



Burlington **hydro** inc.

2014 Cost of Service Application

Rates Effective: May 1, 2014

EB-2013-0115

Submitted on: October 1, 2013

TABLE OF CONTENT

	Ex	Tab	Sc	Att
ADMINISTRATIVE DOCUMENTS	1			
Executive Summary	1	1		
Table of Contents	1	1	1	
Preamble	1	1	2	
About the Utility	1	1	3	
Proposed Revenue Requirement	1	1	4	
Economic Overview	1	1	5	
Budget Directives and Assumptions	1	1	6	
Load Forecast Summary	1	1	7	
Rate Base and Capital Planning	1	1	8	
Overview of Operation Maintenance and Administrative Costs	1	1	9	
Statement of Cost of Capital Parameters	1	1	10	
Overview of Cost Allocation	1	1	11	
Overview of Deferral and Variance Account Disposition	1	1	12	
Overview of Bill impacts	1	1	13	
Customer Engagement	1	2		
Overview of Customer Engagement	1	2	1	
Customer Satisfaction Survey	1	2	2	
Financial Information	1	3		
Historical Financial Statements	1	3	1	
2010 Audited Statements with 2009 comparative information	1	3	1	1
2011 Audited Statements with 2010 comparative information	1	3	1	2
2012 Audited Statements with 2011 comparative information	1	3	1	3
Reconciliation between Financial Statements and Results Filed	1	3	2	
Reconciliation filed as part of RRR	1	3	2	1

Prospectus and recent debt/share issuance update	1	3	3	
Annual Report	1	3	4	
Annual Report	1	3	4	1
Materiality Threshold	1	4		
Materiality Threshold	1	4	1	
Administration	1	5		
Legal Applicaton	1	5	1	
Statement of Publication	1	5	2	
Overview of Application and List of Approval Requested	1	5	3	
Operating Environment	1	5	4	
Corporate Organization	1	5	5	
Corporate Governance	1	5	6	
Corporate Governance Annual Report	1	5	6	1
Accounting Standards for Regulatory and Financial Reporting	1	5	7	
Statement of Deviation of Filing Requirements	1	5	8	
Change in Accounting Methodology	1	5	9	
Accounting Treatement of Non-Utility Related Business	1	5	10	
Board Directives From Previous Decisions	1	5	11	
Conditions of Service	1	5	12	

	Ex	Tab	Sc	Att
RATE BASE	2			
Overview	2	1		
Rate Base Overview	2	1	1	
Rate Base Trend	2	1	2	
Rate Base Variance Analysis	2	1	3	
Gross Assets	2	2		
Gross Asset Variance Analysis	2	2	1	

Accumulated Depreciation	2	2	2	
Fixed Asset Continuities	2	2	3	
OEB Appendix 2-BA2 Fixed Asset Continuity Schedule	2	2	3	1
Allowance for Working Capital Allowance	2	3		
Derivation of Working Capital Allowance	2	3	1	
Lead Lag Study	2	3	2	
Treatment of Stranded Assets Related to Smart Meters Deployment	2	4		
Treatment of Stranded Assets Related to Smart Meters Deployment	2	4	1	
Capital Expenditures/Distribution System Plan	2	5		
Summary of Historical Capital Expenditures	2	5	1	
Project/Program Classifications	2	5	2	
OEB Appendix 2-AA Capital Projects Table	2	5	2	1
OEB Appendix 2-AB: Capital Expenditures	2	5	2	2
Distribution System Plan	2	5	3	
Appendix A - System Performance Report	2	5	3	1
Appendix B - Asset Management Strategy	2	5	3	2
Appendix C - Green Energy Act (GEA) Plan	2	5	3	3
Appendix D - Policy on System Access, Renewal and Service Invest.	2	5	3	4
Appendix E - Historical and Future Investments by Project	2	5	3	5
Non-distribution activities	2	5	4	
Capitalization Policy pre Accounting Changes	2	5	5	
Capitalization Policy post Accounting Changes	2	5	6	
Asset Retirement Policy	2	5	7	
Capitalization of Overhead	2	5	8	
Appendix 2-DB: Overhead Expense (CGAAP or ASPE)	2	5	8	1
Asset Removal and Retirements	2	5	9	
Renewable Generation and Green Energy Plan	2	5	10	
Costs of Eligible Investments	2	6		

Cost of Eligible Investments	2	6	1	
Addition of ICM Assets to Rate Base	2	7		
Addition of ICM Assets to Rate Base	2	7	1	
Service Quality and Reliability Performance	2	8		
Service Quality and Reliability Performance	2	8	1	
	Ex	Tab	Sc	Att
REVENUE	3			
Load and Revenue Forecast	3	1		
Overview	3	1	1	
Approach to Weather Normalized Load Forecast	3	1	2	
Load Forecast Report	3	1	2	1
Approach to Conservation and Demand Management	3	1	3	
Appendix 2-I: Load Forecast CDM Adjustment Work Form	3	1	3	1
Accuracy of Load Forecast and Variance Analysis	3	2		
Variance Analysis of Load Forecast	3	2	1	
Other Revenue	3	3		
Overview of Other Revenue	3	3	1	
OEB Appendix 2-F Other Operating Revenue	3	3	1	1
Other Revenue Variance Analysis	3	3	2	
	Ex	Tab	Sc	Att
OPERATING COSTS	4			
Overview of Cost Trends	4	1		
Overview	4	1	1	
Overall Cost Trends	4	1	2	
Description of OM&A Activities	4	1	3	
Summary and Cost Driver Tables	4	2		

Cost Driver Tables	4	2	1	
Appendix 2-JA: Summary of Recoverable OM&A Expenses	4	2	1	1
Appendix 2-JB: Recoverable OM&A Cost Driver Table	4	2	1	2
Appendix 2-L: Recoverable OM&A Cost per Customer and per FTE	4	2	1	3
OM&A Variance Analysis	4	2	2	
One-Time Costs	4	2	3	
Regulatory Costs	4	2	4	
Appendix 2-M Regulatory Cost Schedule	4	2	4	1
Changes in OM&A due to new capitalization policy	4	2	5	
Appendix 2-DB: Overhead Expense (CGAAP or ASPE)	4	2	5	1
Low-Income Energy Assistance Program (LEAP)	4	2	6	
Charges related to the Green Energy and Green Economy Act	4	2	7	
CDM Costs	4	2	8	
Charitable Donations	4	2	9	
Program Delivery Costs with Variance Analysis	4	3		
Program Overview	4	3	1	
Appendix 2-JC: OMA Programs Table	4	3	1	1
Employee Compensation - Staffing and Compensation Levels	4	4		
Description of Compensation Strategy and Benefit Program	4	4	1	
Merit Increase Guidelines	4	4	1	1
Appendix 2-K: Employee Costs	4	4	1	2
Workforce Strategy and Planning	4	4	2	
Talent Management Plan	4	4	2	1
Corporate Cost Allocations	4	5		
Shared Services & Corporate Cost Allocations	4	5	1	
OEB Appendix 2-N Shared Services/Corporate Cost Allocation	4	5	1	1
Allocation Methodology for Shared Services	4	5	2	
Shared Services & Corporate Cost Allocations Variance Analysis	4	5	3	

Third Party Report of Allocation Methodology	4	5	4	
Purchase of Non-Affiliate Services	4	6		
Purchases from Suppliers	4	6	1	
Table of Purchases by Supplier	4	6	1	1
Procurement Policy	4	6	1	2
Depreciation and Amortization	4	7		
Depreciation Rates and Methodology	4	7	1	
OEB Appendices -Depreciation and Amortization Expense (all)	4	7	1	1
Typical Useful Lives Study	4	7	1	2
Depreciation Expense associated with Retirement Obligation	4	7	2	
Depreciation Policy	4	7	3	
Depreciation Rates	4	7	4	
Adoption of Half Year Rule	4	7	5	
Income & Capital Taxes	4	8		
Overview of Provision In Lieu of Taxes (PILs)	4	8	1	
Latest Filed Tax Return	4	8	1	1
Tax Assessments and Correspondence	4	8	1	2
Allowance for PILs	4	8	2	
Non-recoverable and Disallowed Expenses	4	8	3	
Integrity Checklist	4	8	4	
	Ex	Tab	Sc	Att
COST OF CAPITAL AND CAPITAL STRUCTURE	5			
Cost of Capital and Rate of Return	5	1		
Capital Structure	5	1	1	
OEB Appendix 2-OA Capital Structure / Cost of Capital	5	1	1	1
Cost of Capital	5	1	2	
Promissory Note	5	1	2	1
Debenture	5	1	2	2

Credit Facilities - Infrastructure Ontario	5	1	2	3
Credit Facilities - Tonronto Dominion Bank	5	1	2	4
Letter of Credit - Toronto Dominion	5	1	2	5
OEB Appendix 2-OB Cost of Debt	5	1	2	6

	Ex	Tab	Sc	Att
REVENUE DEFICIENCY OR SUFFICIENCY	6			
Utility Revenue	6	1		
Overview of Revenue Requirement	6	1	1	
Impact of New Capitalization Policy on the Revenue Requirement	6	1	2	
Deficiency or Surplus	6	2		
Calculation of Revenue Deficiency or Surplus	6	2	1	

	Ex	Tab	Sc	Att
COST ALLOCATION	7			
Cost Allocation Model	7	1		
Overview of Cost Allocation	7	1	1	
Cost Allocation Study Report	7	1	1	1
OEB Appendix 2-P Cost Allocation	7	1	1	2
	Ex	Tab	Sc	Att
RATE DESIGN	8			
Existing Rates	8	1		
Overview of Existing Rates	8	1	1	
Current Rate Schedule	8	1	1	1
Proposed Changes to Distribution Rates	8	2		
Overview of Fixed and Variable Charges	8	2	1	
Fixed/Variable Revenue Split	8	2	1	1
Reconciliation to Base Revenue Requirement	8	2	1	2
Transmission, Low Voltage and Line Losses	8	3		
Retail Transmission Service Rates (RTSR)	8	3	1	
Other Charges	8	3	2	
Loss Adjustment Factors	8	3	3	
Rate Schedules and Bill Impacts	8	4		
Base Revenue Calculations and Reconciliations	8	4	1	
Rate Changes and Bill Impacts	8	4	2	
Proposed Rate Schedule in Track Changes	8	4	3	
Rate Mitigation	8	4	4	

	Ex	Tab	Sc	Att
DEFERRAL AND VARIANCE ACCOUNTS	9			
Status of Deferral and Variance Accounts	9	1		
Description of Deferral and Variance Accounts	9	1	1	
LRAMVA	9	1	2	
Account 1576 Accounting Changes Under CGAAP	9	1	3	
Deferral and Variance Account Balances	9	1	4	
Interest Rates Applied	9	1	5	
Clearance of Deferral and Variance Accounts	9	2		
Selection of Balances for Disposition	9	2	1	
Calculation of Rate Riders	9	2	2	
Table of Proposed Rate Riders	9	2	2	1
MDMR Rate Rider	9	2	3	
Stranded Meter Rate Rider	9	2	4	
HST Deferral Account	9	2	5	
Deferred PILs Account	9	2	6	
Cost of Power	9	3		
Derivation of Cost of Power	9	3	1	
Smart Meters	9	4		
Smart Meter Funding	9	4	1	

Exhibit 1:

ADMINISTRATIVE DOCUMENTS

Exhibit 1: Administrative Documents

Tab 1 (of 5): Executive Summary

PREAMBLE

The following preamble to this Cost of Service filing provides a high level view of the steady, but progressive steps that Burlington Hydro has taken since filing its last application. Change has remained the operative word for the industry and the distribution companies operating within the sector. As the following narrative will demonstrate, almost every business unit of the company has been touched by an industry in transition and evolving societal needs and expectations.

Burlington Hydro Inc. (Burlington Hydro) continues to rank among the best managed and operated mid-sized local utilities in Ontario. Great service and a passion for improvement are at the heart of a culture committed to excellence.

It takes hard work, innovative thinking, and a long term vision to deliver true value to customers, year after year, dollar for dollar. At Burlington Hydro, that translates to over 650 customers served per Burlington Hydro employee – while consistently exceeding Ontario Energy Board standards for customer service. Importantly, a strong financial base continues to guide long-term customer and shareholder value.

Burlington Hydro is building on its strengths and laying the foundation for future success. Over recent years, this effort has helped to shape a re-vitalized utility that is facing the challenges of an evolving electricity industry head-on.

Burlington Hydro has continued its efforts to improve operational performance and service excellence. Some highlights include:

- Reliability has improved steadily year over year, for the past ten years.
- Burlington Hydro has consistently exceeded OEB standards for customer service – responding to 90% of its customer calls within 30 seconds.
- In 2009, Burlington Hydro served approximately 57,000 residential and 5,900 business customers. By 2014, Burlington Hydro expects that

1 number to top 60,000 residential customers and 6,300 businesses – a
2 customer count increase of over 5%.

- 3 • In 2009 1,648 million kWh were delivered to Burlington Hydro customers -
4 in 2014 the utility is prepared to deliver 1,644 million kWh. Even though
5 customer counts have increased, energy deliveries are largely unchanged
6 due to Burlington Hydro customer uptake of conservation and demand
7 management initiatives.
- 8 • Investments in information system technologies are designed to better
9 serve our customers, now and into the future. Burlington Hydro has
10 invested over \$50M in assets since 2010 – and over 90% of that
11 investment is in 'field' assets - the wires, poles and underground conduits,
12 transformers and meters that are needed to reliably and safely deliver
13 power to its customers.

14 Burlington Hydro has incurred other costs (wages and materials) in order to be able to
15 make use of new systems. And like other utilities, Burlington Hydro also faces external
16 cost pressures, such as inflation. Operating costs have increased by approximately 25%
17 since 2010. With careful planning and attention to detail, the company has been able to
18 lower expenses as it relates to interest charges and taxes. The good news is that total
19 costs have remained largely unchanged since 2010.

20
21 Burlington Hydro is balancing its need for resources – the money needed to pay for
22 assets, technology and the people who know how to make them work together – with
23 our customers' need for value. Burlington Hydro's leadership team is instilling a culture
24 of excellence across the organization, challenging its employees to innovate and excel,
25 and to do so in ways that add value for our customers.

26 27 **Fostering Innovation - Building Partnerships**

28 Burlington Hydro is helping to fuel the prosperity of the community it serves. It is
29 increasingly aligning its business priorities with the City of Burlington's long-term
30 strategic planning as it relates to responsible power management and energy
31 sustainability.

1
2 Collaboration and cooperation have increasingly become important lexicons in the way
3 Burlington Hydro approaches key aspects of its business.

4
5 As a partner in the evolving GridSmartCity (GSC) partnership (a 32-partner consortium
6 of industry organizations formed in 2009), Burlington Hydro is engaging and sharing its
7 expertise as it relates to self-healing grids, electric vehicle infrastructure, conservation
8 program implementation, renewable energy initiatives, cooperatives and community
9 energy planning, among others.

10
11 GSC LDC partners have very recently formed the GSC Cooperative, an entity that will
12 help bring greater efficiencies and broader scope to the purchasing power of utilities
13 through cooperative initiatives. It will enable LDC partners to achieve scale efficiencies,
14 while maintaining individual autonomy. The Cooperative aligns with the provincial
15 government's desire for Ontario's LDCs to find ways to achieve greater efficiencies of
16 scale and scope in their operations. Ultimately, it is customers who will benefit from the
17 anticipated savings and value-add that the co-op approach brings to the table.

1
2 **Meeting the Expectations and Changing Needs of Customers**

3 By increasing and enhancing customer engagement and communications, Burlington
4 Hydro is helping customers make better choices and create healthy, sustainable results
5 for the community it serves.

6
7 Burlington Hydro takes its responsibility of informing, educating and responding to
8 customer needs as a top priority. Fundamental sector change in recent years, including
9 groundbreaking green energy legislation, has precipitated the need for increased
10 customer communications.

11
12 In parallel, new communication channels are evolving rapidly, whether that is providing a
13 growing number of on-line options, the ability to log on to mobile applications or
14 browsers, or the choice of calling up any number of social media platforms. Burlington
15 Hydro has recently launched a mobile browser to enable customers to access their
16 energy data from hand-held devices. It's also launched an informative customer
17 newsletter - in electronic format and on-line. Social media platforms are being
18 introduced, including LinkedIn for job postings, and a new Twitter account, which will be
19 launched in 2013 to help with customer communications for outages and during
20 conservation campaigns.

21
22 From a cutting-edge bill design and electronic bill offering, to a state-of-the-art
23 application to provide customers with personalized access to their power use, Burlington
24 Hydro is embracing new ways to effectively connect with its customers.

25 This includes Burlington Hydro's ongoing efforts to instill a conservation culture and
26 promote the adoption of conservation and demand management programming to its
27 customers. From residential and business customers to local school children, Burlington
28 Hydro's outreach programs are making a difference and have become integral to
29 Burlington Hydro's communications strategy.

30

1 With a new tagline – energizing our community – Burlington Hydro is moving forward
2 with a renewed sense of pride as it relates to ‘who we are and what we aspire to be’ as a
3 company.

4
5 Results from a Customer Satisfaction Survey, undertaken by Burlington Hydro in the
6 spring of 2013, demonstrate that the company is moving in a positive direction. It has
7 helped to identify customer attitudes about the utility’s conservation programs, smart
8 meters and TOU rates, electricity prices and Burlington Hydro’s standing and reputation
9 in the community. The results will assist Burlington Hydro in fine tuning its programs,
10 services and communications use direct and reliable customer feedback.

11
12 The ‘Customer Experience Performance Rating’ combined professional customer care
13 and the quality of services as a way to measure overall customer experience –
14 Burlington Hydro received an 87% thumbs up from respondents in the category. Overall
15 Burlington Hydro customer satisfaction came in at a 95% approval rating.

16
17 **Rebuild, Renew, and Respond**

18
19 Burlington Hydro is focused on maintaining its high performance levels in all aspects of
20 its operation and planning activities to comply with its regulatory obligations and
21 responsibilities to the Ontario Energy Board (OEB) and the Electrical Safety Authority
22 (ESA).

23
24 At the core of Burlington Hydro’s mandate, is the responsibility to deliver a trusted
25 source of safe, efficient, and reliable power to its customers, which supports growth and
26 accommodates economic development in the city. A critical element in that equation is
27 the ongoing maintenance and construction programs that will ensure the long-term
28 integrity and sustainability of the distribution system.

29
30 Over a span of a few short years, the adoption of new grid technologies has had a noted
31 impact. Two-way communication through the introduction and installation of devices
32 such as smart meters, along with advances in switch technology and self-healing grids,

1 and other intelligent products, have enhanced Burlington Hydro's overall capability to
2 control and operate the grid more efficiently and effectively than ever before. Burlington
3 Hydro's award-winning Switching Automation System has delivered a major payback to
4 the community in enhanced reliability and service responsiveness. The most advanced
5 deployment of automation is in the downtown core where the system detects faults and
6 restores power without human intervention. City-wide, the system has resulted in overall
7 reductions of outages by 40 per cent.

8
9 Burlington Hydro currently utilizes two major software applications in its day-to-day
10 distribution operations – a Geographic Information System (GIS) and a Supervisory
11 Control and Data Acquisition (SCADA) system. There are future plans to incorporate
12 these and other independent functional systems into a fully integrated enterprise
13 solution. The implementation of this integration is planned in 2013 and 2014 and is
14 based on continuing Burlington Hydro's leadership in grid modernization.

15
16 An asset management field inventory forms the basis for the utility's capital and
17 maintenance programs. The Asset Management Plan reflects the latest performance
18 priorities of the distribution system and serves as a placeholder for the longer term
19 projects recommended from the condition (age risk ratings) assessments.

20
21 Under a 10-year capital investment plan, the company has embarked on a prudent
22 course to maintain the utility's equipment assets. Not only does the plan consist of
23 capital projects to maintain existing assets, but it includes growth related projects and
24 projects related to capacity planning. The construction of a new transformer station in
25 north central Burlington, which came into service in early 2013, has ensured that an
26 adequate supply of electricity will continue to power the city's growth over the next 25
27 years. In addition, new feeders have been fitted with automated switches so that faults
28 can be identified quickly and repairs made in mere seconds.

29
30 Burlington Hydro continues to deliver its operating and capital plans on target and on
31 budget.

32

Inspiring Leadership, New Ideas and a Safe Workplace

Motivation and inspiration are key components to providing an environment where employees are able to excel. Burlington Hydro puts significant emphasis on professional development, staff wellness, ergonomics, effective internal communications, and a variety of initiatives that foster a rewarding work environment. Professional development programs continue to receive top priority across all aspects of the operation.

With an aging workforce and increasing shortage in skilled trades, the LDC sector faces a formidable challenge. To tackle this industry-wide challenge, Burlington Hydro's Human Resources Succession Plan lays a framework to optimize skills development for all Burlington Hydro employees through the next decade. Succession planning for mid- and longer term retirements is supported through ongoing training and development programs which help maintain the workforce the company needs, today and in the future.

Burlington Hydro is also investing in apprentices. Anticipating the need for qualified trades people in the next five to ten years, Burlington Hydro continues to hire apprentices to ensure that skilled workers are available to maintain a safe, efficient and reliable distribution system. The company is proud of its program and was recognized in 2010 with an Apprenticeship Award from the Halton Industry Education Council (HIEC). For an industry whose workers are exposed on a daily basis to dangerous power lines and equipment, safety is a paramount priority. Burlington Hydro continues to develop and execute programs that support a preventative approach to safety where employees are empowered, accountabilities are clear and outcomes are tied to measurable performance objectives and goals. The Infrastructure Health & Safety Association's (IHSA) Paths to Zero Award program recognizes a healthy and safe work environment that is achieved through strict criteria and measurement standards. Burlington Hydro was audited in 2012 for its Gold (Outcomes) Award, Level II, which was successfully completed in January 2013.

1 In keeping with efforts to promote electrical safety programs and initiatives, Burlington
2 Hydro was recognized by the Electrical Safety Authority (ESA) in 2012 for its significant
3 contribution in advancing public and workplace electrical safety awareness with the
4 ESA's prestigious Powerline Safety Award.

6 **Keeping the Focus on the Path Forward**

7
8 Over the past five years, Burlington Hydro has focused on pursuing a progressive path
9 forward for the company:

- 11 • accommodating new and cutting-edge technologies;
- 12 • engaging in partnerships (with the City and like-minded industry partners)
13 in pursuit of furthering efficiencies and economies of scale;
- 14 • adopting new ways of communicating and engaging customers;
- 15 • tackling the demands and challenges of maintaining a satisfied and
16 skilled workforce;
- 17 • championing the importance of safe electrical practices;
- 18 • promoting a culture of conservation and delivering CDM programs to all
19 customer classes;
- 20 • providing leadership and corporate responsibility within our community;
21 and,
- 22 • adapting to an industry and regulatory environment that remains in
23 transition.

24
25 Certain markers can be identified that help us gauge the success that the company has
26 achieved - recognizing that any achievements are an accumulation of many years of
27 focused effort and strategic planning by many individuals.

28
29 In March 2013, Burlington Hydro was recognized by the Electricity Distributors
30 Association (EDA), receiving the industry's award for Performance Excellence by a Local
31 Electricity Distributor (LDC), sponsored by Ontario Power Generation. The distinguished

1 award recognizes an Ontario LDC's performance excellence and is measured by five
2 stringent performance parameters: occupational health and safety, operational
3 excellence, financial operations, retail strategies for conservation and demand
4 management; and contributions to the community.

5

6 With this filing, Burlington Hydro now looks to the future with the intent of carrying a
7 strong and sound tradition forward, continuing to provide essential electricity services
8 and local investment to benefit our community of owners, now and in the future -
9 energizing our community.

ABOUT THE UTILITY

Established in 1945, Burlington Hydro (or "Burlington Hydro") is a local distribution company ("LDC") serving the City of Burlington, with a total licensed service area of 188 square kilometers and a customer base of 66,000 customers (consisting of Residential, General Service, Street Light, and Unmetered Scattered Load customers/connections). Burlington Hydro currently sits 12th in the Province of Ontario in electrical utility size by number of metered customers.

Following changes to the Electricity Act and the introduction of the Energy Competition Act (both in late 1998), Burlington Hydro Electric Inc. was reinvented as a private corporation. Formally, Burlington Hydro had operated in a not-for-profit capacity as a hydro-electric commission ("HEC") with powers laid out under the Public Utilities Act and the Power Corporation Act (very similar to the crown-owned Ontario Hydro).

Burlington Hydro was incorporated and wholly transferred into the ownership of the City of Burlington on January 1, 2000 as a for-profit company.

Upon incorporation, the City of Burlington appointed a professional Board of Directors to govern the affairs of Burlington Hydro. Committed to strong corporate governance and accountability, the Board is comprised of representatives from the Burlington community, working to govern Burlington Hydro in the best interests of the corporation, customers and the Burlington community.

