescheduling Missed Appointment	Attempt to Notify and within 1 business day attempt to Reschedule, 100% of the time	Total Total w/in Goal Total w/in Goal **% w/in Goal**	1 1 1 **100%**
Emergency Responses - Urban	Onsite within 60 minutes, 80% or More	Total Total w/in Goal **% w/in Goal**	264 262 **99%**

OEB System Reliability Indicators

Reliability Category	Explanation	2012 Actual
SAIDI	Avg total customer outage time	**1.06**
SAIDI (Code 2 Outages)	SAIDI excluding loss of supply from Hydro One	**1.03**
SAIFI	Avg number of customer outages	**2.17**
SAIFI (Code 2 Outages)	SAIFI excluding loss of supply from Hydro One	**1.88**
CAIDI	Avg customer outage time per outage	**0.49**
CAIDI (Code 2 Outages)	CAIDI excluding loss of supply from Hydro One	**0.55**
MAIFI	Avg number of momentary customer outages	**5.36**

APPENDIX D

STANDARD
& POOR'S
RATINGS SERVICES

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Research Update:

Windsor Canada Utilities Ltd. Rated 'A' On Excellent Business Risk Profile; Outlook Stable

Primary Credit Analyst:
Stephen R Goltz, Toronto (1) 416-507-2592; stephen_goltz@standardandpoors.com

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Research Update:

Windsor Canada Utilities Ltd. Rated 'A' On Excellent Business Risk Profile; Outlook Stable

Overview

- We are assigning our 'A' long-term corporate credit rating to Windsor Canada Utilities Ltd.
- The rating reflects what we view as an excellent business risk profile of low-risk, monopoly regulated electricity distribution business.
- The stable outlook reflects our expectations of predictable and stable cash flows from the company's core electricity distribution business.

Rating Action

On Oct. 24, 2012, Standard & Poor's Ratings Services assigned its 'A' long-term corporate credit rating to Ontario-based Windsor Canada Utilities Ltd (WCU). The outlook is stable.

Rationale

The rating reflects what Standard & Poor's views as an excellent business risk profile and a significant financial risk profile. WCU's excellent business risk profile largely reflects our opinion of its low-risk, monopoly regulated electricity business which supports stable cash flows. Offsetting this strength is our view of the company's exposure to a weak regional economic environment with a concentration in the ailing manufacturing industry, which limits organic market growth.

WCU is an Ontario-based holding company, wholly owned by the City of Windsor (AA/Stable/--). Its key subsidiary, EnWin Utilities Ltd. (not rated), is a regulated local electricity distribution company (LDC). EnWin plans to manage and operate a local water treatment and distribution business and a district energy business owned by its affiliated entity, the Windsor Utilities Commission (not rated), under the water system operating (WSO) agreement in the near future. We believe that the commission will retain its ownership of water and district energy assets and the authority to approve water rates in the foreseeable future.

Although WCU is wholly owned by Windsor, we base our rating on the company's stand-alone credit risk profile of 'a' and our opinion that there is a "low" likelihood that the city would provide timely and sufficient extraordinary support in the event of financial distress.

We believe that WCU has an excellent consolidated business risk profile, with an excellent business risk profile of its regulated electricity distribution business and a strong business risk profile of the water utility that EnWin plans to manage and operate. Other businesses (including street light service and district energy) are not material to our analysis.

We view that WCU's core business, regulated electricity distribution, has an excellent business risk profile. We believe the Ontario Energy Board's (OEB) regulatory framework will continue to support the LDC's cash-flow stability. Under the framework, we expect the LDC to recover prudent costs (including costs of debt) and earn a modest return on capital invested. We believe regulatory cost recovery is generally predictable. The LDC's exposure to commodity risk is minimal. Although it must bill electricity customers for the commodity delivered, the cost is a flow-through. Since the obligation to ensure an adequate electricity supply for its customers lies with the government agency (the Ontario Power Authority), the LDC's balance sheet is not burdened with power purchase contractual obligations. Net distribution revenues are subject to modest volumetric risk due to weather and economic conditions. However, we believe the impact of reduced consumption will not affect sustained profitability, given the LDC's ability to update its load forecast in cost-of-service applications. In our view, the OEB has exhibited increased scrutiny of requested cost increases in the distribution sector and the associated rate pressure on customers. While we expect tempering rate increases will remain an important regulatory consideration, we believe the OEB will continue to honor its mandate to balance the ability of the utilities to earn a modest return with the needs of customers. That distribution costs typically represent 15%-30% of the total energy bill supports this view. In our opinion, the electricity distribution business carries inherently low operating risk as a wires company, and the company's operational efficiency and reliability are in line with that of Canadian peers.