CORE VALUES

Burlington Hydro Cares for People

- Burlington Hydro provides a safe, healthy and fulfilling work environment for our employees, with fair remuneration, fair management and opportunities for learning and professional development.
- Burlington Hydro values its relationships with its customers and work to win their trust and support.

- Burlington Hydro interacts with customers, employees, the public, and our business partners with integrity and respect, and at all times act in a responsible and professional manner.

Burlington Hydro Cares for the Community

Burlington Hydro are good corporate citizens and take pride in making significant contributions to community programs in which we can add value such as fundraising, energy conservation projects, business development activities, school safety programs, clean air initiatives, crime prevention programs, and other community giving such as blood donor clinics.

Burlington Hydro values the community it serves and the environment in which it operates, managing environmental risks to eliminate or minimize adverse impacts associated with its businesses.

Burlington Hydro Cares about Stewardship

Burlington Hydro values the long term health and sustainability of its utility and will assure availability of a future electricity supply to meet customer needs and growth.

Burlington Hydro Cares about Performance

Burlington Hydro values a fully integrated business model: we deliver superior products to our customers in a safe and efficient manner, striving for excellence and continuous improvement in all aspects of our business.

Burlington Hydro Cares about Shareholder Value

Burlington Hydro creates sustainable value for its shareholder by understanding and addressing customer needs, focusing on and promoting core business strengths, and pursuing appropriate business opportunities.

The Mission of the corporation is:

- To provide a safe and rewarding work environment for our employees.

- 1 • To safely and efficiently deliver reliable electrical energy at a reasonable cost to
- 2 our customers.
- 3 • To assure that future supply is available.
- 4 • To build shareholder value.
- 5 • To be a community partner.

6 **CORPORATE RESPONSIBILITIES**

7 Burlington Hydro is committed to setting a standard of leadership that is rooted in trusted
8 service and an unwavering commitment to serve the needs of its customers, our
9 shareholder and its community.

10 It is a brand of leadership that ties in directly with our corporate responsibility philosophy
11 – a progressive company committed to continuous improvement and performance
12 excellence in the areas of safety, stewardship, community involvement and technological
13 innovation. To support this, the company maintains a strong asset base through
14 responsible financial management, system renewal and innovation that assures the
15 availability of electricity supply to meet the needs of customers and a growing
16 community.

17 Burlington Hydro works in partnership with like-minded industry and institutional partners
18 in order to realize greater efficiencies and integrate new ideas that improve operations
19 and ensure sustainability in an evolving energy landscape.

20 Burlington Hydro's ability to contribute meaningfully to the social, economic and
21 environmental well-being of stakeholders, shareholders, workforce and the community,
22 remains a central component of the utility's steadfast approach to the company's
23 corporate responsibilities.

24 25 **STRATEGIC DIRECTION – UNDERSTANDING THE CURRENT AND FUTURE** 26 **ENVIRONMENT**

1 Traditionally, the Burlington Hydro Board has directed management towards a risk
2 adverse strategy that is a blend of asset management, cost control leadership,
3 differentiation, outsourcing and alliance based strategies. In terms of reliability and rate
4 base growth, the Board has focused on balancing reasonable improvements in reliability
5 with operational effectiveness while ensuring the financial success of the corporation.

6 The current business, regulatory and environmental context it operates within are going
7 through a period of scrutiny. This change has been precipitated with the provincial
8 government's release on February 15, 2012 of the Drummond report which seeks to find
9 ways of increasing the efficiency of service delivery within the province. In April 2012,
10 the government also formed the Ontario Distribution Sector Panel (Murray Elston, David
11 McFadden, and Floyd Laughren) to consult with municipalities, LDCs, the EDA and other
12 energy experts. The panel reviewed a number of issues including: potential long- and
13 short-term financial savings associated with consolidation; benefits for ratepayers; and,
14 long- and short-term operational efficiencies. The circumstances tied to the political
15 instability created as a result of a minority government has presented an opportunity for
16 various stakeholders in the sector - from the OEB and EDA, to the banks and pension
17 funds - to promote their particular visions.

18 The goal of Burlington Hydro's strategic planning is to solidify the emerging role of
19 Burlington Hydro and lay out a strategic roadmap for the corporation.

1 **FUTURE OUTLOOK**

2 As Burlington Hydro look towards the future, it remains focused on the needs and
3 priorities of the community – responsibly delivering safe, reliable and efficient power
4 within its service area. The utility remains focused on continuing to build long-term value
5 for its customers and shareholder by placing emphasis on operational excellence and
6 productivity gains. Going forward, Burlington Hydro will continue to cooperate with other
7 LDCs in an effort to continue to realize efficiencies and cost savings for customers.

PROPOSED REVENUE REQUIREMENT

Burlington Hydro proposes to recover through distribution rates a revenue requirement of \$28,856,594. Table 1-1 below shows a comparison of the 2010 Board Approved Revenue Requirement versus the 2014 Test Year proposed Revenue Requirement. The comparison shows that the increase in OM&A from 2010 to 2014 is being offset by the decrease in Depreciation Expenses due to the adoption of new useful lives. The increase in OM&A is also being offset by the significant decrease in 2014 PILs compared to the PILs paid in 2010.

Table 1-1: Comparison of 2010 Revenue Requirements and 2014 Revenue Requirements

Particular	OldCGAAP	NewCGAAP	Difference
	2010 Board Approved	Test Year	
OM&A Expenses	\$14,346,944	\$18,553,350	\$4,206,406
Amortization Expense	\$6,659,239	\$4,182,434	-\$2,476,805
Total Distribution Expenses	\$21,006,183	\$22,735,784	\$1,729,601
Regulated Return On Capital	\$7,692,291	\$7,921,128	\$228,837
<i>IFRS Adjustment</i>			
Grossed up PILs	\$2,004,088	\$137,696	-\$1,866,392
Service Revenue Requirement	\$30,702,562	\$30,794,608	\$92,046
Less: Revenue Offsets	\$1,808,319	\$1,938,014	\$129,695
Base Revenue Requirement	\$28,894,243	\$28,856,594	-\$37,649

The increase of approximately \$4.2M in OM&A spending from its 2010 Cost of Service to the 2014 Test Year can be attributed to several factors. Operation and Maintenance costs are for the most part aimed at Burlington Hydro's distribution substations and its protective equipment, along with general maintenance on overhead and underground assets. The maintenance is done on a preventative basis or following Burlington Hydro's annual inspection and is carried out to meet ESA's requirements. The costs related to

1 operations accounts for approximately \$1.7M of the increase while costs associated with
2 maintenance run at approximately \$800K.

3 The remainder of the variance of \$1.7M can be attributed to billing, collecting and
4 general administration expenditures. These projects include;

- 5 • Inclusion of formerly capitalized burden into OM&A (Exhibit 4, Tab 2, Schedule 6)
- 6 • Additional staff (Exhibit 4, Tab 4, Schedule 2)
- 7 • Compensation (Exhibit 4, Tab 4, Schedule 1, Attachment 2)
- 8 • Increase in Regulatory burdens (Exhibit 4, Tab 2, Schedule 5)
- 9 • Increase in maintenance of distribution system (Exhibit 4, Tab 1, Schedule 2)
- 10 • Corporate Development (Exhibit 4, Tab 4, Schedule 2)

11 Calculations of Burlington Hydro's revenue requirement and the derivation of the
12 revenue sufficiency can be found at Exhibit 6.

13 All of Burlington Hydro's customers may be affected by the outcome of this Application.

ECONOMIC OVERVIEW

In the past decade, the City of Burlington has been the beneficiary of self-propelled growth positioning the City as one of the best places to live in Canada. Burlington is known for its very high quality of life. On the commercial side, Burlington's diverse company base is the key to its economic success. Sector concentrations in advanced manufacturing, financial services, information & communications technology and life & earth sciences are creating real and sustained growth within the community.

Burlington Hydro is aligning its business priority with the City's long term strategic planning as it relates to responsible power management and energy sustainability. Burlington Hydro's ability to meet the energy needs of an expanding city where urban intensification will play an increasingly important part in the utility's growth is an essential ingredient in the utility's future success and prosperity. Collaboration with the City ensures that Burlington Hydro remains focused on reducing the City's carbon footprint and energy use, demonstrating environmental leadership and creating economic development opportunities.

Table 1-2 – Facts about the City of Burlington

Quick Facts:

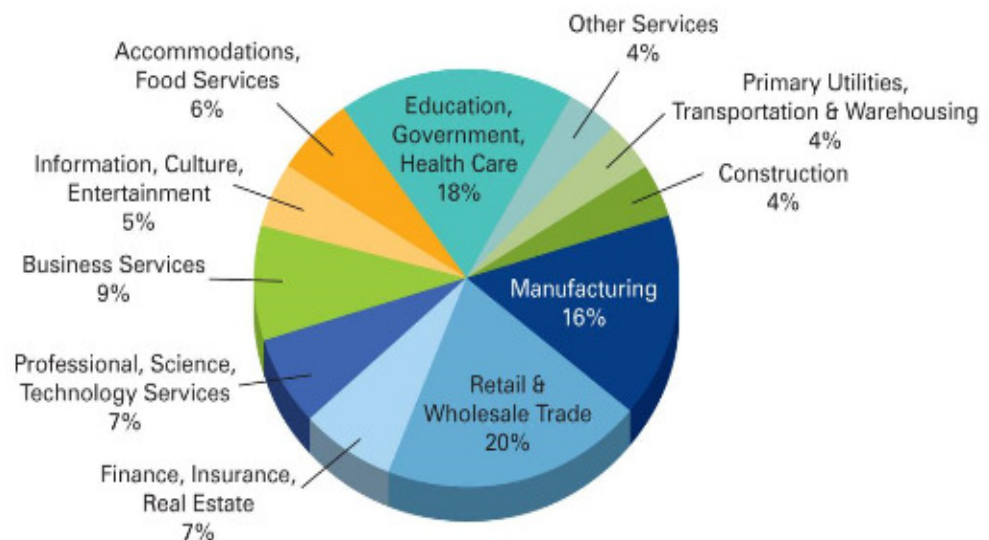
Population (Census 2011)	175,779*
Population change, 2006 to 2011	6.9%
Median Income - All Census families (\$CDN) (Stats Canada 2005)	\$86,174
Experienced Labour force (Census 2006)	91,730
Labour force, Participation rate (National Household Survey 2011)	66.3%
Unemployment Rate, Hamilton CMA (June 2013)	6.9%
Post-Secondary education (National Household Survey 2011)	67%*
Universities within 100 kilometres	10

Source: City of Burlington website; www.burlington.ca

1 As set out in the illustrations below, Burlington's annual GDP of \$8.07 billion dollars is
2 driven by the Finance, Insurance, Real Estate, Business, Professional, Scientific and
3 Technical Service sectors, representing 34% of annual GDP, or \$2.7 billion dollars.

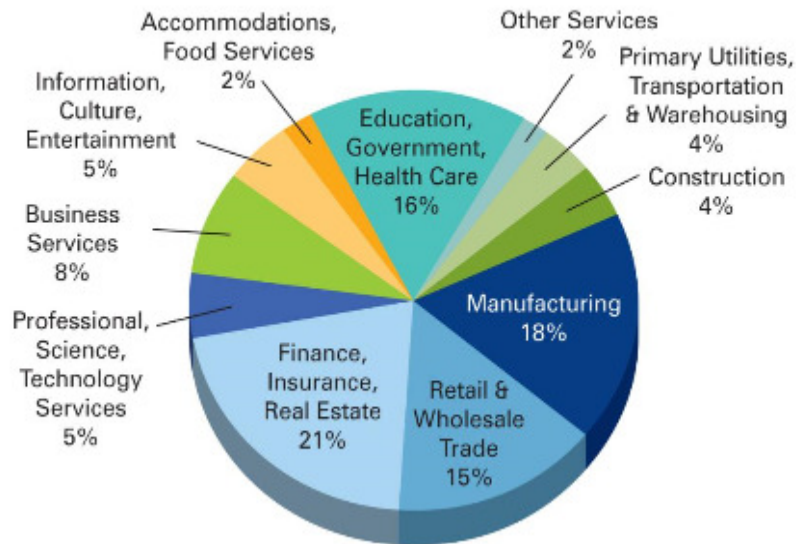
4 As well, these sectors contain over 6,000 businesses, employing 23% of the workforce.
5 Manufacturing is the second highest GDP earner at \$1.4 billion, reflecting 16% of the
6 employment base, followed by Trade and Wholesale which supports 20% of the
7 workforce with \$1.1 billion in annual GDP.

Diverse Employment Base Creates a Prosperous Economy



Source: City of Burlington website; www.burlington.ca

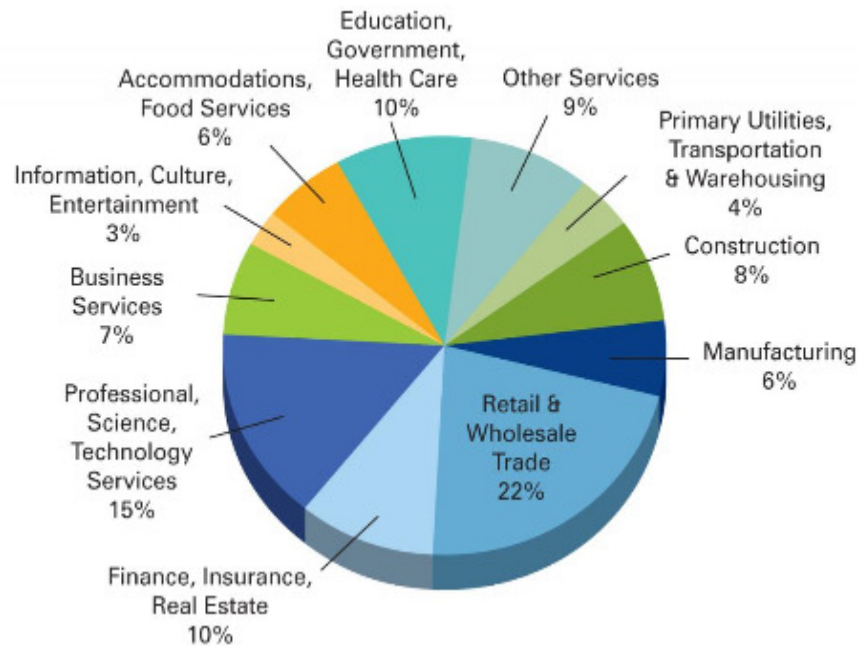
Gross Domestic Product



Source:

City of Burlington website; www.burlington.ca

Business Base



Source: City of Burlington website; www.burlington.ca

BUDGET DIRECTIVES AND ASSUMPTIONS

Burlington Hydro compiles budget information for the three major components of the budgeting process:

- revenue forecasts;
- operating, maintenance and administration ("OM&A"); and
- capital costs.

Burlington Hydro's budget is prepared annually by management and is reviewed and approved by the Burlington Hydro Board of Directors. The budget is prepared before the start of each fiscal year, and is typically initiated during summer months and approved in October. Once approved, it does not change and provides a plan against which actual results may be evaluated.

The revenue forecasts are based on projected throughput volumes applied to currently authorized rates to estimate 2013 Bridge Year revenues and Burlington Hydro's proposed 2014 Test Year rates to estimate 2014 Test Year revenues. The forecasted volumes have been weather normalized and appropriately consider other factors impact on each class' loads (e.g., new customer additions, the impact of Conservation); please see the evidence at Exhibit 3, Tab 1 Schedules 2 and 3.

The OM&A costs presented at Exhibit 4 are necessary in order to: meet public and employee safety objectives; perform asset maintenance; maintain distribution business service quality and reliability; and to satisfy and comply with environmental requirements and government direction. The proposed OM&A cost expenditures for the 2014 Test Year are the result of a business planning and work prioritization process that ensures that the most appropriate, cost effective solutions are put in place. The budgeting process used to determine the OM&A budget involves the following steps.

- Detailed expenses for prior 2-3 years are provided to the managers. Current year to date actual expenses are also provided. Managers are required to

1 update current year forecast to aid in development of full year forecast
2 estimates.

- 3 • Outside expenses for all department budgets are built based on analysis
4 including previous years actual information, current year forecast, known
5 changes in external costs, and changes in departmental activities or
6 responsibilities in response to new legislation/regulations/industry activities;
- 7 • Variances in spending from prior years must be explained and documented,
8 both at the time of creating forecast and on a monthly basis as actuals are
9 compiled;
- 10 • Review the headcount of the department for accuracy and outline any
11 changes;
- 12 • Human Resources, with the assistance of the Accounting department,
13 prepare a total labor budget by department using projected wage and benefit
14 cost. Overtime and account distribution are based on previous years actual.

15
16 Once the initial forecast is completed by all departments, the Accounting department
17 compiles all forecasted OM&A expenditures to compare on a company basis to the total
18 projected expenditures and review year over year variances. These results are reviewed
19 and forecasts are revised based on a balance of total available funding and review of
20 departmental and corporate initiatives.

21
22 The forecasted capital budget is influenced, among other factors, by Burlington Hydro's
23 capacity to finance capital projects. All proposed capital projects are assessed within the
24 framework of its capital budget priority as outlined in Exhibit 2, Tab 5 (Capital
25 Expenditures by Project). Topics included in the budget process include:

- 26
27 • Customer Demand;
- 28 • Renewal;
- 29 • Security;
- 30 • Capacity;
- 31 • Reliability;

- 1 • Regulatory Requirements;
- 2 • Substations;
- 3 • Customer Connections and Metering.

4

5 The Distribution System Plan presented in Exhibit 2, Tab 6 supports the capital and
6 maintenance programs needed to maintain and enhance the reliability of Burlington
7 Hydro's distribution system.

8 **BUDGET APPROVAL PROCESS**

9 On an annual basis, Burlington Hydro reviews capital projects identified for potential
10 implementation and attempts to prioritize each project based on guidelines defined in the
11 asset management strategy - and in the Asset Lifecycle Optimization Policies (presented
12 as appendices to the Distribution System Plan at Exhibit 2, Tab 5, Schedule 3, on a
13 relative basis. Each department manager is responsible for the identification and
14 justification of projects related to their department, which are then discussed with
15 executive management. After examining all recommended projects they are listed in
16 order from higher to lower priority and then moved forward based on appropriate
17 financial parameters. The responsibilities of departments and executive management
18 are listed below.

- 19 • It is the responsibility of the CFO and Accounting department to
20 coordinate the development of the operating budget, capital budget,
21 forecast processes and pro-forma financial statements.
- 22 • Each department is responsible for preparing its operating budget, capital
23 budget, and rolling forecasts.
- 24 • The CEO along with the CFO, is responsible for presenting and
25 recommending the budget to the Board of Directors for approval.
- 26 • It is the responsibility of the Board of Directors, on behalf of the
27 shareholder, to approve the budget.

28

29

1 **INFLATION**

2

3 Staff and management salaries are adjusted yearly to reflect inflation and cost of living.

4 The cost of living is based on an inflation rate of 2% as published by the Bank of

5 Canada. The Bank of Canada is a well-known, reliable and widely used source in

6 establishing inflation rates, not to mention the prescribed interest rates approved by the

7 OEB. The Central Bank's system provides a clear measure of the effectiveness of

8 monetary policy, and increases the predictability of inflation. In addition, at page 16 of

9 the Report of the Board entitled "Renewed Regulatory Framework for Electricity

10 Distributors: A Performance-Based Approach" issued October 18, 2012, the Board

11 quotes the Bank of Canada as an objective source. "the inflation factor must be

12 constructed and updated using data that is readily available from public and objective

13 sources such as, for example, Statistics Canada, the Bank of Canada, and Human

14 Resources and Social Development Canada"

LOAD FORECAST SUMMARY

The load forecast presented at Exhibit 3 Tab 1 Schedule 2 was developed by Elenchus Research Associates and is based on a methodology which predicts class specific consumption using a multiple regression analysis that relates historical monthly wholesale kWh usage to monthly historical heating degree days and cooling degree days. Historical monthly full-time employment levels are also used to account for regional economic patterns that may influence consumption of electricity within the LDC. For degree days, daily observations as reported at Toronto International Airport are used. For employment levels, monthly full-time employment levels for the local Economic Region, as reported in Statistics Canada's Monthly Labour Force Survey has been used. Elenchus' methodology improves on that used in EB-2009-0259.

Neither the number of peak days nor the number of days in the month yielded meaningful results in predicting Burlington Hydro's load. Therefore, these were not included as explanatory variables.

A good fit was observed between the kWh load forecasted by the statistical model and the actual historical load. This provided Burlington Hydro with a high degree of confidence in the load forecast it used for determining rates. More detailed model statistics can be found in the report prepared by Elenchus Research Associates at Exhibit 3, Tab 1 Schedule 2.

Weather normalized values are determined by using the regression equation with a 10-year average monthly degree days (2002-2012). The 10-year average is consistent with recent years' weather and has been used in other electricity distribution rate applications and has been accepted by the Board.

Allocation to specific weather sensitive rate classes (Residential, GS<50, GS>50) is based on the average share of each classes' actual retail kWh (exclusive of distribution losses) of actual wholesale kWh for the 2009 to 2012 period.

- 1 In order to forecast 2014, an average of 4 chartered banks' economic forecasts that are
- 2 available to the public on their corporate web sites is used. These forecasts include
- 3 projections for employment growth in Ontario for 2013 and 2014.

RATE BASE AND CAPITAL PLANNING

A rate base is the value of property on which a utility is permitted to earn a specified rate of return in accordance with rules set by the OEB. The rate base underlying Burlington Hydro's revenue requirement includes a forecast of net fixed assets, plus a working capital allowance defined as 13% of the sum of the cost of power and controllable expenses. Controllable expenses include operations and maintenance, billing and collecting and administration expenses.

The proposed Rate Base for the 2014 test year of \$131,922,050 reflects an increase of \$26.7M from the 2010 Board Approved. The increase suggests a prudent and reasonable investment in the distribution assets and is necessary in order to meet other regulatory requirements such as "obligation to connect" new growth, the need to maintain the highest electrical safety standards for both the public and employees. The table below shows the derivation of the proposed 2014 rate base which is only \$26.7M greater than the 2010 Actual Rate Base. This increase represents an average annual increase of \$6.675M (6.3%) from 2010 to 2014. Further details can be found at Exhibit 2, Tab 1, Schedule 2 which shows that the proposed 2014 Rate Base is forecast to increase by only 1% over 2013 Rate Base.

Table 1-3: Proposed Rate Base

Particulars	Test Year 2014 (CGAAP)	
Test Year Net Fixed Asset Opening Balance	\$105,132,271	
Test Year Net Fixed Asset Closing Balance	\$108,295,856	
Average Balance		\$106,714,064
Allowance for Working Capital		\$25,207,987
2014 Proposed Rate Base		\$131,922,050
2010 Approved Rate Base		\$105,229,695

Allowance for Working Capital - Derivation

Particulars	Test Year 2014 (CGAAP)	
Controllable Expenses		\$18,553,350
Cost of Power/Power Supply Expense		\$175,354,241
Working Capital Base		\$193,907,591
Working Capital Rate %		13%
Working Capital Allowance		\$25,207,987

Burlington Hydro Inc. has, for many years, strictly followed the best practices of the electricity distribution industry. This has included adhering to the Ontario Energy Board's ("OEB") Distribution System Code that sets out, among others, good utility practice and performance standards for the industry in Ontario, and minimal inspection requirements for distribution equipment.

Consistent with best practices, over the years Burlington Hydro has replaced or upgraded equipment when economically viable. The net result has been that while the average age of the system has increased slightly the reliability of the system has steadily improved to meet the expectations of Burlington Hydro's customers. This has been achieved with only a moderate long-term increase in customers' bills.

The following section presents an overview of the significant operational issues that are addressed by Burlington Hydro. It covers its responsibilities for the supply of electricity to all customers within the community of the City of Burlington including its obligations for regulatory compliance and the delivery of mandated initiatives by the Government of Ontario.

Current State of Distribution Assets

Burlington Hydro produces an annual System Performance Report to provide a comprehensive overview of the performance of its distribution system. It contributes to Burlington Hydro's Asset Management Strategy Exhibit 2, Tab 5, Schedule 3, Attachment 2 by identifying future maintenance and capital budget priorities to maintain the reliability and performance of the distribution system. The following specific attributes are reviewed and addressed:

1. Substation and Feeder performance at 4.16, 13.8 and 27.6 kV primary voltage levels
2. Underground Distribution
3. System demand and critical loading issues
4. System maintenance activities and priorities
5. Reliability statistics and observations
6. Future maintenance recommendations
7. Future Capital Budget recommendations

The report captures specific performance issues in a given year and identifies trends that require attention over the longer term.

A review, at each primary voltage level, assists in planning distribution automation, particularly on the 27.6kV and 13.8kV systems where there have been significant advancements.

Major investments are required as the underground distribution system ages and the risk of significant outages increase; analysis of cable failures on specific feeders within specific neighbourhoods provides a focus for prioritizing the capital investments.

Burlington is still a growth community with increasing system demands and potential for critical loading issues to develop. Close attention to these resulted in a major planning exercise and an agreement with Hydro One Networks to invest in a new Transformer Station (TS) in north east Burlington. The new TS ("Tremaine TS") is now operational.

1 Burlington Hydro is constructing 6 feeders from this TS to maintain reliability standards
2 and reduce critical loading on the existing TSs.

3 Burlington Hydro is also required to comply with the system maintenance and inspection
4 requirements of the Ontario Energy Board's Distribution System Code ("DSC"). The
5 report reviews Burlington Hydro's routine maintenance programs to determine
6 consistency with good utility practices and confirm its aim for compliance with inspection
7 requirements.

8
9 All of the above lead to annual recommendations for maintenance and capital
10 expenditures that are considered within the annual budgeting process.

11
12 **Compliance with Regulatory Operational Requirements**

13 Burlington Hydro has regulatory obligations and responsibilities to the Ontario Energy
14 Board and Ontario Regulation 22/04 Electrical Distribution Safety and the authority of
15 the ESA.

16
17 To comply with Ontario Regulation 22/04, Burlington Hydro is required to engage
18 qualified auditors to perform an annual audit and also to prepare an annual Declaration
19 of Compliance. Burlington Hydro's strict attention to this regulation having established
20 practices and procedures that ensure compliance.

21
22 Burlington Hydro reports its monthly Reliability Indices to the OEB and is focused on
23 maintaining its high performance levels in all aspects of its operations and planning
24 activities. Its reliability performance track record is presented in this section of the plan.

25

Investment Planning for Risk Mitigation

Risk management and mitigation is an inherent feature of all business activities. Burlington Hydro aims to meet or exceed the system maintenance and inspection requirements of the Ontario Energy Board's Distribution System Code in order to minimize subsequent repair and/or replacement costs. Section 4.4.1, of the DSC states:

"A distributor shall maintain its distribution system in accordance with good utility practice and performance standards to ensure reliability and quality of electricity service, on both a short-term and long-term basis."

The following routine maintenance programs, which are discussed in detail at Exhibit 4 Tab 3 Schedule 1, are consistent with good utility practices and are applied annually within the Burlington Hydro distribution system.

- Wood pole testing and replacement
- Insulator Washing
- Infrared Thermography of the Overhead system and Municipal Substation
- Cleaning of Switching Cubicles
- PCB Testing and Replacement of Distribution Transformers
- Tree Trimming

Burlington Hydro's tree trimming is completed over a 3 year cycle, in accordance with good utility practice.

Burlington Hydro maintains and operates an extensive fleet of vehicles and rolling stock; it is placing a priority on a more "green" fleet that is consistent with the City of Burlington's "Greening the Corporate Fleet Transition Strategy". This is an additional component of its traditional replacement cycle within an investment planning process.

Attention to the recommendations of the annual System Performance Report, Burlington Hydro's Asset Management Strategy and the Distribution System Plan all contribute

1 significantly to setting capital investment priorities. The particular initiatives are identified
2 at Exhibit 2.

3
4 A review of the cost drivers for operations spending serves to identify some of the
5 unique cost drivers within the Burlington Hydro system. These are explained and
6 considerations to reduce operations spending are described at Exhibit 4.

7 8 **Capital Investment Priorities in the Distribution System**

9 With its corporate emphasis on business performance and accountability Burlington
10 Hydro has a process for the development of its capital budget and a system of
11 prioritization. Such a system respects the priorities from a wide range of stakeholders,
12 corporate strategies and regulatory requirements. The following high level inputs require
13 detailed investigation but all contribute to a final capital investment budget depending on
14 the individual evaluations and timing of particular initiatives.

- 15 • New load growth and development projects
- 16 • Municipally driven projects
- 17 • Regulatory initiatives e.g. Smart meters and the Green Energy Act
- 18 • System Reliability
- 19 • Distribution Automation
- 20 • Infrastructure renewal projects
- 21 • Elimination of environmental/health or safety risks
- 22 • Fleet/Tools
- 23 • Information technology and corporate administration

24
25 Each priority is addressed in detail; however on-going assessments of the health and
26 performance of the distribution system are captured within the annual System
27 Performance Report and the Asset Management Strategy. Both of these items
28 contribute significantly to the development and prioritization of budgets.

Conservation and Demand Management Targets

The Ontario Power Authority has released its final 2012 Conservation and Demand Management Status Reports which reflect Burlington Hydro's success in delivery of Conservation and Demand Management (CDM) programs. The OPA applies factors to results to correct for erosion of achievements over the four year duration of the CDM programs, leading to a significant difference between Gross Savings and Contribution to Targets.

At the end of 2012, Burlington Hydro has delivered 17% of its demand and 64% cumulative energy targets. For Burlington Hydro to "track" on a straight line towards achieving its targets, it would need to have achieved 50% of the demand and cumulative energy target. These results are based on non-participation of Demand Response-3 (DR-3) program participants through December 31, 2014. If these customers continue participation, the achievements become 28% (demand) and 64% (consumption).

The OEB Targets were initially viewed by Burlington Hydro as being aggressive, but achievable. The 2007 to 2010 OPA CDM Programs were delivered at a rate of about 2 to 3 MW per year. The step required to achieve the OEB Targets was essentially a doubling of achievements, a significant but achievable challenge.

Burlington Hydro has taken the delivery of CDM Targets seriously and has created a delivery team made up of industry experts and leaders in their field. Experience with pre-2011 CDM Programs demonstrated that consumer programs are best delivered through internal staff. The infrastructure to generate mass market materials (brochures, handouts, pamphlets, media events, promotion at public events, etc.) exists and has proven to be economic. Excellent results when measured in terms of participation rates in the pre-2011 programs such as The Great Refrigerator Round-up, Summer Savings, and PeakSaver have been achieved. For the 2011 to 2014 programs, consumer programs are driven by experienced internal staff. Costs related to these programs

- 1 are funded through the Ontario Power Authority and are therefore not sought to be
- 2 recovered through the proposed revenue requirement.

OVERVIEW OF OPERATION MAINTENANCE AND ADMINISTRATIVE COSTS

As set out in the following table, Burlington Hydro's OM&A spending increased by approximately \$4.55M from its 2010 Actual to the 2014 Test Year. This \$4.55M OM&A increase includes costs related to OEB required accounting changes (\$0.8M). Normalizing the \$4.55M increase by removing these accounting related costs results in a 2010 to 2014 OM&A cost increase of \$3.7M. This normalized variance represents a 26.8% increase over 4 years, or an average annual increase of only 6.12%.

Table 1-4: OM&A Trend Table

	Last Rebasing Year (2010 Board-Approved)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Operations	\$4,464,123	\$4,047,491	\$4,643,079	\$4,387,015	\$5,621,434	\$6,283,903
Maintenance	\$2,864,348	\$2,275,554	\$2,544,531	\$3,149,391	\$3,602,291	\$3,722,797
SubTotal	\$7,328,471	\$6,323,045	\$7,187,610	\$7,536,406	\$9,223,725	\$10,006,700
%Change (year over year)			13.7%	4.9%	22.4%	8.5%
%Change (Test Year vs Last Rebasing Year - Actual)						58.3%
Billing and Collecting	\$2,305,153	\$2,396,557	\$2,001,083	\$3,114,375	\$2,221,235	\$2,310,532
Community Relations	\$41,584	\$14,894	\$18,589	\$16,073	\$19,158	\$19,500
Administrative and General+LEAP	\$4,671,786	\$5,266,558	\$5,319,521	\$5,492,207	\$6,008,031	\$6,216,618
SubTotal	\$7,018,523	\$7,678,009	\$7,339,193	\$8,622,655	\$8,248,424	\$8,546,650
%Change (year over year)			-4.8%	17.5%	-4.3%	3.6%
%Change (Test Year vs Last Rebasing Year - Actual)						11.3%
Total	\$14,346,994	\$14,001,054	\$14,526,803	\$16,159,061	\$17,472,149	\$18,553,350
%Change (year over year)			3.8%	11.2%	8.1%	6.2%

The overall increase in OM&A spending from 2010 to 2014 is due to several factors. Burlington Hydro has made changes to its accounting policies effective January 1, 2013 that reduced the period expenses eligible for capitalization which results in a shift in costs to OM&A.. This change in capitalization policy applied to overheads and burdens was mandated by the OEB in its July 17, 2012 letter on Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012

1 and 2013. This change in accounting policy constitutes a material portion of the overall
2 increase in OM&A. Other significant factors include the operation and maintenance costs
3 associated with Burlington Hydro's distribution assets and its 32 substations. The costs
4 associated with the maintenance of Burlington Hydro's substations are necessary in
5 order to operate and maintain the distribution system in a safe and reliable manner. The
6 increasing complexity in the regulatory environment, such as the introduction of smart
7 meters, has influenced OM&A spending. Burlington Hydro has various programs in place
8 geared to increasing effectiveness and long term success that include: training and
9 succession planning, process reviews and the implementation of Burlington Hydro's new
10 Information Services Strategy. These programs also contribute to increased OM&A
11 expenses. Burlington Hydro successfully copes with external factors (e.g. damage
12 control due to extreme weather, changes in technology such as the adoption of Wye
13 configurations, the transition to the Smart Grid, changes in government and regulatory
14 policy (e.g. ongoing Code amendments, implementation of the Ontario Clean Energy
15 Benefit) while continuing to provide safe and reliable distribution services. Burlington
16 Hydro established 5 new positions since 2010 that it has successfully recruited for; the
17 associated change in compensation amounts to approximately \$1.2M. Like all
18 commercial entities, Burlington Hydro experiences inflationary pressures which caused
19 an increase in its OM&A spending of approximately \$1.5M over the 4 year period 2010-
20 2014.

21
22 Further details on Burlington Hydro's OM&A expenses can be found at Exhibit 4.

STATEMENT OF COST OF CAPITAL PARAMETERS

Burlington Hydro has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, December 11, 2009 in determining the cost of capital.

In calculating the cost of capital, Burlington Hydro has used the deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the OEB letter of November 15, 2012, for the allowed return on equity and where appropriate for debt.

Burlington Hydro's cost of capital for 2014 has been calculated as 6.00%, as shown in Table 5.1.1 below.

Table 1-5: Summary of Capital Structure

		2010 Board Approved			2014 Test Year	
	Deemed Capital Structure	Rate			Rate	
Short Term Debt	4%	2.07%			2.07%	
Long Term Debt	56%	5.87%			4.16%	
Equity	40%	9.85%			8.98%	
Total	100%		7.31%			6.00%

Burlington Hydro understands that the OEB will most likely update the ROE for 2014 at a later date; the Applicant commits to updating its Capital Structure accordingly and as new information is issued.

Further details on Burlington Hydro's Capital Structure can be found at Exhibit 5.

OVERVIEW OF COST ALLOCATION

Cost Allocation

Burlington Hydro has prepared and is filing a cost allocation information filing consistent with the utility's understanding of the Directions, the Guidelines, the Model and the Instructions issued by the Board back in November of 2006 and all subsequent updates. The main objectives of the original information filing back in 2006, was to provide information on any apparent cross-subsidization among a distributor's rate classifications and to eventually be used in future rate applications. As part of its 2010 Cost of Service Rate Application, Burlington Hydro updated the cost allocation revenue to cost ratios with 2010 base revenue requirement information. The revenue to cost ratios from the 2010 application is presented below.

Table 1-6: Proposed vs Previously Approved Ratios (2014 vs 2010 COS)

Classes	Costs Allocated from Previous Study	Costs Allocated in Test Year Study (Column 7A)	2014 Proposed Ratios
Residential	107.10%	109.15%	100.00%
GS < 50 kW	117.03%	101.39%	100.00%
GS > 50 kW	85.00%	81.84%	100.00%
Street Lighting	42.54% *	96.84%	100.00%
Unmetered Scattered Load (USL)	103.60%	134.77%	100.00%

*Streetlights were adjusted to the minimum target of 80% in subsequent IRM applications

Burlington Hydro has prepared a Cost Allocation Study for 2014 based on an allocation of the 2014 test year costs (i.e., the 2014 forecast revenue requirement) to the various customer classes using allocators that are based on the forecast class loads (kW and kWh) by class, customer counts, etc.

1 Burlington Hydro has used the updated Board-approved Cost Allocation Model and
2 followed the instructions and guidelines issued by the Board to enter the 2014 data into
3 this model.

4
5 Burlington Hydro populated the information on Sheet I3, Trial Balance Data with the
6 2014 forecasted data, Target Net Income, PILs, Deemed interest on long term debt, and
7 the targeted Revenue Requirement and Rate Base.

8
9 On Sheet I4, Break-out of Assets, Burlington Hydro updated the allocation of the
10 accounts based on 2014 values.

11
12 In Sheet I5.1, Miscellaneous data, Burlington Hydro updated the deemed equity
13 component of rate base, km of roads where distribution lines exist, working capital
14 allowance, the proportion of pole rent revenue from secondary poles, and the monthly
15 service charges.

16
17 In Sheet I5.2, Weighting Factors, Burlington Hydro has used LDC specific factors as
18 instructed by the Board versus the use of default factors which were used in the past.
19 The utility has applied service and billing & collecting weightings for each customer
20 classification. These weightings are based on a review of time and costs incurred in
21 servicing these particular customer classes:

22
23 In Sheet I6.1 Revenue has been populated with the 2014 Test year forecast data as well
24 as existing rates.

25
26 Sheet I6.2 has been updated with the required Bad Debt and Late Payment revenue
27 data as well as customer/connection number information devices.

28
29 Burlington Hydro updated the capital cost meter information on Sheet I7.1 and the meter
30 reading information on I7.2 in accordance with the recent update to smart meters.

31

1 On sheet I8, Burlington Hydro has used its most recent information to update the co-
2 incident and non-co-incident peaks from the previous cost of service allocation.

3
4 No Direct Allocations on Sheet I9 were used.

5
6 Details and results of the Cost Allocation Study are presented at Exhibit 7.

7
8 **Rate Design**

9 Distribution revenue is derived through a combination of fixed monthly charges and
10 volumetric charges based either on consumption (kWh's) or demand (kW's). Revenues
11 are collected from 5 customer classes including: Residential, General Service less than
12 50 kW, General Service greater than 50 kW, Unmetered scattered load (USL) and Street
13 Lighting

14
15 Fixed rate revenue is determined by applying the current fixed monthly charge to the
16 number of customers or connections in each of the customer classes in each month.
17 Variable rate revenue is based on a volumetric rate applied to meter readings for
18 consumption or demand volume.

19
20 Existing volumetric rates include a component to recover allowances for transformer
21 ownership.

22
23 Commodity Charges and deferral and variance rate riders, along with Burlington Hydro
24 specific other adders such and added to the distribution rates to arrive at a final all-
25 encompassing bill.

OVERVIEW OF DEFERRAL AND VARIANCE ACCOUNT DISPOSITION

In the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), the Board states that "at the time of rebasing, all Account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline" (EB-2008-0046).

The amount to be disposed of is the audited principal balances as of December 31, 2012 plus interest forecasted to December 31, 2013. The proposed method of recovery is allocated to rate classes on the basis of the applicable cost drivers over a two year period. The total amount requested for disposition (net of all excluded accounts) is a credit of \$3,682,898. This amount can be broken into the following categories:

- The total of balances recorded in Group 1 Variance/Deferral Accounts totaling a credit of \$4,827,497 and its associated carrying charges up to and including April 30, 2014.
- The total of balances recorded in Group 2 Variance/Deferral Accounts totaling a debit of \$1,144,599 and its associated carrying charges up to and including April 30, 2014.

The disposition through rates aims at returning to the customer amounts that were over collected in past periods through the operation of market based commodity prices, government approved pricing mechanisms (e.g. the Global Adjustment), OEB authorized prices and rates and other factors.

- Details and derivation of the Deferral and Variance dispositions are presented at Exhibit 9.

- Burlington Hydro is also requesting disposition of accounts 1576 in the amount of \$2,884,325 which represents Burlington Hydro financial differences arising as a result of changes to accounting depreciation or capitalization policies permitted by the Board under Canadian GAAP or as mandated by the Board in 2013.

Burlington Hydro has followed the OEB's guidance as provided in the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report. Disposition by means of the customer class specific rate riders is shown in the table below.

In addition to the deferral and variance account disposition, Burlington Hydro is seeking disposition of and over-collection of MDMR fees in the amount of \$474,672 details can be found at Exhibit 9, Tab 2, Schedule 3

Table 1-7: MDMR Rate Rider

Customer Class Name	Costs per class	Carrying Charges	Total Balance	Customer	Rate	per month
Residential	-\$433,001.53	-\$20,902.74	-\$453,904.27	60335	-\$7.52	-\$0.63
General Service < 50 kW	-\$37,096.86	-\$1,790.82	-\$38,887.68	5272	-\$7.38	-\$0.61
General Service > 50 to 4999 kW	-\$4,574.41	-\$220.83	-\$4,795.24	1014	-\$4.73	-\$0.39
TOTAL	-\$474,672.80	-\$22,914.38	-\$497,587.18			

1 Lastly, Burlington Hydro is seeking recovery of the net book value of its stranded meters
 2 at the end of 2010 in the amount of \$4,585,794 Details can also be found at Exhibit 9,
 3 Tab 2, Schedule 4.

4

5 **Table 1-8: Stranded Meter Rate Rider**

Customer Class Name	Net Book Value	Allocation	% share	Annual \$	Customer	Rate	per month
Residential	\$3,421,258.48	7,347,649	74.61%	1710629.24	60335	\$28.35	\$2.36
General Service < 50 kW	\$1,047,487.32	2,249,631	22.84%	523743.66	5272	\$99.34	\$8.28
General Service > 50 to 4999 kW	\$117,048.20	251,378	2.55%	58524.10	1014	\$57.72	\$4.81
	TOTAL	9848658					

Total for Recovery				4,585,794
Recovery Period (years)			2	
Annual Recovery				2,292,897

6

7

1 The tables below summarize the derivation of the proposed rate riders.

Please indicate the Rate Rider Recovery Period (in years)

2

Table 1-9: Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.)

Rate (Enter Rate Classes in cells below)	Class	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts	
Residential		kWh	555,923,716	-\$ 1,528,589	- 0.0014	\$/kWh
General Service Less Than 50 kW		kWh	183,112,615	-\$ 509,517	- 0.0014	\$/kWh
General Service 50 to 4,999 kW		kW	2,448,411	-\$ 2,751,383	- 0.5619	\$/kW
Unmetered Scattered Load		kWh	3,918,008	-\$ 10,824	- 0.0014	\$/kWh
Street Lighting		kW	26,120	-\$ 27,184	- 0.5204	\$/kW
Total				-\$ 4,827,497		

- note that LRAMVA is included in the balance above

2

3

Table 1-10: Rate Rider Calculation for RSVA - Power - Global Adjustment

Rate (Enter Rate Classes in cells below)	Class	Units	Non-RPP kW / kWh / # of Customers	Balance of RSVA - Power - Global Adjustment	Rate Rider for RSVA - Power - Global Adjustment	
Residential		kWh	49,643,988	\$ 64,058	0.0006	\$/kWh
General Service Less Than 50 kW		kWh	30,433,317	\$ 39,270	0.0006	\$/kWh
General Service 50 to 4,999 kW		kW	2,053,727	\$ 1,029,175	0.2506	\$/kW
Unmetered Scattered Load		kWh	25,075	\$ 32	0.0006	\$/kWh
Street Lighting		kW	25,921	\$ 12,064	0.2327	\$/kW
Total				\$ 1,144,599		

4

5

1

Table 1-11: Rate Rider Calculation for Accounts 1576

Please indicate the Rate Rider Recovery Period (in years) 2

Rate (Enter Rate Classes in cells below)	Class	Units	kW / kWh / # of Customers	Balance of Accounts 1576	Rate Rider for Accounts 1576	
Residential		kWh	555,923,716	-\$ 941,414	- 0.0008	\$/kWh
General Service Less Than 50 kW		kWh	183,112,615	-\$ 310,087	- 0.0008	\$/kWh
General Service 50 to 4,999 kW		kW	2,448,411	-\$ 1,610,235	- 0.3288	\$/kW
Unmetered Scattered Load		kWh	3,918,008	-\$ 6,635	- 0.0008	\$/kWh
Street Lighting		kW	26,120	-\$ 15,954	- 0.3054	\$/kW
Total				-\$ 2,884,325		

- 2 Since Burlington Hydro has not transitioned to IFRS account 1575 has not been used
 3 and therefore account 1575's balance is zero.

OVERVIEW OF BILL IMPACTS

A summary of the bill impacts by class is presented below.

Overall, the bill impacts vary by customer class, ranging from a decrease of 2.81% for the Residential Class to increases of 3.18% and 1.23% in the GS< 50 and GS>50 respectively. Unmetered Scattered Load has decrease by 7.92% while the Street Lighting class has increase by 3.25%. The reason for the decrease in several rates classes is mainly due to the impacts of Burlington Hydro adopting the new OEB mandated accounting.

The impact is further reduced by overall credit rate riders to dispose of the significant balances owed to ratepayers that have accumulated in certain variance accounts. Decreases in rates for retail transmission service and wholesale market service also contribute to further reduce the utility's distribution rates. The expiration of many rate riders such as the Smart Meter Disposition Rider ('SMDR') and Smart Meter Incremental Rate Rider ("SMIRR") are also significant factors in the proposed bill impacts.

Although the overall bill impacts have been reduced for certain classes, Burlington Hydro's proposed 2014 revenue requirement is needed to remain in compliance with its regulators and meet its mandate and commitment to provide safe, reliable cost-effective services and products achieving sustainable growth while respecting the community and the environment.

Bill Impacts by rate class are presented at the next page.

Detailed explanations of the bill impacts are presented at Exhibit 8.

TOU / non-TOU: ☒ TOU

Consumption 800 kWh

Loss Factor (%)	3.01%	3.74%
-----------------	-------	-------

2

Exhibit 1: Administrative Documents

Tab 2 (of 5): Customer Engagement

OVERVIEW OF CUSTOMER ENGAGEMENT

Burlington Hydro is committed to setting a standard of leadership that is rooted in trusted service and an unwavering commitment to serve the needs of its customers and its community.

It is a brand of leadership that ties in directly with Burlington Hydro's corporate responsibility philosophy – a progressive company committed to continuous improvement and performance excellence in the areas of safety, stewardship, community involvement and technological innovation. To support this, the company maintains a strong asset base through responsible financial management, system renewal and innovation that assures the availability of electricity supply to meet the needs of customers and a growing community.

Burlington Hydro's ability to contribute meaningfully to the social, economic and environmental well-being of stakeholders, shareholders, its workforce and the community, remains a central component of Burlington Hydro's steadfast approach to the company's corporate responsibilities.

Burlington Hydro's corporate and employee community involvement fundamentally builds on this commitment to its customers. It is a long-established Burlington Hydro practice to maintain close contact with all its stakeholders; this includes customers, the public at large and Burlington Hydro's owners. While maintaining this close contact requires substantial effort, it is the company's view that such efforts pay long-term dividends by ensuring all stakeholders' needs are fully considered and implemented where feasible. This view has been repeatedly confirmed in both formal and informal feedbacks. For example, in presenting the "LDC Performance Excellence Award" to Burlington Hydro on March 20, 2013, the Electricity Distributors Association ("EDA") specifically noted Burlington Hydro's close connection with its customers. This close customer connection was a major factor in the company receiving this prestigious award.

1 **Participating in the Community**

2 It is important to Burlington Hydro that its employees support and give back to their
3 community and as such the Burlington Hydro Team participates in many community
4 projects and events (at no cost to ratepayers) such as:

5
6 United Way

7 For ten years running Burlington Hydro has received the Platinum Award which is
8 the highest honour given for outstanding participation. Burlington Hydro's
9 matching donation policy helped to encourage employee giving and showed
10 company commitment to the local United Way annual campaign.

11
12 Burlington's Lakeside Festival of Lights

13 In 2012, and in moving forward, Burlington Hydro's sister company, Burlington
14 Electricity Services, assumed responsibility for the coordination and operation of
15 Burlington's annual Lakeside Festival of Lights, a holiday lighting display in
16 Spencer Smith Park that runs from November 30th to January 9th.

17 As the main contributor to this popular annual holiday celebration, the volunteer
18 crew from Burlington Hydro Inc. assists with wiring, set-up and removal of
19 displays, as well as marketing and administrative support.

20
21 Canadian Blood Services

22 Burlington Hydro is proud to participate in the 'Partners for Life' program, where
23 employees at all levels are encouraged to support their local donor clinics.