We believe the commission's water utility's business risk profile will affect that of WCU. EnWin's plan to integrate electric and water distribution operations under the WSO agreement, the city's plan to use WCU as a financial vehicle for both electricity and water utilities, and the common shareholder support our consolidated approach in assessing the company's business risk profile. We view the water utility's business risk profile as strong, but less credit supportive than that of the company's regulated electricity distribution business because of the commission's limited independency from potential political pressures with respect to rate shocks and lack of profit maximizing policy. While we recognize that legislation supports the commission's role of assuring reliable and safe water distribution in the region, we believe the commission has limited independence because commissioners include the city councilors, mayor and independent members that Windsor appoints. Also, we understand that earning excess returns on its water infrastructure investment is not a goal of the water utility. Rather, it aims to achieve zero free operating cash flows with eventually building a capital reinvestment reserve. Supporting this is the water rate-setting mechanism specified in the WSO agreement, which allows recovering and funding of operating and capital expenditures, debt service costs, and a capital reinvestment reserve. Water treatment and distribution revenues are largely subject to the commission's decisions on water rates, given stable water consumption volume. We believe the water distribution business carries low operating risk, similar to LDCs electricity wire business while a water treatment operation could be considered as moderately higher risk compared to a water distribution operation. Nevertheless, this does not cause a meaningful rating concern because we expect that treatment plants will be continuously operated in compliance with the Ministry of Environment (MOE) with successful renewals of the municipal drinking water license issued by the MOE every six years.

We consider WCU's electricity and water distribution businesses' main service territory, Windsor, as a weak market, which limits the utility's organic growth. We believe the city has a weaker economic base compared with that of some peers, with a relatively higher concentration in the manufacturing industry. Nevertheless, the company's stable and primarily residential customer base and the essential nature of electricity and water distribution businesses offset this weakness, in our opinion. And its monopoly position in its service territories and the asset-intensive nature of electricity and water distribution businesses limit competitive risk, in our view.

We believe WCU has a significant financial risk profile. We forecast that its adjusted funds from operations (AFFO)-to-total debt will be approximately 18%, moderately higher than our downgrade threshold of 12%, in the next two years. Our forecasts assume that the company will remain focused on electricity and water distribution businesses without making any material investment in unregulated district energy or renewable generation. Our forecast debt level incorporates WCU's proposed long-term senior unsecured debenture issuance of about C$110 million, which it will lend it to its key subsidiary, EnWin (about C$51 million), and its affiliated entity, the commission (about C$52 million), as mirroring intercompany loans. We expect that EnWin and the commission will use proceeds to refinance their own maturing debt (C$50 million and C$22 million, respectively) and to prefund capital expenditures associated with electricity and water distribution businesses. Our forecast AFFO includes that of WCU and interest income associated with its C$52 million intercompany loan from the commission.

Liquidity

In accordance with our criteria, we view WCU's liquidity as adequate. Our assessment reflects the following factors and assumptions:

- The company's liquidity sources will likely exceed uses by 1.2x or more in the next 12 months.
- We expect net sources to remain positive, even in the event of a highly unlikely EBITDA decline of more than 15%.
- Liquidity sources include Standard & Poor's estimated annual C$25 million in AFFO and access to its C$75 million committed line of credit (due August 2014); it used C$50 million of the latter to bridge payment of its external debt matured Aug. 15, 2012. We expect WCU will issue a long-term debenture in the very near future and use proceeds to pay its used committed line of C$50 million with the balance for prefunding of capital

expenditures.

- Liquidity uses include the nondeferrable capital expenditures in electricity distribution businesses. We did not include WCU's dividend payments (typically C$3 million-C$4million per year) because we believe that it will have flexibility on its dividend payments if it is under a highly unexpected financial stress scenario.

In our view, WCU has sound relationships with banks. The demand for utility debt in the Canadian market remains strong, in our view, and its peer utility companies in Ontario have not encountered any difficulty accessing this market to date.

Outlook

The stable outlook reflects our assessment of predictable and stable cash flows supported by the regulated electricity distribution business. We believe an upgrade is unlikely given the company's exposure to a weak regional economic environment with a concentration in the ailing manufacturing sector and prospects of limited organic growth. A material, adverse regulatory ruling or market restructuring (such as assuming the obligation to supply electricity) or (although we don't expect it) a deterioration of sustained financial measures (below AFFO-to-debt of 12%) during our two-year outlook horizon could lead to a downgrade.

Related Criteria And Research

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Rating Assigned

Windsor Canada Utilities Ltd.	
Corporate credit rating	A/Stable/--

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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