24
25 Crime Stoppers

26 Burlington Hydro works towards reducing grow operations and copper thefts.

27
28 Imprint Youth Conference and ECO Awards

29 In 2012, Burlington Green, in partnership with the Jane Goodall Institute of
30 Canada, presented the Imprint Youth Conference and ECO Awards, held at the
31 Burlington Performing Arts Centre in September. Burlington Hydro has
32 sponsored the popular local Imprints Youth Conference for three years and the

1 regional awards for four years. As a silver sponsor in 2012, Burlington Hydro
2 representatives joined Jane Goodall in presenting the ECO Business Award.
3

4 **Financial Assistance Program**

5 Burlington Hydro provides support through partnerships with the province's Low-income
6 Energy Assistance Program (LEAP) and the 'Winter Warmth' program. Both of these
7 emergency financial assistance programs are designed to help low-income customers
8 who have difficulty making their electricity bill payments. Helping individuals and families
9 connect to assistance programs is an important part of what we do.
10

11 **A Re-Energized And Refreshed Corporate Brand**

12 In 2011 Burlington Hydro initiated a process to revitalize its visual identity to better reflect
13 who the utility is and what it stands for in the community. 200 Customers and 75
14 employees were polled on which visual concepts they thought best represented their
15 utility. The goal was to re-energize the company, and in doing so, energize the
16 community into the future.

17 The interpretation of an energized community, where people, innovation and the
18 environment move forward hand in hand is now represented by the image of an energy
19 burst. It is a symbol that moves the company forward with a renewed sense of pride,
20 while more accurately representing who Burlington Hydro is and what it aspires to be.

21 The new branded look and messaging was successfully launched in February 2012.
22

23 **Customer Engagement**

24 Transition to Time-of-Use Pricing

25 Burlington Hydro began to roll out TOU pricing to customers in January 2012. All
26 affected customers were being billed TOU rates by the summer of 2012.

27 Burlington Hydro conducts intensive customer-focused roadshows from time-to-
28 time to address specific issues. For example, during the March/May 2012
29 period, Burlington Hydro held such an event to ensure its customers were fully
30 aware of time-of-use billing. This extended event involved Burlington Hydro staff
31 attending a large number of malls, major grocery stores and large hardware

1 stores in the service area. Contact was made with approximately 3,500
2 customers; substantial feedback was provided and numerous customer issues
3 addressed.

4
5 The TOU Community Outreach tour was very successful in informing customers
6 about how TOU pricing works, as well as having meaningful discussions
7 regarding conservation options to help offset the new pricing regime.

8

9 **Burlington Hydro's TOU Toolkit**

10 The TOU Toolkit is a customer self-service web portal that is fully integrated into
11 Burlington Hydro's existing website. It enables users to gain quick and easy access to
12 their electricity consumption data and allows customers to set personal usage alerts to
13 manage their electricity costs.

14

15 There was a sharp increase in the number of customers utilizing this handy and
16 instructive tool as more customers migrated to TOU pricing in 2012.

17

18 Burlington Hydro's ViewMyBill E-Service

19 In 2011, Burlington Hydro introduced a new e-service that is growing in popularity
20 and allows customers to view current and past electricity bills from any web
21 connection.

22

23 ViewMyBill allows customers to avoid the hassle of receiving paper bills through
24 the mail and reduces waste paper. Instead, e-mail notifications tell customers
25 their bills have been issued.

26

27 The number of customers utilizing this e-service continued to grow in 2012.
28 Current electricity bills can be seen or downloaded from anywhere there is
29 internet access, and compared with previous bills.

30

31 A New, Revitalized Bill Format

1 A major, cutting edge re-design of Burlington Hydro's customer bills was
2 introduced in tandem with the introduction of TOU pricing in 2012. Two boxes
3 located at the bottom of the bill – referred to as onserts – allow Burlington Hydro
4 to promote CDM programs, safety messaging, and/or appropriate
5 communications to customers as required. The integration of onserts on the bill
6 itself has eliminated the need for the production of individual and costly inserts
7 that were utilized previously.

8 9 Direct Communications

10 On July 24, 2013 shortly following the July 19 storm when approximately one
11 third of Burlington Hydro's customers lost power for a number of hours, the LDC
12 published an open letter in the local community newspaper to all its customers
13 explaining the circumstances of the outage and the speedy recovery actions that
14 were taken. In addition to informing its customers about the storm recovery
15 actions, the letter also provided visibility and gave Burlington Hydro customers
16 the opportunity to provide input to the utility. This is just one of many examples
17 of the utility's customer media outreach to ensure that customers understand
18 how Burlington Hydro is serving their needs.

19 20 **Public Safety**

21 Fostering a safe workplace for employees is a primary focus at Burlington Hydro. The
22 company's safety-first operational culture is committed to the continuous improvement of
23 safety performance, through training and professional certification. Rigorous safety
24 principles adhere to strict criteria and measurement standards that are practiced
25 throughout the company.

26
27 This commitment to safety extends into the community with local businesses and trades
28 people. For example:

29 30 Powerline Safety Seminars

1 These seminars are provided to non-electrical contractors to highlight the
2 dangers presented by overhead and buried powerlines at or near construction
3 sites. These free public seminars have helped local trades and businesses
4 address job site electrical hazards and ensure they understand provincial
5 guidelines for keeping workers safe.

6

7 Seminars are also provided on request to specific industries or employer groups.
8 During the 2010-2013 period, over 100 individuals per year attended the
9 sessions. As always, the opportunity was afforded for questions to be asked and
10 opinions to be expressed on the broader aspects of Burlington Hydro's electricity
11 supply.

12

13 Elementary School program

14 Burlington Hydro recognizes that lifelong electrical safety awareness and
15 prevention begins with children. That is why the company works with
16 approximately 4,000 local elementary students each year to ensure that students
17 are recipients of comprehensive and interactive electrical safety programs to
18 ensure they understand the dangers posed by powerlines. Burlington Hydro also
19 participates in the 'Passport to Safety' program and 'Our Youth at Work' program
20 geared to high school teens.

21

22 Crime Stoppers Program

23 A proud supporter of Crime Stoppers since 2005 in the support of theft of copper
24 prevention initiatives and Grow Ops tip line support Media outreach Relevant
25 Safety messages depending on seasonal hazard using public safety radio spots
26 since 2009 have been used. This is in partnership with Oakville & Horizon
27 utilities.

28

29

Customer Involvement Through Conservation

One key to maintaining Burlington Hydro's close contact with its customers is its ability to leverage contact which, while made for one specific purpose, is also used for a second purpose. The best example of this synergy is Burlington Hydro's leveraging of its OPA-funded CDM activities for more-general Burlington Hydro purposes

Customer involvement activities include:

Community Events

As part of its OPA-funded CDM activities, Burlington Hydro participates in 10 to 15 community events each year where some 200 to 500 customers stop by the Burlington Hydro booth per event. These annual events include the Burlington Home Show, local Canada Day celebrations, Children's Festival and the Festival of Lights. While primarily intended to provide CDM information, Burlington Hydro staff eagerly respond to customers' more general concerns and opinions; they also address customer service issues or pass them on to customer service staff for resolution.

Business Events

Again, as part of its CDM program, Burlington Hydro hosts some 10 to 15 technical events each year that are each attended by a dozen or more local businesses. While the primary purpose of the sessions is to address technical CDM concerns, the attendees actively use such events to ask more general questions or raise concerns they may have with the electrical service provided by Burlington Hydro. These questions/concerns are followed up by other, non-CDM, Burlington Hydro staff who also attends these sessions.

Commercial and Industrial Site Visits and Contacts

Burlington Hydro CDM staff made almost 3,000 site visits and other contacts with commercial and business customers during the 2011 to 2013 (year to date) period. These visits and phone/e-mail contacts were extremely helpful in

1 identifying matters of specific interest and concern to these larger customers.

2 Specifically, during the period:

3	Site visits to GS<50kW customers	443
4	Site visits to GS>50kW customers	948
5	Phone/e-mail contacts with GS>50kW customers	1,594

6

7

1 Eco-Schools Celebration

2 At this twice-yearly regional event, in addition to learning more about energy
3 conservation, school children have the opportunity to expand their knowledge of,
4 and provide questions/opinions about, broader Burlington Hydro electricity supply
5 issues.

6

7 **Burlington Hydro's Owners**

8 Burlington Hydro is wholly owned by the City of Burlington. With the Mayor and City
9 Manager members of the supervising Board of Directors (i.e. Burlington Hydro Electric
10 Inc. – the holding company) and the City Manager as a member of the Burlington Hydro
11 Board of Directors, Burlington Hydro's customers as City citizens are uniquely positioned
12 to direct the activities of the utility.

13

1

2 Community Energy Planning

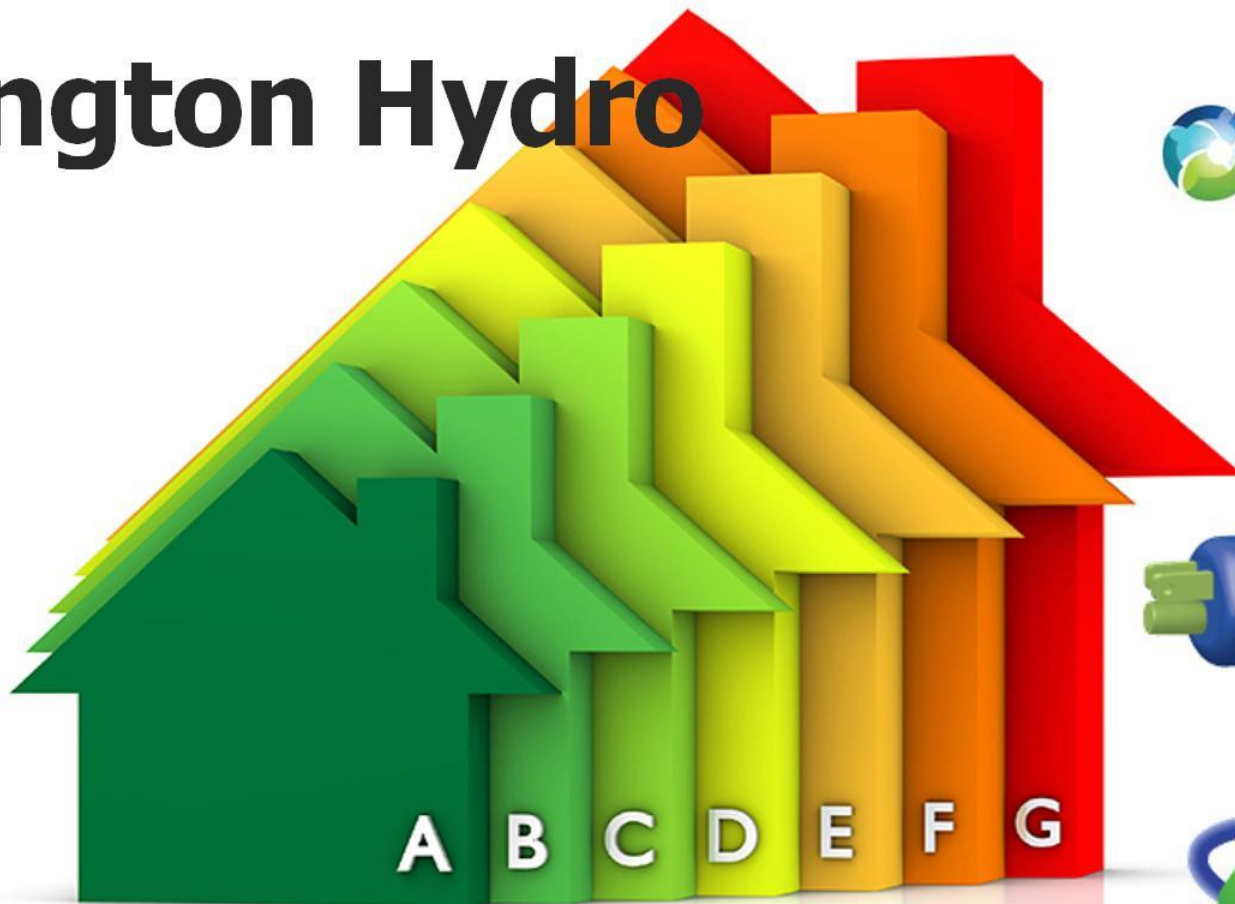
3 Burlington Hydro is working cooperatively to complement a key City strategy to “promote
4 and encourage lower community energy consumption.” This includes the development
5 and implementation of a community energy plan that will reduce the city’s carbon
6 footprint and energy use; demonstrate environmental leadership; and, create economic
7 development opportunities. Burlington Hydro is looking at working closely with the City to
8 expand renewable energy initiatives to lower greenhouse gas emissions that move us
9 towards less reliance on non-renewable sources. Lastly, Burlington Hydro is working
10 closely with the City to improve the distribution system and increase the utility’s capacity
11 to support the community’s future energy demands.

1

CUSTOMER SATISFACTION SURVEY

2 Burlington Hydro contracted with UtilityPULSE to perform a customer satisfaction survey
3 with its customers. UtilityPULSE contacted 400 Burlington Hydro customers between
4 April 8 and 19, 2013; the results were published in June 2013 as the “15th Annual
5 Electric Utility Customer Satisfaction Survey”. The survey results showed that 86% of
6 Burlington Hydro’s customers were “very satisfied” with the service they received from
7 Burlington Hydro compared with the Province-wide average across all LDCs of 82%.
8 The survey can be found at Exhibit 1, Tab 2, Schedule 2

Burlington Hydro



A B C D E F G

A B C D E F G

UtilityPULSE



15th Annual Electric Utility Customer Satisfaction Survey

- Based on telephone interviews of *400 respondents* who pay or look after the electricity bills for *Burlington Hydro*
- Note: A sample size of 400 will provide confidence level of 95% (+/-4.9%)
- Customers surveyed were based on a *random sample* approach
- 1109 households and small businesses were contacted, 400 completed interviews; response rate is 36%
- The following *segments* were surveyed:
 - Residential – 85%
 - Commercial – 15%
- Burlington Hydro's customers participated in an "*in-depth*" Customer Satisfaction Telephone Survey
- National benchmark data has been refined to reflect the demographic mix in Canada
- Results of the UtilityPULSE Report Card® are computed by formulas which map the attributes of corporate image to customer satisfaction and loyalty



Credibility and Trust:

Demonstrating Credibility and Trust

Knowledge

The utility is seen as being knowledgeable about the services it provides, about what is happening in the industry, and how customers can reduce costs or create more value.

Integrity

The utility is seen as an organization that will act in the best interests of its customers and can be counted on to provide services and resolve problems in a professional manner.

Involvement

The utility is actively involved in the industry, in the community and in things that affect the customer.

Trust

The utility is an organization that can be trusted and is worthy of respect.

Overall Burlington Hydro 86%
[Ontario 82%; National 82%]

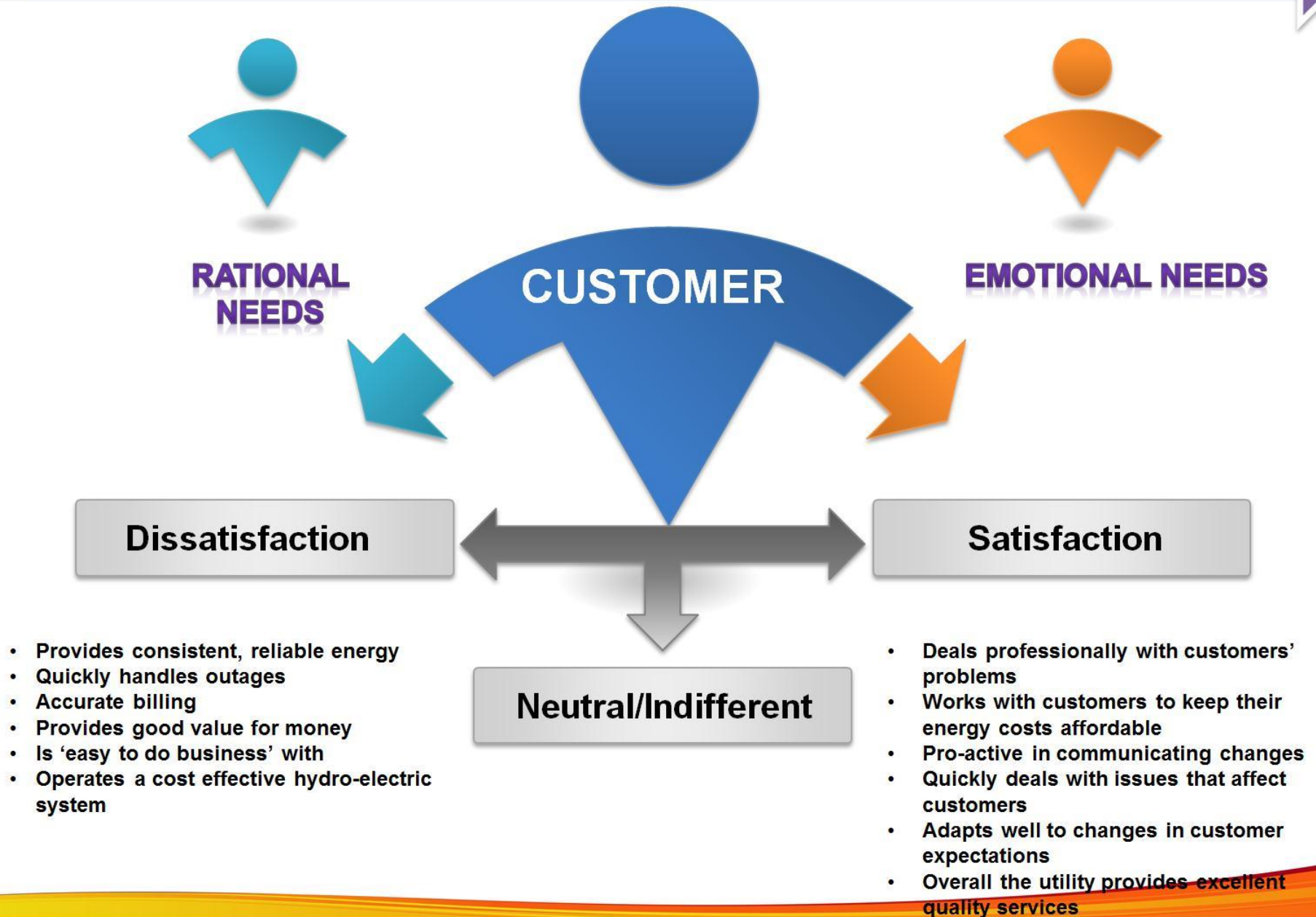
Base: total respondents

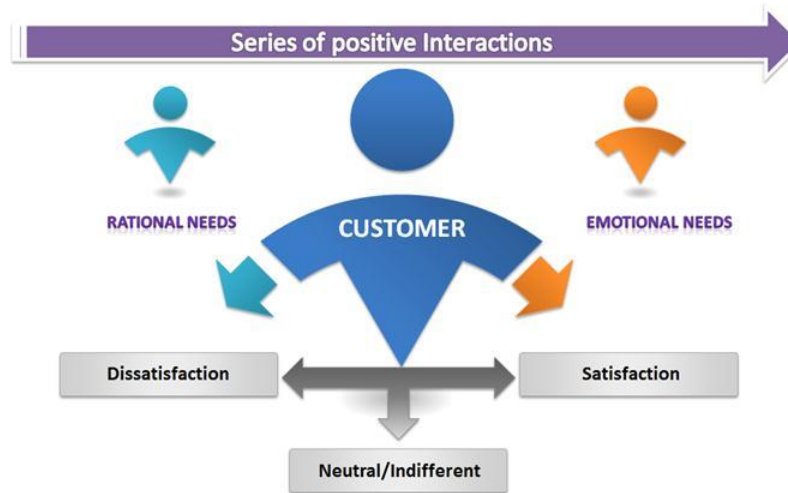
“Is a trusted and trustworthy company ...”

88%



Series of positive Interactions





Attributes strongly linked to a hydro utility's image

	Burlington Hydro	National	Ontario
RATIONAL NEEDS			
Provides consistent, reliable energy	91%	90%	90%
Quickly handles outages	90%	88%	88%
Accurate billing	89%	85%	86%
Provides good value for money	72%	71%	68%
Is 'easy to do business' with	86%	82%	81%
Operates a cost effective hydro-electric system	75%	72%	68%
EMOTIONAL NEEDS			
Deals professionally with customers' problems	88%	83%	84%
Works with customers to keep their energy costs affordable	69%	66%	65%
Pro-active in communicating changes	86%	77%	80%
Quickly deals with issues that affect customers	86%	82%	82%
Adapts well to changes in customer expectations	80%	74%	73%
Overall the utility provides excellent quality services	88%	85%	83%

Base: total respondents with an opinion

Customer Satisfaction

“Satisfied : Beginning of Interview ”

91%



Electricity bill payers who are 'very or fairly' satisfied with...

	2013	2012	2011	2010
Burlington Hydro	91%	-	-	-
National	90%	88%	89%	86%
Ontario	90%	86%	84%	80%

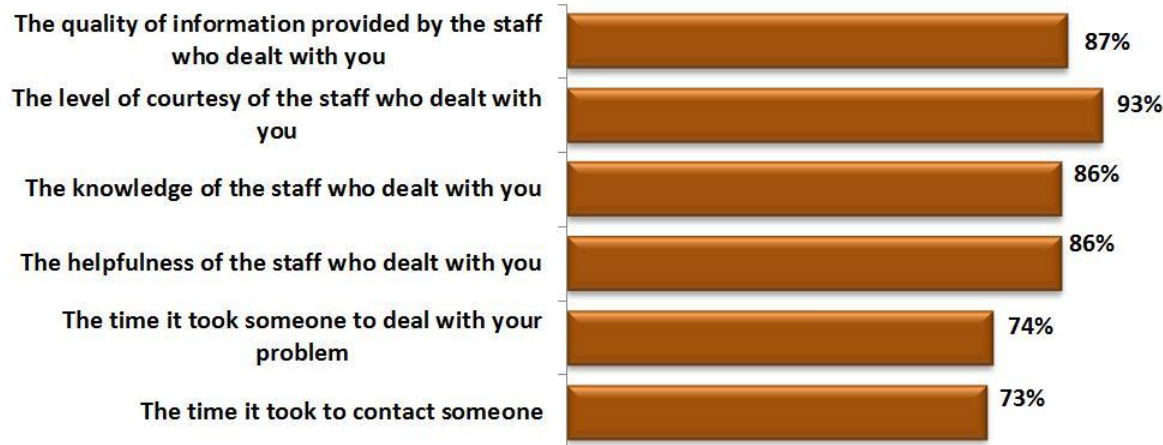
Base: total respondents/ (-) not a participant of the survey year

Customer Service:

Customer Service Expectations	Burlington Hydro	National	Ontario
The time it took to contact someone	73%	77%	72%
The time it took someone to deal with your problem	74%	73%	66%
The helpfulness of the staff who dealt with you	86%	78%	73%
The knowledge of the staff who dealt with you	86%	74%	72%
The level of courtesy of the staff who dealt with you	93%	85%	82%
The quality of information provided by the staff who dealt with you	87%	77%	70%

Base: total respondents

Customer Service



“... satisfied with the knowledge of staff ...”

86%



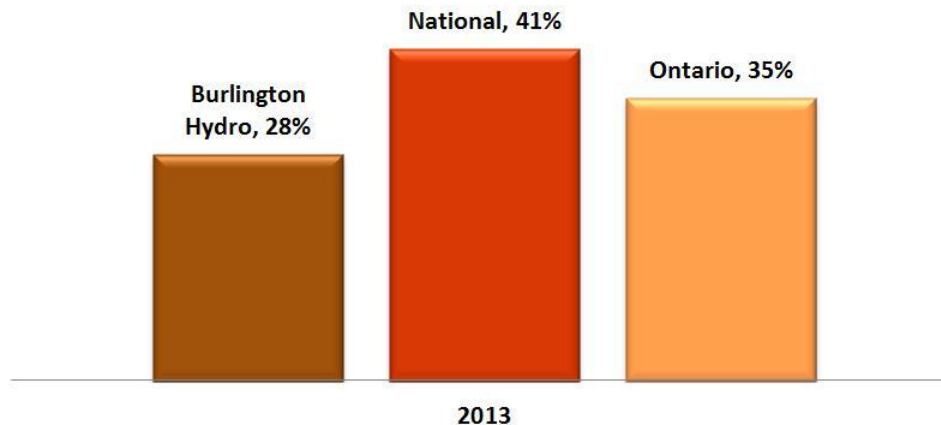
Outage Problems (last 12 months)

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months

	Burlington Hydro	National	Ontario
2013	28%	41%	35%
2012	-	44%	46%
2011	-	43%	43%
2010	-	45%	41%

Base: total respondents/ (-) not a participant of the survey year

Blackout or Outage Problems in the last 12 months



“... had outage problems in the last 12 months”

28%



Billing Problems (last 12 months)

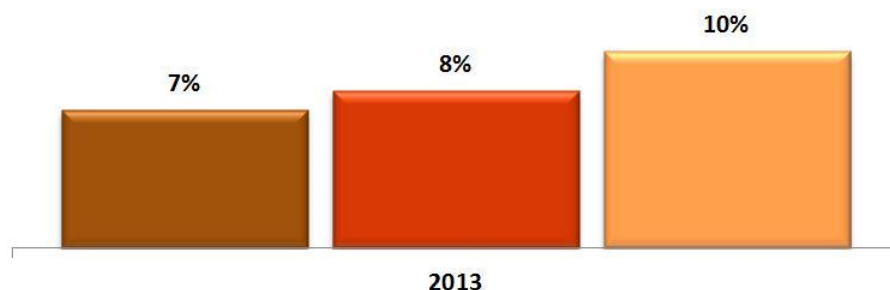
Percentage of Respondents indicating that they had a Billing problem in the last 12 months

	Burlington Hydro	National	Ontario
2013	7%	8%	10%
2012	-	12%	13%
2011	-	10%	16%
2010	-	10%	12%

Base: total respondents/ (-) not a participant of the survey year

Billing Problems in the last 12 months

■ Burlington Hydro ■ National ■ Ontario



“... had a billing problem in the last 12 months”

7%



Types of billing problems:

Burlington Hydro

The amount owed was too high	45%
Complaint about rates or charges	24%
The bill was difficult to understand	10%
The bill arrived late	3%
Processed through wrong account	3%

Base: total respondents with billing problems

“Amount owed was too high ...”

45%

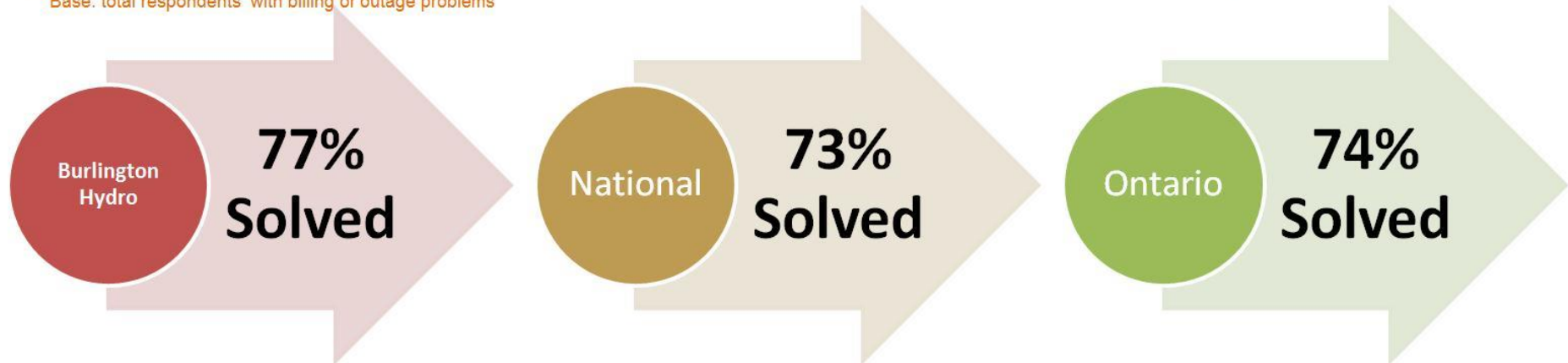


Problem Solved:

Percentage of Respondents who had problems and attempted to contact their utility

	Burlington Hydro	National	Ontario
Outage problems	27%	37%	35%
Billing problems	38%	48%	45%

Base: total respondents with billing or outage problems



“Problem was solved...”



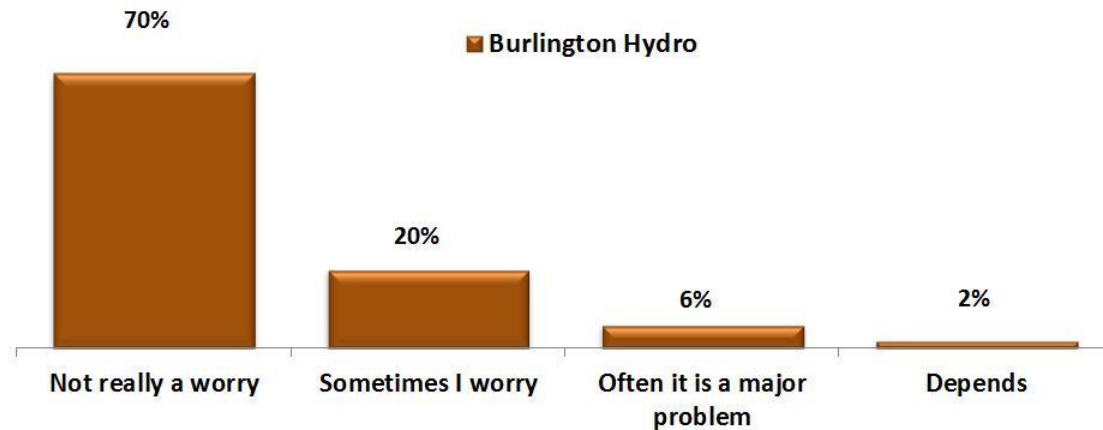
Paying for electricity:

Is paying for electricity a worry or a major problem?

	Burlington Hydro	National	Ontario
Not really a worry	70%	70%	66%
Sometimes I worry	20%	18%	21%
Often it is a major problem	6%	8%	11%
Depends	2%	2%	1%

Base: total respondents

Is paying for electricity a worry or a major problem?



“sometimes or often worry about paying...”

26%



CEPr: Customer Experience Performance rating

Customer Experience Performance rating (CEPr)

	Burlington Hydro	National	Ontario
CEPr	87%	83%	83%

Base: total respondents



“CEPr: Customer Experience Rating ...”

87%

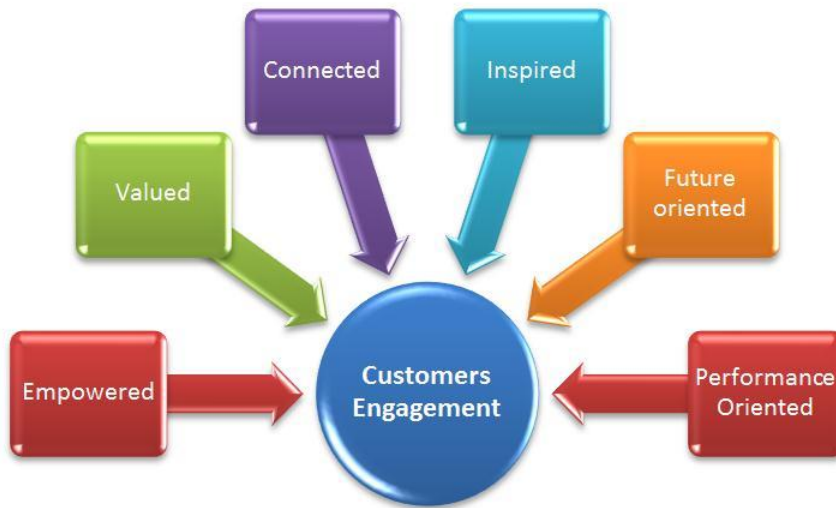


CEI: Customer Engagement Index

Customer Engagement Index (CEI)

	Burlington Hydro	National	Ontario
CEI	85%	81%	81%

Base: total respondents



- Does the utility allow their customers to feel **empowered** about their interactions with the company and decisions affecting their electricity usage
- Does the utility give customers the sense of being **valued**
- Does the utility act in ways which allows customers to stay **connected**
- Do customers get **inspired** by the way the utility conducts business
- Is the utility forward thinking enabling customers to be **future oriented**
- Does the utility conduct operations in such a way that customers believe that they are truly **performance oriented** in achieving goals and results

“CEI: Customer Engagement Index ...”

85%



Report Card: A

Burlington Hydro's UtilityPULSE Report Card®			
Category		Burlington Hydro	Ontario
1	Customer Care	A	B+
	Price and Value	B+	B
	Customer Service	A	A
2	Company Image	A	A
	Company Leadership	A	A
	Corporate Stewardship	A	A
3	Management Operations	A	A
	Operational Effectiveness	A	A
	Power Quality and Reliability	A+	A
OVERALL		A	A

“A... Customer Care”

“A ... Company Image”

“A ... Management Operations”

Corporate Image:

Attributes strongly linked to a hydro utility's image

	Burlington Hydro	National	Ontario
Is a respected company in the community	89%	83%	84%
Maintains high standards of business ethics	87%	81%	81%
A leader in promoting energy conservation	86%	80%	80%
Keeps its promises to customers and the community	86%	81%	82%
Beyond providing jobs and paying taxes, is socially responsible	85%	79%	79%
Is a trusted and trustworthy company	88%	83%	83%
Adapts well to changes in customer expectations	80%	74%	73%
Is 'easy to do business with'	86%	82%	81%
Overall the utility provides excellent quality services	88%	85%	83%
Operates a cost effective hydro-electric system	75%	72%	68%

Base: total respondents with an opinion

**“Is a respected company
in the community”**

89%





SMART Meters, SMART Grid and Conservation

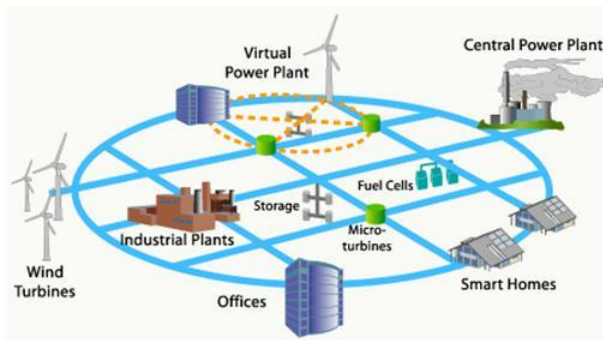
SMART Meters:



77%

“... agree (“strongly + somewhat”) that Time-Of-Use billing has changed the way in which you consume electricity on a day to day basis...”

SMART Grid:



7%

I have a fairly good understanding of what it is and how it might benefit homes and businesses

17%

I have a basic understanding of what it is and how it might work

33%

I've heard of the term, but don't know much about it

42%

I have not heard of the term

1%

Don't know

Base: An aggregate of respondents from 2013 participating LDCs

SMART Grid:

53%

“... feel it is important
 (“very + somewhat”)
 to pursue the
 implementation of the
 SMART grid ...”



75%

“... are supportive
 (“very + somewhat”)
 towards working with
 neighbouring utilities
 on SMART Grid
 initiatives...”

Base: An aggregate of respondents from 2013 participating LDCs

Electric Car:

33%

“... are interested (“very + somewhat”) in purchasing a fully electric vehicle...”

2%

“... considering the purchase in the next 7 to 12 months...”



Base: total respondents from 2013 Ontario benchmark survey

Conservation:

Efforts to conserve energy

Ontario LDCs	Yes	No	Already Done	Don't Know
Install energy-efficient light bulbs or lighting equipment	20%	10%	69%	1%
Install timers on lights or equipment	15%	49%	35%	2%
Shift use of electricity to lower cost periods	21%	19%	57%	3%
Install window blinds or awnings	15%	26%	58%	1%
Install a programmable thermostat	15%	20%	63%	2%
Have an energy expert conduct an energy audit	9%	70%	18%	3%
Removing old refrigerator or freezer for free	14%	45%	37%	4%
Join the peaksaverPLUS™ program	18%	48%	21%	13%
Replacing furnace with a high efficiency model	13%	36%	48%	3%
Replacing air-conditioner with a high efficiency model	16%	39%	41%	4%
Use a coupon to purchase qualified energy saving products	33%	42%	21%	4%

— Base: An aggregate of Residential respondents from 2013 participating LDCs



Conservation: 1 or 2 barriers

What are the 1 or 2 barriers to energy conservation experienced by Ontarians?

	Ontario
Cost involved in making equipment/appliance changes	21%
Lifestyle changes / inconvenient	11%
Lack of interest or personal responsibility	8%
Lack of knowledge	7%
Waiting for better technology / Greener options	6%
Lack of information / confusion as to the "right" thing to do	5%
Not enough incentives	4%
Have an issue with Government policies	3%
None	12%
Don't know	29%

Base: total respondents from 2013 Ontario benchmark survey



“cost involved in making equipment/appliance changes...”

21%





E-billing and E-care

Internet Access and use:

93%

“... have access to the internet ...”

35%

“... have accessed the local utility website in the past 6 months ...”



Base: 90% of total respondents from the local utility

Using internet for Customer Care:

Likelihood of using the internet for future customer care needs for things such as:

Top 2 Boxes: 'very + somewhat likely'	Burlington Hydro
Setting up a new account	39%
Arranging a move	49%
Accessing information about your bill	66%
Accessing information about your electricity usage	64%
Accessing energy saving tips and advice	56%
Learning more about SMART meters	56%
Registering a complaint	47%
Registering a compliment	53%
Accessing information about Time Of Use rates	65%
Maintaining information about your account or preferences	62%
Paying your bill through the utility's website	38%
Paying your bill using smart phone applications	25%
Getting information about power outages	47%

“... setting up a new account ...”

39%



Base: 90% of total respondents from the local utility

Access SMART meter data online:

10%

“... have accessed SMART meter data from the utility’s website ...”



86%

“... found it easy (“very + somewhat”) to access SMART meter information on the utility’s website...”

Base: 90% of total respondents from the local utility

Access SMART meter data online:

Likelihood of accessing SMART meter information on the utility's website in future

Burlington Hydro

Top 2 Boxes: 'very + somewhat likely' 53%

Bottom 2 Boxes: 'somewhat + very unlikely' 45%

Base: 90% of total respondents from the local utility



**“... is likely
 (“very + somewhat”)
 to access SMART meter
 information on the utility’s
 website in future...”**

53%

Online billing:



13%

I am already receiving my hydro bill electronically

15%

I use on-line banking and will definitely be requesting that my bill be sent electronically

36%

I use on-line banking but prefer to have paper statements

23%

I prefer to have the paper copy of my bills

12%

I don't use on-line banking

Paperless billing:

58%

- Providing a one-time financial incentive to switch

43%

- Being entered into a special draw for customers who make the switch

47%

- Learning more about the benefits to going green with paperless billing

48%

- A better understanding of the convenience of paperless billing



Base: 90% of total respondents from the local utility

Burlington Hydro: About the Future



- Agreed that Burlington Hydro should remain a City of Burlington owned company



- agreed Burlington Hydro is a company that should pursue working relationships with neighbouring electric utilities to gain efficiencies



- agreed Burlington Hydro should partner with others in order to expand its efforts to take a leadership role in promoting energy conservation

Burlington Hydro: Projects and Services



64%

believe it is important to be involved in projects/services associated with **electric vehicles**



57%

believe it is important to be involved in projects/services associated with **home automation**



76%

believe it is important to be involved in projects/services associated with **SMART home technologies**



88%

believe it is important to be involved in projects/services associated with **energy efficient home appliances**



68%

believe it is important to be involved in projects/services associated with **monitoring the utility's carbon footprint**



79%

believe it is important to be involved in projects/services associated with **Burlington community energy initiatives**

Social Media:

12%

**“... likely
 (“very + somewhat”)
 to use social media to
 gather information ...”**



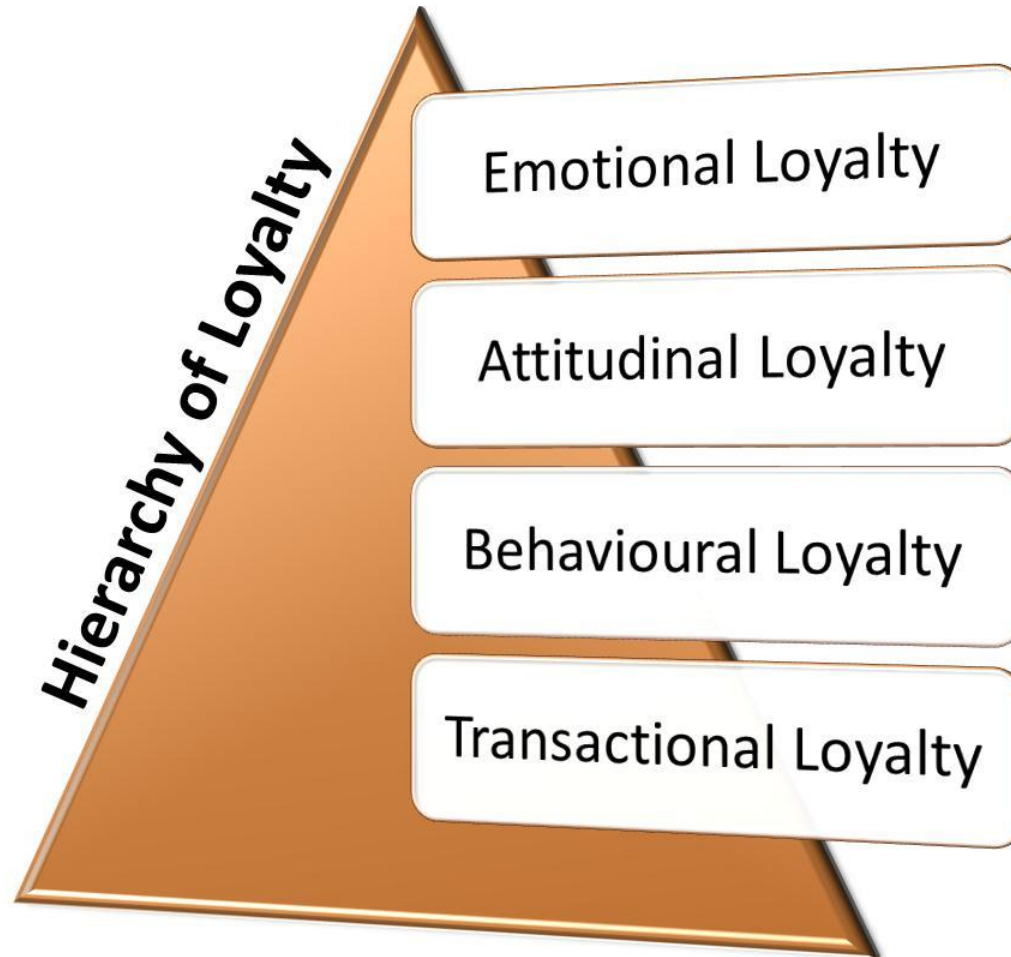
85%

**“... not likely (“not
 likely + not likely at
 all”) to use social
 media to gather
 information...”**



The Loyalty Factor

Customer Loyalty:



Customer Loyalty:



At Risk

At risk customers, who are “very dissatisfied” with their electricity utility, “definitely” would switch and “definitely” would not recommend Burlington Hydro.



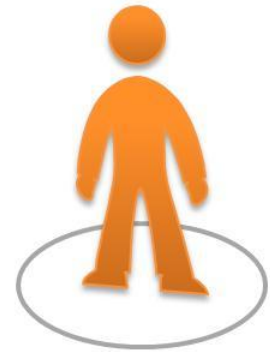
Indifferent

Indifferent customers are less satisfied overall than secure & still-favorable customers & less inclined to recommend Burlington Hydro or say they wouldn't switch.



Still favorable

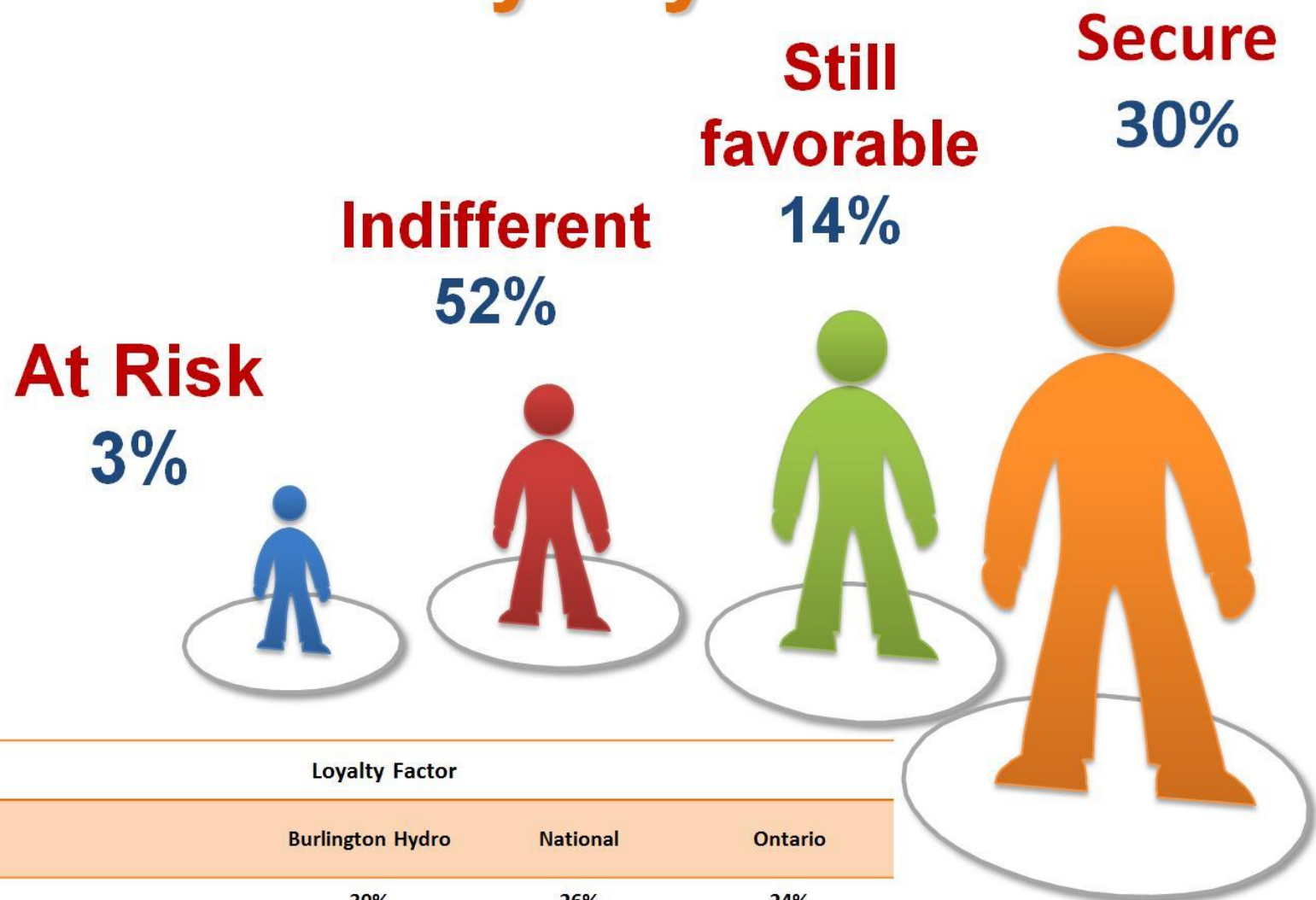
Still favorable customers are “very satisfied” overall and “definitely” or “probably” would recommend Burlington Hydro and not switch.



Secure

Secure customers are “very satisfied” overall with their utility. They definitely would not switch to a competitor and definitely would recommend Burlington Hydro.

Customer Loyalty:



Base: total respondents

Customer Satisfaction:



Service Improvements:



- Better prices/Lower rates



- Concerns about SMART meters



- Improve power reliability

And we are interested in knowing what you think are the one or two most important things 'your local utility' could do or fix to improve service to their customers?

Marketing Communications:

Important attributes which shape perceptions about service quality

	Burlington Hydro	National	Ontario
Topics that require more pro-active communication			
Cost of electricity is reasonable when compared to other utilities	61%	66%	61%
Works with customers to keep their energy costs affordable	69%	66%	65%
Adapts well to changes in customer expectations	80%	74%	73%
Operates a cost effective hydro-electric system	75%	72%	68%
Provides good value for money	72%	71%	68%
Topics that your utility scores very well on			
Is a trusted and trustworthy company	88%	83%	83%
Respected company in the community	89%	83%	84%
Accurate billing	89%	85%	86%
Overall the utility provides excellent quality services	88%	85%	83%
Provides consistent, reliable energy	91%	90%	90%

Base: total respondents with an opinion

**“Provides consistent,
reliable energy.”**

91%



Hydro Results Snapshot:





Good things happen when work places work. You'll receive both strategic and pragmatic guidance about how to improve Customer & Employee satisfaction with leaders that lead and a front-line that is inspired. We provide: training, consulting, surveys, diagnostic tools and keynotes. The electric industry is a market segment that we specialize in.



Culture, Leadership & Performance – Organizational Development: Leadership development, Management development, Change Leadership, Organizational Culture, Performance Management, Strategic Planning, Teambuilding



Focus Groups, Surveys, Polls, Diagnostics: Diagnostics i.e. Change Readiness, Leadership Effectiveness, Managerial Competencies, Surveys & Polls, Customer Focus Groups, Employee Focus Groups, Customer Satisfaction and Loyalty Benchmarking Surveys



Customer Service Excellence: Service Excellence Leadership, Sales Skills, Telephone Skills, Customer Care Dealing with Difficult Customers, Problem Solving

For customer, employee or organization culture surveys,
your personal contact is:
Sid Ridgley

Phone: (905) 895-7900 Fax: (905) 905-895-7970
E-mail: sidridgley@utilitypulse.com or
sridgley@simulcorp.com



UtilityPULSE★

Simul★



**This is privileged and confidential material and no part may be used outside
Burlington Hydro without written permission
from Simul Corporation.**

All comments and questions should be addressed to:

Sid Ridgley, Simul Corporation

UtilityPULSE division

Tel: 1-905-895-7900

email: sidridgley@utilitypulse.com or sridgley@simulcorp.com

Exhibit 1: Administrative Documents

Tab 3 (of 5): Financial Information

HISTORICAL FINANCIAL STATEMENTS

The following attachments are presented in this next section.

- Attachment 1 Year ended 31 December, 2010
- Attachment 2 Year ended 31 December, 2011
- Attachment 3 Year ended 31 December, 2012

Financial Statements of

BURLINGTON HYDRO INC.

Year ended December 31, 2010



KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder:

We have audited the accompanying financial statements of Burlington Hydro Inc., which comprise the balance sheet as at December 31, 2010, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 31, 2011

Hamilton, Canada

BURLINGTON HYDRO INC.

Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and temporary investments	\$ 12,406,914	\$ 5,744,028
Securities held as customers' deposits (note 2)	3,045,348	3,455,516
Accounts receivable (note 3)	14,545,587	15,881,741
Unbilled revenue	20,330,044	18,754,555
Payment in lieu of taxes receivable	-	1,274,339
Inventories (note 4)	1,130,332	1,179,152
Work in progress	1,175,236	1,200,408
Prepaid expenses	469,976	407,624
	53,103,437	47,897,363
Property, plant and equipment (note 5)	83,944,947	83,346,276
Other assets (note 6)	4,293,485	144,869
Future payment in lieu of taxes	5,237,003	4,880,035
	\$ 146,578,872	\$ 136,268,543

Liabilities and Shareholder's Equity

Current liabilities:		
Ontario Infrastructure loan (note 7)	\$ 7,500,000	\$ -
Accounts payable and accrued liabilities (note 8)	21,260,897	21,427,176
Customers' deposits (note 2)	3,060,945	3,499,521
Work order deposits	2,344,197	2,624,228
Payment in lieu of taxes payable	779,911	-
Other current liabilities	1,500,295	1,442,610
	36,446,245	28,993,535
Note payable (note 9)	47,878,608	47,878,608
Liability for future benefits (note 10)	2,988,066	2,817,042
Shareholder's equity:		
Capital stock (note 11)	45,139,138	45,139,138
Retained earnings	13,250,587	10,563,992
Paid in capital	876,228	876,228
	59,265,953	56,579,358

Commitments and contingencies (note 16)

	\$ 146,578,872	\$ 136,268,543
--	----------------	----------------

See accompanying notes to financial statements.

On behalf of the Board:

_____	Director
_____	Director

BURLINGTON HYDRO INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Gross revenue	\$ 169,614,691	\$ 154,618,648
Cost of power, wholesale market and network charges	140,978,607	128,220,560
Net distribution revenue	28,636,084	26,398,088
Other operating revenue	2,176,729	2,710,063
	30,812,813	29,108,151
Expenses (note 14):		
Operations and maintenance	6,323,043	6,433,518
Billing and collection	2,661,651	2,346,126
General administration	5,603,720	5,220,548
Depreciation	6,581,093	6,364,933
	21,169,507	20,365,125
Earnings before interest expense and payments in lieu of taxes	9,643,306	8,743,026
Interest expense	3,364,209	3,690,507
Earnings before payment in lieu of taxes	6,279,097	5,052,519
Payment in lieu of taxes (note 19):		
Current	2,263,771	1,621,745
Future	(696,269)	(516,782)
	1,567,502	1,104,963
Net earnings	4,711,595	3,947,556
Retained earnings, beginning of year	10,563,992	8,866,436
Dividends paid	(2,025,000)	(2,250,000)
Retained earnings, end of year	\$ 13,250,587	\$ 10,563,992

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations (note 12)	\$ 12,732,877	\$8,986,671
Financing:		
Ontario Infrastructure loan	7,500,000	-
Securities held as customer deposits	410,168	(283,605)
Customers' deposits	(438,576)	121,361
Dividends paid	(2,025,000)	(2,250,000)
Contributions and grants	1,934,237	4,603,556
	7,380,829	2,191,312
Investments:		
Purchase of property, plant and equipment	(10,795,162)	(12,796,560)
Purchase of contributed capital	(729,199)	(3,226,325)
Proceeds on sale of property, plant and equipment	18,000	5,580
Other assets	(1,944,459)	(3,474,094)
	(13,450,820)	(19,491,399)
Change in cash and temporary investments	6,662,886	(8,313,416)
Cash and temporary investments, beginning of year	5,744,028	14,057,444
Cash and temporary investments, end of year	\$ 12,406,914	\$ 5,744,028

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2010

On December 1, 1999, Burlington Hydro Inc. (the "Corporation") was incorporated under the Business Corporations Act with net assets contributed from the predecessor hydro-electric commission. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation provides electricity distribution and related services to its commercial and residential customers. Active operations commenced on January 1, 2000.

1. Significant accounting policies:

The Corporation has adopted accounting policies prescribed by the Canadian Institute of Chartered Accountants and therefore the financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Corporation is a regulated distribution company. Significant accounting policies are as follows:

(a) Revenue recognition:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. Therefore, at the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. This "unbilled revenue" is estimated and recorded in the accounts at the end of each fiscal year.

(b) Investments:

Investments comprise of temporary investments and securities held as customers' deposits. These investments are recorded at fair value.

(c) Inventories:

Inventories are valued at the lower of average cost and net realizable value and consist of maintenance materials and supplies.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. The cost and related accumulated depreciation of transmission and distribution facilities are removed from the accounts at the end of their estimated average service life. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in current operations.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 2

Year ended December 31, 2010

1. Significant accounting policies (continued):

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

Depreciation is provided on a straight-line basis using the following annual rates:

Asset	Rate
Buildings	2%
Sub-station buildings	2%
Sub-station equipment	3.33%
Distribution lines - overhead	4%
Distribution lines - underground	4%
Distribution - transformers	4%
Distribution - meters	4%
Rolling stock	12.5-25%
Tools and equipment	10%
Office equipment	10%
Computer equipment and software	20%

(e) Contributions and grants:

Contributions and grants received for capital are netted against property, plant and equipment and are amortized to income on the same basis as the related asset.

(f) Payment in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the EA, the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts there under computed to the Ministry of Finance (Ontario).

The Corporation provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board ("OEB") and recovered from the customers of the Corporation at that time.

PILs recoverable from loss carry forwards are recorded in future PILs on the balance sheet at the current enacted statutory tax rates expected to apply when recovery of the loss carry forwards are expected to be recovered.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 3

Year ended December 31, 2010

1. Significant accounting policies (continued):

(g) Employee future benefits:

The Corporation pays certain life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees and extended health and dental benefits under unfunded defined benefit plans, on behalf of early retirees. These post-retirement costs are recognized in the period in which the employees rendered their services to the Corporation. The excess of the net accumulated actuarial losses over 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees. The expected average remaining service life of the active employees is 7 years.

(h) Paid in capital:

Paid in capital arises from development charges received prior to January 1, 2000 which were provided or paid for by developers, and are recorded as a permanent component of shareholder's equity.

(i) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from the estimates recorded in preparing these financial statements including changes as a result of future regulatory decisions.

Accounts receivable, unbilled revenue and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts or valuation allowance. Inventories are recorded net of provisions for obsolescence. Amounts recorded for depreciation of property, plant and equipment are based on estimates of useful service life. The liability for future benefits is based on certain assumptions, including interest (discount) rates, salary escalation, the average retirement age of employees, employee turnover and expected health and dental costs.

(j) Financial instruments:

All financial instruments are classified into one of the following categories – held-for-trading, available for sale, held-to-maturity, other liabilities or loans and receivables. All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. The Corporation has chosen to apply Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 4

Year ended December 31, 2010

1. Significant accounting policies (continued):

(j) Financial instruments (continued):

The Corporation has classified its financial instruments as follows:

Cash and temporary investments	Held-for-trading
Securities held as customers' deposits	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Ontario Infrastructure loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Customer and work order deposits	Other liabilities
Note payable	Other liabilities

Derivatives and hedge accounting:

The Corporation does not have derivatives and does not engage in derivative trading or speculative activities. Hedge accounting has not been used in the preparation of these financial statements.

2. Securities held as customers' deposits:

The OEB requires companies to periodically review customers' deposits and where appropriate, refund such deposits. During this review, companies may also request a deposit from customers based on certain criteria.

The Corporation has a policy of funding customers' deposits and paying interest on these deposits at a rate determined quarterly. Securities held as customers' deposits represent the funds segregated to fund the customer deposit refunds. The average rate of interest paid by the Corporation for 2010 was 0.56% (2009 - .63%).

3. Accounts receivable:

	2010	2009
Customer receivables	\$ 13,562,262	\$ 12,591,480
Receivable from the City of Burlington	162,844	248,976
Receivable from related parties	18,185	4,300
Other	1,102,296	3,366,985
	14,845,587	16,211,741
Less allowance for doubtful accounts	300,000	330,000
	\$ 14,545,587	\$ 15,881,741

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 5

Year ended December 31, 2010

4. Inventories:

	2010	2009
Stores	\$ 1,037,412	\$ 1,090,729
Reels	53,182	41,619
Transformers	24,930	24,930
Meters	14,808	21,874
	<u>\$ 1,130,332</u>	<u>\$ 1,179,152</u>

The amount of inventories consumed by the Corporation and recognized as an expense during 2010 was \$335,038 (2009 - \$349,789).

5. Property, plant and equipment:

	2010	2009		
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 488,354	\$ 20,858	\$ 467,496	\$ 470,324
Buildings	8,038,249	3,444,253	4,593,996	4,610,461
Sub-station buildings	2,264,209	1,011,472	1,252,737	1,279,268
Sub-station equipment	16,157,072	11,107,919	5,049,153	5,307,966
Distribution lines - overhead	64,525,388	34,172,938	30,352,450	29,532,378
Distribution lines - underground	67,809,946	35,445,107	32,364,839	30,526,389
Distribution - transformers	45,814,007	24,234,948	21,579,059	21,087,142
Distribution - meters	8,202,542	4,370,897	3,831,645	3,847,774
Rolling stock	3,513,279	2,365,352	1,147,927	1,430,694
Tools and equipment	2,374,640	2,179,568	195,072	210,422
Office equipment	1,139,659	872,018	267,641	256,557
Computer equipment	1,027,720	887,829	139,891	132,407
Computer software	4,441,146	3,104,576	1,336,570	1,289,177
Contributions and grants	(22,658,819)	(4,025,290)	(18,633,529)	(16,634,683)
	\$ 203,137,392	\$ 119,192,445	\$ 83,944,947	\$ 83,346,276

Total depreciation expense for the year is \$7,126,597 (2009 - \$6,877,004) of which \$545,504 (2009 - \$512,071) has been allocated to distribution and utilization expense. Included in property, plant and equipment are intangible assets totaling \$4,441,146 (2009 - \$4,191,890) with a net book value of \$1,336,570 (2009 - \$1,289,177).

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 6

Year ended December 31, 2010

6. Other assets (liabilities):

	2010	2009
OEB regulatory assets (liabilities):		
Regulatory assets (liabilities):		
Opening balance	\$ (3,302,886)	\$ (3,542,199)
Activity	(2,778,822)	239,313
Repayment	594,991	-
	(5,486,717)	(3,302,886)
Smart meters:		
Opening balance	3,986,639	751,858
Purchases	4,896,503	3,875,185
(Recovery)	(768,213)	(640,404)
	8,114,929	3,986,639
Stranded meters:		
Opening balance	2,257,975	-
Additions	1,864,856	2,257,975
	4,122,831	2,257,975
Total OEB regulatory assets (liabilities)	6,751,043	2,941,728
Other regulatory assets (liabilities):		
Regulatory liability for future taxes	(2,457,558)	(2,796,859)
	\$ 4,293,485	\$ 144,869

Net regulatory assets (liabilities) represent costs incurred in excess of amounts billed to the consumer at OEB approved rates (amounts billed to the consumer at OEB approved rates in excess of costs incurred by the Corporation). These amounts have been accumulated pursuant to the EA and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory assets (liabilities) attract interest at OEB prescribed rates. In 2010 the rates ranged from 0.55% to 1.20%.

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 the distribution rates that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 7

Year ended December 31, 2010

6. Other assets (liabilities) (continued):

Rate regulation:

The Corporation is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

Rate Setting:

The distribution rates of the Corporation are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity ("MARE") on the amount of the deemed equity component of rate base. The Corporation files a rate application with the OEB annually. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue is based on the rates approved for 2009. Once every four years, the Corporation files an Electricity Distribution Rate application ("EDR") where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. An IRM application results in a formulaic adjustment to distribution rates to increase distribution rates for the annual change in the GDP IPI-FDD net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Corporation's last EDR application was made on August 28, 2009 and approved on March 1, 2010 with rates effective May 1, 2010. Such decision provided for a 2010 distribution revenue requirement and rate base of \$29,253,965 and \$105,229,695, respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative. The application also included the recovery of lost revenue and shared savings related to its Conservation and Demand Management ("CDM") programs. Such recoveries proceed through prescribed Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") and relate to activities for the years 2005 to 2008. On March 1, 2010, an amount of \$926,628 was approved to be recovered through a rate rider for the period commencing May 1, 2010 through April 30, 2014.

On October 1, 2010 the Corporation filed an IRM application to adjust its rates effective May 1, 2011. The application has not yet been approved by the OEB.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 8

Year ended December 31, 2010

6. Other assets (liabilities) (continued):

Green Energy and Green Economy Act

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

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

New LDC License Requirements - Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 21.95MW and a consumption reduction target of 82.37 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 eligibility criteria for performance incentive payments. The Corporation has filed its CDM Strategy with the OEB on November 1, 2010.

Regulatory Accounting

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's other assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. It also includes regulatory liabilities which represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

The recent OEB decision on the 2009 EDR Application provided for the disposition of \$3,598,389 of the Corporation's net regulatory liabilities over a 48 month period ending April 30, 2014.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 9

Year ended December 31, 2010

6. Other assets (liabilities) (continued):

Smart Meters:

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in 800,000 homes and small businesses by the end of 2007 and throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. *Bill 21, Energy Conservation and Responsibility Act*, provides the legislative framework and regulations to support this initiative.

The 2009 rate application approved the continued use of the charge for smart meters of \$1.00 per metered customer per month. Consistent with the OEB's direction and pending further guidance, all smart meter related expenditures and recoveries are currently being deferred in regulatory accounts.

In 2010, 30,208 meters were replaced by smart meters. The net book value of \$1,864,856 (2009 - \$2,257,975) for the replaced meters was transferred to other assets.

Other regulatory assets (liabilities):

Included in other regulatory assets (liabilities) is an amount expected to be returned to future customers when the future tax assets are realized.

7. Ontario Infrastructure loan:

The Corporation obtained an Ontario Infrastructure loan of \$7,500,000 during the current year. The loan bears interest at a floating rate per annum as determined by the Ontario Infrastructure Projects Corporation ("OIPC") based on OIPC's cost of funds plus OIPC's prevailing spread assigned to the borrower sector for program delivery costs and risks. The interest rate was 1.74% at December 31, 2010. The loan is payable in full on the Debenture Purchase date of March 15, 2011. Interest of \$72,550 (2009 - \$nil) paid to the OIPC was expensed during the year. The loan is secured by a general security agreement over the assets of the Corporation.

8. Accounts payable and accrued liabilities:

	2010	2009
Commodity and transmission charges	\$ 9,480,914	\$ 11,634,966
Region of Halton	3,606,385	3,374,803
Payable to related parties	1,454	47,853
Purchase of contributed capital	3,300,000	3,800,000
Other	4,872,144	2,569,554
	<u>\$ 21,260,897</u>	<u>\$ 21,427,176</u>

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 10

Year ended December 31, 2010

8. Accounts payable and accrued liabilities (continued):

Purchase of contributed capital:

Contributions are received from developers to finance necessary capital additions. The OEB requires the utility to calculate a rebate to the developers based upon recoverability of capital investment through future hydro usage. At December 31, 2010, a liability in the amount of \$3,300,000 (2009 - \$3,800,000) was accrued. This growth is expected to continue in the future. Working capital will be drawn down to support these payments.

9. Note payable:

The promissory note payable is due on demand to the City of Burlington ("the City"). The City has waived its right to demand payment until January 1, 2012. The note had an interest bearing rate of 7.25% from January 1 to April 30 and a rate of 5.87% from May 1 to December 31. Interest of \$3,027,699 (2009 - \$3,471,199) to the City was expensed during the year.

10. Liability for future benefits:

The Corporation pays certain life insurance benefits on behalf of its retired employees as well as extended health and dental benefits for early retirees to age 65. The Corporation recognizes these post-retirement costs in the period in which the employees rendered the services. An actuarial valuation of the plan obligations was completed for the year ended December 31, 2009. These results have been extrapolated by the actuary to December 31, 2010.

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

	2010	2009
Accrued benefit obligation, beginning of year	\$ 3,375,863	\$ 3,369,384
Expense for the year	284,084	138,385
Benefits paid for the year	(141,085)	(131,906)
Projected accrued benefit obligation, end of year	3,518,862	3,375,863
Unamortized actuarial loss	530,796	558,821
Liability for future benefits	\$ 2,988,066	\$ 2,817,042

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 11

Year ended December 31, 2010

10. Liability for future benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2009 and thereafter.

(b) Interest (discount rate):

The obligation as at year end, of the present value of future liabilities and the expense for the year, was determined using a discount rate of 5.25%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(c) Salary levels:

Future general salary and wage levels were assumed to increase at a rate consistent with the rate of inflation.

(d) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 7.0% in 2009 graded down to 3.0% in 2016 and thereafter.

(e) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 3.0% in 2009 and thereafter.

11. Capital stock:

Capital stock consists of the following:

	2010	2009
Authorized:		
Unlimited number of common shares		
Issued:		
2,000 common shares	\$ 45,139,138	\$ 45,139,138

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 12

Year ended December 31, 2010

12. Cash flow information:

(a) Reconciliation of net income to cash provided by operations:

	2010	2009
Net earnings	\$ 4,711,595	\$ 3,947,556
Items not involving cash:		
Depreciation	7,126,597	6,877,004
Gain on sale of property, plant and equipment	(18,000)	(5,580)
Future payment in lieu of taxes	(696,269)	(516,782)
Liability for future benefits	171,024	135,984
Change in non-cash working capital:		
Accounts receivable	1,336,154	(2,430,617)
Unbilled revenue	(1,575,489)	(1,971,289)
Inventories	48,820	107,039
Work in progress	25,172	(35,753)
Prepaid expenses	(62,352)	66,638
Accounts payable and accrued liabilities	(166,279)	3,685,212
Work order deposits	(280,031)	(631,091)
Payments in lieu of taxes receivable/payable	2,054,250	491,660
Other current liabilities	57,685	(733,310)
	\$ 12,732,877	\$ 8,986,671

Supplemental cash flow information:

	2010	2009
Cash received during the year from interest	\$ 91,574	\$ 131,245
Cash received during the year from PILs	1,361,660	1,868,012
Cash paid during the year for interest	3,100,249	3,471,199
Cash paid during the year for PILs	1,779,526	3,221,483
Non-cash financing activities:		
Capital contributions	1,700,152	5,284,333
Increase in other assets for stranded meters transferred from property, plant and equipment	1,864,856	2,257,975
Increase in other assets related to decrease in future tax assets	339,301	472,503

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 13

Year ended December 31, 2010

13. Pension plans:

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and the best 60 consecutive months average earnings.

Contributions by the Corporation were at a rate of 6.4% for employee earnings below the year's maximum pensionable earnings and 9.7% thereafter.

The amount contributed to OMERS for 2010 was \$560,960 (2009 - \$512,579) for current service.

14. Expenses:

Included in operations and maintenance, billing and collection and general administration expenses in 2009 was a one-time adjustment to the vacation pay accrual resulting from a change in the vacation year to January to December. This adjustment reduced the 2009 expense by \$214,903 and is not expected to recur.

15. Public liability insurance:

The Corporation through its parent company is a named insurer of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other through the same attorney. MEARIE provides general liability insurance to member electric utilities in accordance with the Power Corporation Act of Ontario; subsection 116(2), to a maximum of \$24,000,000 per occurrence.

Insurance premiums charged to each municipal electric utility consists of a levy per thousand dollars of service revenue subject to a credit/surcharge based on each electric utility's claims experience.

16. Commitments and contingencies:

Commitment:

The Corporation has a \$10,000,000 revolving line of credit facility available for use. A letter of credit in the amount of \$14,000,000 has been issued in favour of the Independent Electricity System Operator ("IESO") as security for the Corporation's purchase of electricity through the IESO. No other amounts were drawn down on the line of credit or non-revolving credit facility at year end. The credit facility is secured by a general security agreement over the Corporation's assets.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 14

Year ended December 31, 2010

16. Commitments and contingencies (continued):

Late payment charges class action:

Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of \$500,000,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The order formalized a settlement pursuant to which the defendant MEUs will pay the amount of \$17,000,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is \$229,874, payable on June 30, 2011. Under the settlement, all the MEUs involved in the settlement, including the Corporation, will request an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. The Corporation has accrued a liability in the amount of \$229,784 and the request for recovery has been filed with the OEB.

On October 29, 2010, the OEB issued a notice of proceeding involving all of the defendant MEUs including the Corporation, to determine whether the costs and damages incurred by MEUs are recoverable from electricity ratepayers, and if so, the form and timing of such recovery. On February 22, 2011, the OEB issued its decision on this matter and indicated their intent to allow the recovery of all costs and damages arising from the settlement of the class action over a one year period commencing May 1, 2011, through a fixed rate rider. On February 24, 2011, the Minister of Energy requested the LDCs not apply for this recovery. The Corporation is evaluating the Minister's request.

17. Transactions with related parties:

Related parties are the Corporation's parent, Burlington Hydro-Electric Inc., a subsidiary of the parent, Burlington Electricity Services Inc. and the parent of the Corporation's parent, the City of Burlington ("the City").

The Corporation paid a management fee of \$110,882 (2009 - \$139,685) to its parent. The Corporation received \$390,375 (2009 - \$376,595) for billing and administrative services from companies under common control.

The Corporation purchased services from a company under common control in the amount of \$50,000 (2009 - \$10,484) during the year.

During the year, the Corporation earned gross revenue of \$2,841,812 (2009 - \$2,386,666) from the City. Of this amount, \$311,539 (2009 - \$252,079) was net distribution revenue.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 15

Year ended December 31, 2010

18. 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, 2010, shareholder's equity amounts to \$59,265,953 (2009 - \$56,579,358) and long-term debt amounts to \$47,878,608 (2009 - \$47,878,608).

The OEB regulates the amount of interest on debt and the rate of return 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 60.0% debt and 40.0% equity. The actual capital structure for the Corporation may differ from the OEB's deemed structure.

19. Payments in lieu of taxes:

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

	2010	2009
Basic rate applied to income before PILs	31.00%	33.00%
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets		
in excess of accounting basis	1.40	0.05
Items not deductible for tax purposes and other	(1.74)	(1.09)
Current year change in tax rates	1.16	23.25
Change in valuation allowance	(2.81)	(28.91)
Regulatory liability relating to future tax expense	(4.05)	(4.43)
Effective rate applied to income before PILs	24.96%	21.87%

At year end, based on substantively enacted income tax rates, future income tax assets of \$4,048,439 (2009 - \$4,225,000) have not been recorded. Such future income tax assets relate to tax bases of depreciable capital assets in excess of amounts recorded for accounting purposes.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 16

Year ended December 31, 2010

20. Financial instruments:

The carrying values of cash and temporary investments, securities held as customers' deposits, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer and work order deposits approximate fair values because of the short maturity of these instruments.

The carrying value of the Ontario Infrastructure loan approximates fair value because it is at a floating rate of interest.

It was not practicable to estimate the fair value of the note payable as there are no future cash flows required under the terms of this debt.

Financial assets held by the Corporation, such as accounts receivable and unbilled revenue, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Burlington. No single customer in either year would account for revenue in excess of 3% of the respective reported balances.

21. Emerging accounting changes:

International Financial Reporting Standards ["IFRS"]:

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

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

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

The Corporation has decided to implement IFRS commencing on January 1, 2012.

22. Comparative figures:

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

Financial Statements of

BURLINGTON HYDRO INC.

Year ended December 31, 2011



KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder:

We have audited the accompanying financial statements of Burlington Hydro Inc. ("the entity"), which comprise the balance sheet as at December 31, 2011, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 29, 2012
Hamilton, Canada

BURLINGTON HYDRO INC.

Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and temporary investments	\$ 13,749,199	\$ 12,406,914
Securities held as customers' deposits (note 2)	3,194,263	3,045,348
Accounts receivable (note 3)	16,163,512	14,545,587
Unbilled revenue	20,474,503	20,330,044
Payment in lieu of taxes receivable	755,199	-
Inventories (note 4)	1,904,397	1,997,190
Work in progress	209,783	1,175,236
Prepaid expenses	403,332	469,976
	56,854,188	53,970,295
Property, plant and equipment (note 5)	83,136,474	81,573,027
Intangible assets (note 6)	2,767,487	1,505,062
Other assets (note 7)	4,209,173	4,293,485
Future payment in lieu of taxes	5,037,267	5,237,003
	\$ 152,004,589	\$ 146,578,872

Liabilities and Shareholder's Equity

Current liabilities:		
Ontario Infrastructure loan (note 8)	\$ 493,786	\$ 7,500,000
Accounts payable and accrued liabilities (note 9)	21,758,712	21,260,897
Customers' deposits (note 2)	3,194,263	3,060,945
Work order deposits	1,647,669	2,344,197
Deferred revenue	871,917	-
Payment in lieu of taxes payable	-	779,911
Other current liabilities	1,903,807	1,500,295
	29,870,154	36,446,245
Note payable (note 10)	47,878,608	47,878,608
Ontario Infrastructure loan (note 8)	9,150,191	-
Liability for future benefits (note 11)	3,172,353	2,988,066
Shareholder's equity:		
Capital stock (note 12)	45,139,138	45,139,138
Retained earnings	15,917,917	13,250,587
Paid in capital	876,228	876,228
	61,933,283	59,265,953
Commitments and contingencies (note 16)		
	\$ 152,004,589	\$ 146,578,872

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

BURLINGTON HYDRO INC.

Statement of Earnings and Retained Earnings

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

	2011	2010
Gross revenue	\$ 180,615,632	\$ 169,614,691
Cost of power, wholesale market and network charges	151,129,220	140,978,607
Net distribution revenue	29,486,412	28,636,084
Other operating revenue	2,124,527	2,176,729
	31,610,939	30,812,813
Expenses		
Operations and maintenance	7,187,609	6,323,043
Billing and collection	2,228,818	2,661,651
General administration	5,856,207	5,603,720
Depreciation and amortization	6,408,041	6,581,093
	21,680,675	21,169,507
Earnings before interest expense and payments in lieu of taxes	9,930,264	9,643,306
Interest expense	3,330,350	3,364,209
Earnings before payment in lieu of taxes	6,599,914	6,279,097
Payment in lieu of taxes (note 19):		
Current	1,600,551	2,263,771
Future	(217,967)	(696,269)
	1,382,584	1,567,502
Net earnings	5,217,330	4,711,595
Retained earnings, beginning of year	13,250,587	10,563,992
Dividends paid	(2,550,000)	(2,025,000)
Retained earnings, end of year	\$ 15,917,917	\$ 13,250,587

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Statement of Cash Flows

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

	2011	2010
Cash provided by (used in):		
Operations (note 13)	\$ 10,955,128	\$11,866,019
Financing:		
Ontario Infrastructure loan	2,143,977	7,500,000
Securities held as customer deposits	(148,915)	410,168
Customers' deposits	133,318	(438,576)
Dividends paid	(2,550,000)	(2,025,000)
Contributions and grants	1,091,246	1,934,237
	669,626	7,380,829
Investments:		
Purchase of property, plant and equipment	(8,891,038)	(9,679,048)
Purchase of intangible assets	(1,474,487)	(249,256)
Purchase of contributed capital	(455,191)	(729,199)
Proceeds on sale of property, plant and equipment	5,400	18,000
Other assets	532,847	(1,944,459)
	(10,282,469)	(12,583,962)
Change in cash and temporary investments	1,342,285	6,662,886
Cash and temporary investments, beginning of year	12,406,914	5,744,028
Cash and temporary investments, end of year	\$ 13,749,199	\$ 12,406,914

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2011

On December 1, 1999, Burlington Hydro Inc. (the "Corporation") was incorporated under the Business Corporations Act with net assets contributed from the predecessor hydro-electric commission. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation provides electricity distribution and related services to its commercial and residential customers. Active operations commenced on January 1, 2000.

1. Significant accounting policies:

The Corporation has adopted accounting policies prescribed by the Canadian Institute of Chartered Accountants and therefore the financial statements are prepared in accordance with Part V of the CICA Handbook. The Corporation has elected to defer its implementation of International Financial Reporting Standards to 2012. The Corporation is a regulated distribution company. Significant accounting policies are as follows:

(a) Revenue recognition:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. Therefore, at the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. This "unbilled revenue" is estimated and recorded in the accounts at the end of each fiscal year.

Deferred revenue includes funds received from the Ontario Power Authority for future conservation programs. Ontario Power Authority funds will be recognized as revenue when earned.

(b) Investments:

Investments are comprised of temporary investments and securities held as customers' deposits. These investments are recorded at fair value.

(c) Inventories:

Inventories are valued at the lower of average cost and net realizable value and consist of maintenance materials and supplies.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost. The cost and related accumulated depreciation of transmission and distribution facilities are removed from the accounts at the end of their estimated average service life. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in current operations.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 2

Year ended December 31, 2011

1. Significant accounting policies (continued):

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

Depreciation is provided on a straight-line basis using the following annual rates:

Asset	Rate
Buildings	2%
Sub-station buildings	2%
Sub-station equipment	3.33%
Distribution lines - overhead	4%
Distribution lines - underground	4%
Distribution - transformers	4%
Distribution - meters	4%
Rolling stock	12.5-25%
Tools and equipment	10%
Office equipment	10%
Computer equipment	20%

(e) Intangible assets:

Intangible assets are stated at cost. The cost and related accumulated amortization are removed from the accounts at the end of their estimated average service life. When intangible assets are disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in current operations. Amortization is provided on a straight-line basis using the following annual rates.

Asset	Rate
Land rights	1.43-2.86%
Computer software	20%
Transformer station right	2.5%

(f) Contributions and grants:

Contributions and grants received for capital are netted against property, plant and equipment and are amortized to income on the same basis as the related asset.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 3

Year ended December 31, 2011

1. Significant accounting policies (continued):

(g) Payment in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the EA, the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts there under computed to the Ministry of Finance (Ontario).

The Corporation provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board ("OEB") and recovered from the customers of the Corporation at that time.

PILs recoverable from loss carry forwards are recorded in future PILs on the balance sheet at the current enacted statutory tax rates expected to apply when recovery of the loss carry forwards are expected to be recovered.

(h) Employee future benefits:

The Corporation pays certain life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees and extended health and dental benefits under unfunded defined benefit plans, on behalf of early retirees. These post-retirement costs are recognized in the period in which the employees rendered their services to the Corporation. The excess of the net accumulated actuarial losses over 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees. The expected average remaining service life of the active employees is 7 years.

(i) Paid in capital:

Paid in capital arises from development charges received prior to January 1, 2000 which were provided or paid for by developers, and are recorded as a permanent component of shareholder's equity.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 4

Year ended December 31, 2011

1. Significant accounting policies (continued):

(j) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from the estimates recorded in preparing these financial statements including changes as a result of future regulatory decisions.

Accounts receivable, unbilled revenue and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts or valuation allowance. Inventories are recorded net of provisions for obsolescence. Amounts recorded for depreciation of property, plant and equipment and amortization of intangible assets are based on estimates of useful service life. The liability for future benefits is based on certain assumptions, including interest (discount) rates, salary escalation, the average retirement age of employees, employee turnover and expected health and dental costs.

(k) Financial instruments:

All financial instruments are classified into one of the following categories – held-for-trading, available for sale, held-to-maturity, other liabilities or loans and receivables. All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. The Corporation has chosen to apply Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*.

The Corporation has classified its financial instruments as follows:

Cash and temporary investments	Held-for-trading
Securities held as customers' deposits	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Ontario Infrastructure loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Customer and work order deposits	Other liabilities
Note payable	Other liabilities

Derivatives and hedge accounting:

The Corporation does not have derivatives and does not engage in derivative trading or speculative activities. Hedge accounting has not been used in the preparation of these financial statements.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 5

Year ended December 31, 2011

2. Securities held as customers' deposits:

The OEB requires companies to periodically review customers' deposits and where appropriate, refund such deposits. During this review, companies may also request a deposit from customers based on certain criteria.

The Corporation has a policy of funding customers' deposits and paying interest on these deposits at a rate determined quarterly. Securities held as customers' deposits represent the funds segregated to fund the customer deposit refunds. The average rate of interest paid by the Corporation for 2011 was 1.00% (2010 - 0.56%).

3. Accounts receivable:

	2011	2010
Customer receivables	\$ 13,827,853	\$ 13,562,262
Receivable from the City of Burlington	252,121	162,844
Receivable from related parties	15,084	18,185
Other	2,368,454	1,102,296
	16,463,512	14,845,587
Less allowance for doubtful accounts	300,000	300,000
	\$ 16,163,512	\$ 14,545,587

4. Inventories:

	2011	2010
Stores	\$ 908,252	\$ 920,795
Reels	59,202	53,182
Transformers	828,981	902,464
Meters	107,962	120,749
	\$ 1,904,397	\$ 1,997,190

The amount of inventories consumed by the Corporation and recognized as an expense during 2011 was \$320,241 (2010 - \$335,038).

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 6

Year ended December 31, 2011

5. Property, plant and equipment:

	2011		2010	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 299,003	\$ -	\$ 299,003	\$ 299,003
Buildings	8,237,062	3,663,424	4,573,638	4,593,996
Sub-station buildings	2,291,394	1,082,151	1,209,243	1,252,737
Sub-station equipment	16,847,771	11,530,988	5,316,783	5,049,154
Distribution lines - overhead	68,312,333	36,451,420	31,860,913	30,469,068
Distribution lines - underground	70,811,696	37,822,061	32,989,635	32,364,839
Distribution - transformers	46,417,593	25,798,457	20,619,136	20,701,525
Distribution - meters	8,476,769	4,601,031	3,875,738	3,725,704
Rolling stock	3,664,600	2,711,673	952,927	1,147,927
Tools and equipment	2,154,383	1,982,717	171,666	195,072
Office equipment	1,426,089	1,133,710	292,379	267,641
Computer equipment	855,550	734,297	121,253	139,890
Contributions and grants	(24,106,435)	(4,960,595)	(19,145,840)	(18,633,529)
	\$ 205,687,808	\$ 122,551,334	\$ 83,136,474	\$ 81,573,027

Total depreciation expense for the year is \$6,664,441 (2010 - \$6,942,010) of which \$259,228 (2010 - \$363,746) has been allocated to distribution and utilization expense.

6. Intangible assets:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
Land rights	\$ 189,350	\$ 23,686	\$ 165,664	\$ 168,493
Computer software	4,972,576	3,313,810	1,658,766	1,336,569
Transformer station right	943,057	-	943,057	-
	\$ 6,104,983	\$ 3,337,496	\$ 2,767,487	\$ 1,505,062

Total amortization expense for the year is \$208,325 (2010 - \$184,587) of which \$205,497 (2010 - 181,758) has been allocated to distribution and utilization expense.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 7

Year ended December 31, 2011

7. Other assets (liabilities):

	2011	2010
OEB regulatory assets (liabilities):		
Regulatory assets (liabilities):		
Opening balance	\$ (5,486,717)	\$ (3,302,886)
Activity	(1,852,343)	(2,778,822)
Repayment	1,563,913	594,991
	(5,775,147)	(5,486,717)
Smart meters:		
Opening balance	8,114,929	3,986,639
Purchases	1,313,344	4,896,503
(Recovery)	(1,557,761)	(768,213)
	7,870,512	8,114,929
Stranded meters:		
Opening balance	4,122,831	2,257,975
Additions	30,832	1,864,856
	4,153,663	4,122,831
Total OEB regulatory assets (liabilities)	6,249,028	6,751,043
Other regulatory assets (liabilities):		
Regulatory liability for future taxes	(2,039,855)	(2,457,558)
	\$ 4,209,173	\$ 4,293,485

Net regulatory assets (liabilities) represent costs incurred in excess of amounts billed to the consumer at OEB approved rates (amounts billed to the consumer at OEB approved rates in excess of costs incurred by the Corporation). These amounts have been accumulated pursuant to the EA and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory assets (liabilities) attract interest at OEB prescribed rates. In 2011 the rate remained unchanged at 1.47%.

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 the distribution rates that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 8

Year ended December 31, 2011

7. Other assets (liabilities) (continued):

Rate regulation:

The Corporation is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non rate-regulated environment.

Rate Setting:

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

The Corporation's last Cost of Service application was made on August 28, 2009 and approved on March 1, 2010 with rates effective May 1, 2010. Such decision provided for a 2010 distribution revenue requirement and rate base of \$29,253,965 and \$105,229,695 respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative. The application also included the recovery of lost revenue and shared savings related to its Conservation and Demand Management ("CDM") programs. Such recoveries proceed through a prescribed Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") and relate to activities for the years 2005 to 2008. On March 1, 2010, an amount of \$926,628 was approved to be recovered through a rate rider for the period commencing May 1, 2010 through April 30, 2014. On March 17, 2011, the OEB approved recovery of \$413,451 of lost revenues over a three year period commencing May 1, 2011.

On October 1, 2010 the Corporation filed an IRM application to adjust its rates effective May 1, 2011. On March 17, 2011 the OEB approved new rates effective May 1, 2011. On September 16, 2011 the Corporation filed an IRM application to adjust its rates effective May 1, 2012. The application has not yet been approved by the OEB.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 9

Year ended December 31, 2011

7. Other assets (liabilities) (continued):

New LDC License Requirements - Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 21.95MW and a consumption reduction target of 82.37 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 eligibility criteria for performance incentive payments. The Corporation filed its CDM Strategy with the OEB on November 1, 2010.

Regulatory Accounting

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non rate-regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's other assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. It also includes regulatory liabilities which represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

The OEB decision on the 2010 Cost of Service application provided for the disposition of \$3,598,389 of the Corporation's net regulatory liabilities over a 48 month period ending April 30, 2014.

Smart Meters:

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in 800,000 homes and small businesses by the end of 2007 and throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. *Bill 21, Energy Conservation and Responsibility Act*, provides the legislative framework and regulations to support this initiative.

The 2011 rate application decision approved the charge for smart meters of \$2.50 per metered customer per month. Consistent with the OEB's direction and pending further guidance, all smart meter related expenditures and recoveries are currently being deferred in regulatory accounts. The net book value of \$30,832 (2010 - \$1,864,856) for the replaced meters was transferred to other assets.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 10

Year ended December 31, 2011

7. Other assets (liabilities) (continued):

Other regulatory assets (liabilities):

Included in other regulatory assets (liabilities) is an amount expected to be returned to future customers when the future tax assets are realized.

8. Ontario Infrastructure loan:

The Corporation obtained an Ontario Infrastructure loan of \$7,500,000 in 2010. The loan interest rate was a floating rate per annum as determined by the Ontario Infrastructure Projects Corporation ("OIPC") based on OIPC's cost of funds plus OIPC's prevailing spread assigned to the borrower sector for program delivery costs and risks. The loan was paid in full on March 15, 2011. It was replaced with a Fixed Term Debenture of \$10,000,000.00 due March 15, 2026 from the OIPC. The debenture has an interest bearing rate of 4.51% (2010 – 1.74% on loan). Interest of \$377,304 (2010 - \$72,550) paid to the OIPC was expensed during the year. The loan is payable in the amount of \$76,550 monthly principal and interest. The loan is secured by a general security agreement over the assets of the Corporation.

Principal payments on the debt are as follows:

	2011
2012	\$ 493,786
2013	516,522
2014	540,305
2015	565,183
2016	591,206
2017-2025	6,936,975
	9,643,977
Less: current portion	(493,786)
Long-term portion of loan payable	\$ 9,150,191

9. Accounts payable and accrued liabilities:

	2011	2010
Commodity and transmission charges	\$ 11,829,942	\$ 9,480,914
Region of Halton	3,589,223	3,606,385
Payable to related parties	30,969	1,454
Purchase of contributed capital	2,611,970	3,300,000
Other	3,696,608	4,872,144
	\$ 21,758,712	\$ 21,260,897

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 11

Year ended December 31, 2011

9. Accounts payable and accrued liabilities (continued):

Purchase of contributed capital:

Contributions are received from developers to finance necessary capital additions. The OEB requires the utility to calculate a rebate to the developers based upon recoverability of capital investment through future hydro usage. At December 31, 2011, a liability in the amount of \$2,611,970 (2010 - \$3,300,000) was accrued. This growth is expected to continue in the future. Working capital will be drawn down to support these payments.

10. Note payable:

The promissory note payable is due on demand to the City of Burlington ("the City"). The City has waived its right to demand payment until January 1, 2013. The note bears interest at 5.87%. Interest of \$2,810,474 (2010 - \$3,027,699) to the City was expensed during the year.

11. Liability for future benefits:

The Corporation pays certain life insurance benefits on behalf of its retired employees as well as extended health and dental benefits for early retirees to age 65. The Corporation recognizes these post-retirement costs in the period in which the employees rendered the services. An actuarial valuation of the plan obligations was completed for the year ended December 31, 2009. These results have been extrapolated by the actuary to December 31, 2011.

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

	2011	2010
Accrued benefit obligation, beginning of year	\$ 3,518,862	\$ 3,375,863
Expense for the year	300,849	284,084
Benefits paid for the year	(168,160)	(141,085)
Projected accrued benefit obligation, end of year	3,651,551	3,518,862
Unamortized actuarial loss	(479,198)	(530,796)
Liability for future benefits	\$ 3,172,353	\$ 2,988,066

Amortization of the actuarial loss was \$51,598 (2010 - \$28,025).

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2009 and thereafter.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 12

Year ended December 31, 2011

11. Liability for future benefits (continued):

(b) Interest (discount rate):

The obligation as at year end, of the present value of future liabilities and the expense for the year, was determined using a discount rate of 4.75%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(c) Salary levels:

Future general salary and wage levels were assumed to increase at a rate consistent with the rate of inflation.

(d) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 7.0% in 2009 graded down to 3.0% in 2016 and thereafter.

(e) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 3.0% in 2009 and thereafter.

12. Capital stock:

Capital stock consists of the following:

	2011	2010
Authorized:		
Unlimited number of common shares		
Issued:		
2,000 common shares	\$ 45,139,138	\$ 45,139,138

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 13

Year ended December 31, 2011

13. Cash flow information:

(a) Reconciliation of net income to cash provided by operations:

	2011	2010
Net earnings	\$ 5,217,330	\$ 4,711,595
Items not involving cash:		
Depreciation and amortization	6,872,766	7,126,597
Gain on sale of property, plant and equipment	(5,400)	(18,000)
Future payment in lieu of taxes	(217,967)	(696,269)
Liability for future benefits	184,287	171,024
Change in non-cash working capital:		
Accounts receivable	(1,617,925)	1,336,154
Unbilled revenue	(144,459)	(1,575,489)
Inventories	92,793	(818,038)
Work in progress	965,453	25,172
Prepaid expenses	66,644	(62,352)
Accounts payable and accrued liabilities	497,815	(166,279)
Deferred revenue	871,917	-
Work order deposits	(696,528)	(280,031)
Payments in lieu of taxes receivable/payable	(1,535,110)	2,054,250
Other current liabilities	403,512	57,685
	\$ 10,955,128	\$ 11,866,019

(b) Supplemental cash flow information:

	2011	2010
Cash received during the year from interest	\$ 212,456	\$ 91,574
Cash received during the year from PILs	125,460	1,361,660
Cash paid during the year for interest	3,169,656	3,100,249
Cash paid during the year for PILs	3,261,121	1,779,526
Non-cash financing activities:		
Capital contributions	811,560	1,700,152
Increase in other assets for stranded meters transferred from property, plant and equipment	30,832	1,864,856
Increase in other assets related to decrease in future tax assets	417,703	339,301

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 14

Year ended December 31, 2011

14. Pension plans:

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and the best 60 consecutive months average earnings.

Contributions by the Corporation were at a rate of 7.4% for employee earnings below the year's maximum pensionable earnings and 10.7% thereafter.

The amount contributed to OMERS for 2011 was \$657,620 (2010 - \$560,960) for current service.

15. Public liability insurance:

The Corporation through its parent company is a named insurer of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other through the same attorney. MEARIE provides general liability insurance to member electric utilities in accordance with the Power Corporation Act of Ontario; subsection 116(2), to a maximum of \$24,000,000 per occurrence.

Insurance premiums charged to each municipal electric utility consists of a levy per thousand dollars of service revenue subject to a credit/surcharge based on each electric utility's claims experience.

16. Commitments and contingencies:

The Corporation has a \$10,000,000 revolving line of credit facility available for use. A letter of credit in the amount of \$18,000,000 has been issued in favour of the Independent Electricity System Operator ("IESO") as security for the Corporation's purchase of electricity through the IESO. No other amounts were drawn down on the line of credit or non-revolving credit facility at year end. The credit facility is secured by a general security agreement over the Corporation's assets.

17. Transactions with related parties:

Related parties are the Corporation's parent, Burlington Hydro-Electric Inc., a subsidiary of the parent, Burlington Electricity Services Inc. and the parent of the Corporation's parent, the City of Burlington ("the City").

The Corporation paid a management fee of \$94,455 (2010 - \$110,882) to its parent. The Corporation received \$352,747 (2010 - \$390,375) for billing and administrative services from companies under common control.

The Corporation purchased services from a company under common control in the amount of \$50,000 (2010 - \$50,000) during the year.

During the year, the Corporation earned gross revenue of \$3,043,639 (2010 - \$2,841,812) from the City. Of this amount, \$412,115 (2010 - \$311,539) was net distribution revenue.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 15

Year ended December 31, 2011

18. 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, 2011, shareholder's equity amounts to \$61,933,283 (2010 - \$59,265,953) and long-term debt amounts to \$57,028,799 (2010 - \$47,878,608).

The OEB regulates the amount of interest on debt and the rate of return 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 60.0% debt and 40.0% equity. The actual capital structure for the Corporation may differ from the OEB's deemed structure.

19. Payments in lieu of taxes:

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

	2011	2010
Basic rate applied to income before PILs	28.25%	31.00%
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets		
in excess of accounting basis	(.24)	1.40
Items not deductible for tax purposes and other	(1.74)	(1.74)
Current year change in tax rates	1.97	1.16
Change in valuation allowance	(2.54)	(2.81)
Regulatory liability relating to future tax expense	(4.75)	(4.05)
Effective rate applied to income before PILs	20.95%	24.96%

At year end, based on substantively enacted income tax rates, future income tax assets of \$3,880,559 (2010 - \$4,048,439) have not been recorded. Such future income tax assets relate to tax bases of depreciable capital assets in excess of amounts recorded for accounting purposes.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 16

Year ended December 31, 2011

20. Financial instruments:

The carrying values of cash and temporary investments, securities held as customers' deposits, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer and work order deposits approximate fair values because of the short maturity of these instruments.

The Ontario Infrastructure loan has a carrying value of \$9,643,977 [note 8] and a fair value of approximately \$10,667,562.

It was not practicable to estimate the fair value of the note payable as there are no future cash flows required under the terms of this debt.

Financial assets held by the Corporation, such as accounts receivable and unbilled revenue, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Burlington. No single customer in either year would account for revenue in excess of 3% of the respective reported balances.

21. Emerging accounting changes:

International Financial Reporting Standards ["IFRS"]:

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

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

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

The Corporation has decided to implement IFRS commencing on January 1, 2012.

22. Comparative figures:

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

Financial Statements of

BURLINGTON HYDRO INC.

Year ended December 31, 2012



KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder:

We have audited the accompanying financial statements of Burlington Hydro Inc. ("the entity"), which comprise the balance sheet as at December 31, 2012, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Burlington Hydro Inc. as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 28, 2013

Hamilton, Canada

BURLINGTON HYDRO INC.

Balance Sheet

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and temporary investments	\$ 11,553,542	\$ 13,749,199
Securities held as customers' deposits (note 2)	2,989,191	3,194,263
Accounts receivable (note 3)	15,677,621	16,163,512
Unbilled revenue	21,348,701	20,474,503
Payment in lieu of taxes receivable	231,852	755,199
Inventories (note 4)	2,025,607	1,904,397
Work in progress	405,570	209,783
Prepaid expenses	494,257	403,332
	54,726,341	56,854,188
Property, plant and equipment (note 5)	92,799,847	83,136,474
Intangible assets (note 6)	8,855,292	2,767,487
Other assets (note 7)	-	4,209,173
Future payment in lieu of taxes	5,081,517	5,037,267
	\$ 161,462,997	\$ 152,004,589

Liabilities and Shareholder's Equity

Current liabilities:		
Ontario Infrastructure loans (note 8)	\$ 6,516,522	\$ 493,786
Accounts payable and accrued liabilities (note 9)	14,887,648	21,758,712
Customers' deposits (note 2)	2,989,191	3,194,263
Work order deposits	2,551,761	1,647,669
Deferred revenue	1,243,653	871,917
Other current liabilities	2,160,824	1,903,807
	30,349,599	29,870,154
Other liabilities (note 7)	4,655,200	-
Note payable (note 10)	47,878,608	47,878,608
Ontario Infrastructure loans (note 8)	8,633,669	9,150,191
Liability for future benefits (note 11)	3,352,255	3,172,353
Shareholder's equity:		
Capital stock (note 12)	45,139,138	45,139,138
Retained earnings	20,578,300	15,917,917
Paid in capital	876,228	876,228
	66,593,666	61,933,283
Commitments and contingencies (note 16)		
	\$ 161,462,997	\$ 152,004,589

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

BURLINGTON HYDRO INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Gross revenue	\$ 190,877,194	\$ 180,615,632
Cost of power, wholesale market and network charges	159,641,574	151,129,220
Net distribution revenue	31,235,620	29,486,412
Other operating revenue	2,458,874	2,124,527
Smart meters disposition (note 7)	986,301	-
	34,680,795	31,610,939
Expenses		
Operations and maintenance	7,458,580	7,187,609
Billing and collection	2,385,426	2,228,818
General administration	6,169,184	5,856,207
Depreciation and amortization	7,180,854	6,408,041
	23,194,044	21,680,675
Earnings before interest expense and payments in lieu of taxes	11,486,751	9,930,264
Interest expense	3,346,710	3,330,350
Earnings before payment in lieu of taxes	8,140,041	6,599,914
Payment in lieu of taxes (note 19):		
Current	1,310,399	1,600,551
Future	419,259	(217,967)
	1,729,658	1,382,584
Net earnings	6,410,383	5,217,330
Retained earnings, beginning of the year	15,917,917	13,250,587
Dividends paid	(1,750,000)	(2,550,000)
Retained earnings, end of year	\$ 20,578,300	\$ 15,917,917

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations (note 13)	\$ 9,102,746	\$10,955,128
Financing:		
Ontario Infrastructure loans, issued	6,000,000	2,500,000
Repayment of Ontario Infrastructure loans	(493,786)	(356,023)
Securities held as customers deposits	205,072	(148,915)
Customers' deposits	(205,072)	133,318
Dividends paid	(1,750,000)	(2,550,000)
Contributions and grants	1,890,942	1,091,246
	5,647,156	669,626
Investments:		
Purchase of property, plant and equipment	(9,818,857)	(8,891,038)
Purchase of intangible assets	(6,273,157)	(1,474,487)
Purchase of contributed capital	(1,290,568)	(455,191)
Proceeds on sale of property, plant and equipment	8,441	5,400
Other assets/liabilities	428,582	532,847
	(16,945,559)	(10,282,469)
Increase (decrease) in cash and temporary investments	(2,195,657)	1,342,285
Cash and temporary investments, beginning of year	13,749,199	12,406,914
Cash and temporary investments, end of year	\$ 11,553,542	\$ 13,749,199

See accompanying notes to financial statements.

BURLINGTON HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2012

On December 1, 1999, Burlington Hydro Inc. (the "Corporation") was incorporated under the Business Corporations Act with net assets contributed from the predecessor hydro-electric commission. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation provides electricity distribution and related services to its commercial and residential customers. Active operations commenced on January 1, 2000.

1. Significant accounting policies:

The Corporation has adopted accounting policies prescribed by the Canadian Institute of Chartered Accountants and therefore the financial statements are prepared in accordance with Part V of the CICA Handbook. The Corporation has elected to defer its implementation of International Financial Reporting Standards to 2015. The Corporation is a regulated distribution company. Significant accounting policies are as follows:

(a) Revenue recognition:

Revenue is recorded in the accounts to various dates on the basis of monthly or bi-monthly meter readings. Therefore, at the end of an accounting cycle, there is energy used by consumers for which meter readings are not available. This "unbilled revenue" is estimated and recorded in the accounts at the end of each fiscal year.

Deferred revenue includes funds received from the Ontario Power Authority ("OPA") for future conservation programs. OPA funds will be recognized as revenue when earned.

Incentive payments to which the Corporation is entitled from the OPA are recognized in revenue in the period when they are determined by the OPA and the amount is communicated to the Corporation.

(b) Investments:

Investments are comprised of temporary investments and securities held as customers' deposits. These investments are recorded at fair value.

(c) Inventories:

Inventories are valued at the lower of average cost and net realizable value and consist of maintenance materials and supplies.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost. The cost and related accumulated depreciation of transmission and distribution facilities are removed from the accounts at the end of their estimated average service life. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in current operations.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 2

Year ended December 31, 2012

1. Significant accounting policies (continued):

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

Depreciation is provided on a straight-line basis using the following annual rates:

Asset	Rate
Buildings	2%
Sub-station buildings	2%
Sub-station equipment	3.33%
Distribution lines - overhead	4%
Distribution lines - underground	4%
Distribution - transformers	4%
Distribution - meters	4%
Rolling stock	12.5-25%
Tools and equipment	10%
Office equipment	10%
Computer equipment	20%

In the year of addition or completion, a half year of depreciation is taken on the asset.

(e) Intangible assets:

Intangible assets are stated at cost. The cost and related accumulated amortization are removed from the accounts at the end of their estimated average service life. When intangible assets are disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in current operations. Amortization is provided on a straight-line basis using the following annual rates.

Asset	Rate
Land rights	1.43-2.86%
Computer software	20%
Transformer station right	2.5%

(f) Contributions and grants:

Contributions and grants received for capital are netted against property, plant and equipment and are amortized to income on the same basis as the related asset.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 3

Year ended December 31, 2012

1. Significant accounting policies (continued):

(g) Payment in lieu of taxes ("PILs"):

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the EA, the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts there under computed to the Ministry of Finance (Ontario).

The Corporation provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board ("OEB") and recovered from the customers of the Corporation at that time.

PILs recoverable from loss carry forwards are recorded in future PILs on the balance sheet at the current enacted statutory tax rates expected to apply when recovery of the loss carry forwards are expected to be recovered.

(h) Employee future benefits:

The Corporation pays certain life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees and extended health and dental benefits under unfunded defined benefit plans, on behalf of early retirees. These post-retirement costs are recognized in the period in which the employees rendered their services to the Corporation. The excess of the net accumulated actuarial losses over 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees. The expected average remaining service life of the active employees is 11 years.

(i) Paid in capital:

Paid in capital arises from development charges received prior to January 1, 2000 which were provided or paid for by developers, and are recorded as a permanent component of shareholder's equity.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 4

Year ended December 31, 2012

1. Significant accounting policies (continued):

(j) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from the estimates recorded in preparing these financial statements including changes as a result of future regulatory decisions.

Accounts receivable, unbilled revenue and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts or valuation allowance. Inventories are recorded net of provisions for obsolescence. Amounts recorded for depreciation of property, plant and equipment and amortization of intangible assets are based on estimates of useful service life. The liability for future benefits is based on certain assumptions, including interest (discount) rates, salary escalation, the average retirement age of employees, employee turnover and expected health and dental costs.

(k) Financial instruments:

All financial instruments are classified into one of the following categories – held-for-trading, available for sale, held-to-maturity, other liabilities or loans and receivables. All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. The Corporation has chosen to apply Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*.

The Corporation has classified its financial instruments as follows:

Cash and temporary investments	Held-for-trading
Securities held as customers' deposits	Held-for-trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Ontario Infrastructure loans	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Customer and work order deposits	Other liabilities
Note payable	Other liabilities

Derivatives and hedge accounting:

The Corporation does not have derivatives and does not engage in derivative trading or speculative activities. Hedge accounting has not been used in the preparation of these financial statements.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 5

Year ended December 31, 2012

2. Securities held as customers' deposits:

The OEB requires companies to periodically review customers' deposits and where appropriate, refund such deposits. During this review, companies may also request a deposit from customers based on certain criteria.

The Corporation has a policy of funding customers' deposits and paying interest on these deposits at a rate determined quarterly. Securities held as customers' deposits represent the funds segregated to fund the customer deposit refunds. The average rate of interest paid by the Corporation for 2012 was 1.00% (2011 - 1.00%).

3. Accounts receivable:

	2012	2011
Customer receivables	\$ 13,315,666	\$ 13,827,853
Receivable from the City of Burlington	370,234	252,121
Receivable from related parties	8,080	15,084
Other	2,228,641	2,368,454
	15,922,621	16,463,512
Less allowance for doubtful accounts	245,000	300,000
	\$ 15,677,621	\$ 16,163,512

4. Inventories:

	2012	2011
Stores	\$ 1,122,427	\$ 908,252
Reels	72,803	59,202
Transformers	717,359	828,981
Meters	113,018	107,962
	\$ 2,025,607	\$ 1,904,397

The amount of inventories consumed by the Corporation and recognized as an expense during 2012 was \$436,014 (2011 - \$320,241).

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 6

Year ended December 31, 2012

5. Property, plant and equipment:

	2012		2011	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 299,003	\$ -	\$ 299,003	\$ 299,003
Buildings	8,463,857	3,896,777	4,567,080	4,573,638
Sub-station buildings	2,296,844	1,149,053	1,147,791	1,209,243
Sub-station equipment	17,506,616	11,983,424	5,523,192	5,316,783
Distribution lines - overhead	72,537,114	38,822,669	33,714,445	31,860,913
Distribution lines - underground	75,214,631	40,278,654	34,935,977	32,989,635
Distribution - transformers	48,272,718	27,346,447	20,926,271	20,619,136
Distribution - meters	18,462,866	6,777,722	11,685,144	3,875,738
Rolling stock	3,529,753	2,789,506	740,247	952,927
Tools and equipment	2,184,031	2,023,774	160,257	171,666
Office equipment	1,507,294	1,188,778	318,516	292,379
Computer equipment	768,208	631,222	136,986	121,253
Contributions and grants	(27,344,680)	(5,989,618)	(21,355,062)	(19,145,840)
	\$ 223,698,255	\$ 130,898,408	\$ 92,799,847	\$ 83,136,474

Total depreciation expense for the year is \$7,420,642 (2011 - \$6,664,441) of which \$277,218 (2011 - \$259,228) has been allocated to distribution and utilization expense.

6. Intangible assets:

	2012		2011	
	Cost	Accumulated amortization	Net book value	Net book value
Land rights	\$ 189,350	\$ 26,514	\$ 162,836	\$ 165,664
Computer software	5,538,926	3,644,527	1,894,399	1,658,766
Transformer station right	6,798,057	-	6,798,057	943,057
	\$ 12,526,333	\$ 3,671,041	\$ 8,855,292	\$ 2,767,487

Total amortization expense for the year is \$286,556 (2011 - \$208,325) of which \$249,126 (2011 - \$205,497) has been allocated to distribution and utilization expense.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 7

Year ended December 31, 2012

7. Other assets (liabilities):

	2012	2011
OEB regulatory assets (liabilities):		
Regulatory assets (liabilities):		
Opening balance	\$ (5,775,148)	\$ (5,486,717)
Activity	(4,387,938)	(1,852,343)
Repayment	3,425,456	1,563,913
	(6,737,630)	(5,775,147)
Smart meters:		
Opening balance	7,870,512	8,114,929
Purchases	-	1,313,344
(Recovery)	-	(1,557,761)
Disposition	(7,870,512)	-
	-	7,870,512
Stranded meters:		
Opening balance	4,153,663	4,122,831
Additions	432,131	30,832
	4,585,794	4,153,663
Total OEB regulatory assets (liabilities)	(2,151,836)	6,249,028
Other regulatory assets (liabilities):		
Regulatory liability for future taxes	(2,503,364)	(2,039,855)
	\$ (4,655,200)	\$ 4,209,173

Net regulatory assets (liabilities) represent costs incurred in excess of amounts billed to the consumer at OEB approved rates (amounts billed to the consumer at OEB approved rates in excess of costs incurred by the Corporation). These amounts have been accumulated pursuant to the EA and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory assets (liabilities) attract interest at OEB prescribed rates. In 2012 the rate remained unchanged at 1.47%.

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 the distribution rates that the Corporation may charge and the costs that the Corporation may recover, including the balance of its regulatory assets.

Rate regulation:

The Corporation is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or fix rates for the

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 8

Year ended December 31, 2012

7. Other assets (liabilities) (continued):

Rate regulation (continued):

transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non rate-regulated environment.

Rate Setting:

The distribution rates of the Corporation are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity ("MARE") on the amount of the deemed equity component of rate base. The Corporation files a rate application with the OEB annually. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2012, distribution revenue is based on the rates approved for 2011. Once every four years, the Corporation files a Cost of Service application where rates are rebased through a cost-of-service review. In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. A Cost of Service application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. An IRM application results in a formulaic adjustment to distribution rates for the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Corporation's last Cost of Service application was made on August 28, 2009 and approved on March 1, 2010 with rates effective May 1, 2010. This application did not include the Corporation's investment in the Smart Meter Initiative. The application included the recovery of lost revenue and shared savings related to its Conservation and Demand Management ("CDM") programs. Such recoveries proceed through a prescribed Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") and relate to activities for the years 2005 to 2008. These were approved to be recovered through a rate rider for the period commencing May 1, 2010 through April 30, 2014. On March 17, 2011, the OEB approved a further recovery of \$413,451 of lost revenues over a three year period commencing May 1, 2011.

On September 16, 2011 the Corporation filed an IRM application to adjust its rates which was approved by the OEB effective May 1, 2012. On February 29, 2012 the Corporation filed an application for the disposition and recovery of costs related to smart meter deployment effective May 1, 2012. The OEB approved this application with an implementation date of July 1, 2012. On October 24, 2012 the Corporation filed an IRM application to adjust its rates effective May 1, 2013. The application has not yet been approved by the OEB.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 9

Year ended December 31, 2012

7. Other assets (liabilities) (continued):

New LDC License Requirements - Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a net annual peak demand savings target of 21.95MW and a net cumulative energy savings target of 82.37 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 eligibility criteria for performance incentive payments. The Corporation filed its CDM Strategy with the OEB on November 1, 2010.

Regulatory Accounting

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non rate-regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's other assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. It also includes regulatory liabilities which represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

The OEB decision on the 2010 Cost of Service application provided for the disposition of \$3,598,389 of the Corporation's net regulatory liabilities over a 48 month period ending April 30, 2014. A further \$4,199,732 of net regulatory liabilities was approved for disposition over 2 years in the OEB decision on the 2011 IRM application.

Smart Meters Disposition:

The OEB approved the disposition of the smart meter regulatory accounts effective July 1, 2012. As part of the disposition, the revenues and costs related to the smart meters of prior years, included in the regulatory accounts, are included in the current year Statement of Earnings. This resulted in net revenue of \$986,301 included in revenue as follows:

Smart Meter Revenue	\$ 3,525,079
Expenses:	
Operations and Maintenance	77,825
Billing and Collection	913,004
Depreciation and amortization	1,344,252
Interest Expense	203,697
	<hr/>
	2,538,778
Net Revenue	<hr/>
	\$ 986,301

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 10

Year ended December 31, 2012

7. Other assets (liabilities) (continued):

Other regulatory assets (liabilities):

Included in other regulatory assets (liabilities) is an amount expected to be returned to future customers when the future tax assets are realized.

8. Ontario Infrastructure loans:

The Corporation obtained an Ontario Infrastructure loan of \$7,500,000 in 2010. The loan interest rate was a floating rate per annum as determined by the Ontario Infrastructure Projects Corporation ("OIPC") based on OIPC's cost of funds plus OIPC's prevailing spread assigned to the borrower sector for program delivery costs and risks. The loan was paid in full on March 15, 2011. It was replaced with a Fixed Term Debenture of \$10,000,000 due March 15, 2026 from the OIPC. The debenture bears interest at a rate of 4.51%. The loan is payable in the amount of \$76,550 monthly principal and interest. The loan is secured by a general security agreement over the assets of the Corporation.

Principal payments on the debenture are as follows:

	2012
2013	\$ 516,522
2014	540,305
2015	565,183
2016	591,206
2017	618,427
2018-2026	6,318,548
	9,150,191
Less: current portion	(516,522)
Long-term portion of loan payable	\$ 8,633,669

The Corporation obtained additional loans of \$3,500,000 on June 20, 2012 and \$2,500,000 on Nov. 15, 2012. These amounts are classified as construction loans which are due on demand and presented as current liabilities. The loan's interest rate is a floating rate per annum as determined by the OIPC based on OIPC's cost of funds plus OIPC's prevailing spread assigned to the borrower sector for program delivery costs and risks. The interest rate on the loans has varied between 1.77% and 1.79%. The loan will be replaced with a Long Term Promissory Note on March 1, 2013. This loan is payable, interest only, monthly.

Interest of \$463,530 (2011 - \$377,304) paid to the OIPC was expensed during the year.

The loan is secured by a postponement of security by the City of Burlington and a general security agreement over the assets of the Corporation.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 11

Year ended December 31, 2012

9. Accounts payable and accrued liabilities:

	2012	2011
Commodity and transmission charges	\$ 5,893,052	\$ 11,829,942
Region of Halton	3,666,181	3,589,223
Payable to related parties	25,262	30,969
Purchase of contributed capital	2,698,738	2,611,970
Other	2,604,415	3,696,608
	<u>\$ 14,887,648</u>	<u>\$ 21,758,712</u>

Purchase of contributed capital:

Contributions are received from developers to finance necessary capital additions. The OEB requires the utility to calculate a rebate to the developers based upon recoverability of capital investment through future hydro usage. At December 31, 2012, a liability in the amount of \$2,698,738 (2011 - \$2,611,970) was accrued. This growth is expected to continue in the future. Working capital will be drawn down to support these payments.

10. Note payable:

The promissory note payable is due on demand to the City of Burlington ("the City"). The City has waived its right to demand payment until January 1, 2014. The note bears interest at 5.87%. Interest of \$2,810,474 (2011 - \$2,810,474) to the City was expensed during the year.

11. Liability for future benefits:

The Corporation pays certain life insurance benefits on behalf of its retired employees as well as extended health and dental benefits for early retirees to age 65. The Corporation recognizes these post-retirement costs in the period in which the employees rendered the services. An actuarial valuation of the plan obligations was completed for the year ended December 31, 2012.

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

	2012	2011
Accrued benefit obligation, beginning of year	\$ 4,131,819	\$ 3,518,862
Actuarial loss	-	480,268
Expense for the year	321,573	300,849
Benefits paid for the year	(191,333)	(168,160)
Projected accrued benefit obligation, end of year	4,262,059	4,131,819
Unamortized actuarial loss	(909,804)	(959,466)
Liability for future benefits	<u>\$ 3,352,255</u>	<u>\$ 3,172,353</u>

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 12

Year ended December 31, 2012

11. Liability for future benefits (continued):

Amortization of the actuarial loss was \$49,662 (2011 - \$51,598).

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.5% in 2012 and thereafter.

(b) Interest (discount rate):

The obligation as at year end, of the present value of future liabilities and the expense for the year, was determined using a discount rate of 4.25%.

(c) Salary levels:

Future general salary and wage levels were assumed to increase at a rate consistent with the rate of inflation.

(d) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 5.5% in 2012 graded down to 2.3% in 2019 and thereafter.

(e) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.3% in 2012 and thereafter.

12. Capital stock:

Capital stock consists of the following:

	2012	2011
Authorized:		
Unlimited number of common shares		
Issued:		
2,000 common shares	\$ 45,139,138	\$ 45,139,138

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 13

Year ended December 31, 2012

13. Cash flow information:

(a) Reconciliation of net income to cash provided by operations:

	2012	2011
Net earnings	\$ 6,410,383	\$ 5,217,330
Items not involving cash:		
Depreciation and amortization	7,707,198	6,872,766
Gain on sale of property, plant and equipment	(2,895)	(5,400)
Future payment in lieu of taxes	419,259	(217,967)
Liability for future benefits	179,902	184,287
Change in non-cash working capital:		
Accounts receivable	485,891	(1,617,925)
Unbilled revenue	(874,198)	(144,459)
Inventories	(121,210)	92,793
Work in progress	(195,787)	965,453
Prepaid expenses	(90,925)	66,644
Accounts payable and accrued liabilities	(6,871,064)	497,815
Deferred revenue	371,736	871,917
Work order deposits	904,092	(696,528)
Payments in lieu of taxes receivable/payable	523,347	(1,535,110)
Other current liabilities	257,017	403,512
	\$ 9,102,746	\$ 10,955,128

(b) Supplemental cash flow information:

	2012	2011
Cash received during the year from interest	\$ 209,374	\$ 191,393
Cash received during the year from PILs	1,085,294	125,460
Cash paid during the year for interest	3,274,339	3,169,656
Cash paid during the year for PILs	1,586,758	3,261,121
Non-cash financing activities:		
Capital contributions	2,637,871	811,560
Increase in other assets for stranded meters transferred from property, plant and equipment	432,131	30,832
(Decrease) increase in other assets related to increase (decrease) in future tax assets	(463,509)	417,703
Increase in property, plant and equipment for smart meters transferred from other assets	8,404,413	-

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 14

Year ended December 31, 2012

14. Pension plans:

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and the best 60 consecutive months average earnings.

Contributions by the Corporation were at a rate of 8.3% for employee earnings below the year's maximum pensionable earnings and 12.8% thereafter.

The amount contributed to OMERS for 2012 was \$801,195 (2011 - \$657,620) for current service.

15. Public liability insurance:

The Corporation through its parent company is a named insured of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other through the same attorney. MEARIE provides general liability insurance to member electric utilities in accordance with the Power Corporation Act of Ontario; subsection 116(2), to a maximum of \$24,000,000 per occurrence.

Insurance premiums charged to each municipal electric utility consists of a levy per thousand dollars of service revenue subject to a credit/surcharge based on each electric utility's claims experience.

16. Commitments and contingencies:

The Corporation has a \$10,000,000 revolving line of credit facility available for use. A letter of credit in the amount of \$18,000,000 has been issued in favour of the Independent Electricity System Operator ("IESO") as security for the Corporation's purchase of electricity through the IESO. No other amounts were drawn down on the line of credit or non-revolving credit facility at year end. The credit facility is secured by a general security agreement over the Corporation's assets.

In 2013, the Corporation received \$813,515 from the Ontario Power Authority ("OPA") for Performance Bonuses and net Incremental Funding relating to the delivery of the Electricity Retrofit Incentive Program between 2007 and 2010. This will be recorded in the year of receipt.

There are incentive programs available to the Corporation related to 2010 to 2012 for programs carried out. The amount of these incentives cannot be determined because they are calculated by the OPA based on the savings achieved.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 15

Year ended December 31, 2012

17. Transactions with related parties:

Related parties are the Corporation's parent, Burlington Hydro-Electric Inc., a subsidiary of the parent, Burlington Electricity Services Inc. and the parent of the Corporation's parent, the City of Burlington ("the City").

The Corporation paid a management fee of \$99,582 (2011 - \$94,455) to its parent. The Corporation received \$345,013 (2011 - \$352,747) for billing and administrative services from companies under common control.

The Corporation purchased services from a company under common control in the amount of \$41,452 (2011 - \$50,000) during the year.

During the year, the Corporation earned gross revenue of \$3,261,927 (2011- \$3,043,639) from the City. Of this amount, \$466,888 (2011 - \$412,115) was net distribution revenue.

Amounts payable to and receivable from related parties are non-interest bearing with no fixed terms of repayment.

18. 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 \$66,593,666 (2011 - \$61,933,283) and long-term debt amounts to \$56,512,277 (2011 - \$57,028,799).

The OEB regulates the amount of interest on debt and the rate of return 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 60.0% debt and 40.0% equity. The actual capital structure for the Corporation may differ from the OEB's deemed structure.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 16

Year ended December 31, 2012

19. Payments in lieu of taxes:

The provision for PILs 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 PILs	26.50%	28.25%
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets in excess of accounting basis	-	(.24)
Items not deductible for tax purposes and other	(3.69)	(1.74)
Current year change in tax rates	(6.15)	1.97
Change in valuation allowance	.78	(2.54)
Regulatory liability relating to future tax expense	3.81	(4.75)
Effective rate applied to income before PILs	21.25%	20.95%

At year end, based on substantively enacted income tax rates, future income tax assets of \$3,943,924 (2011 - \$3,880,559) have not been recorded. Such future income tax assets relate to tax bases of depreciable capital assets in excess of amounts recorded for accounting purposes.

20. Financial instruments:

The carrying values of cash and temporary investments, securities held as customers' deposits, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer and work order deposits approximate fair values because of the short maturity of these instruments.

The long term Ontario Infrastructure loan has a carrying value of \$9,150,191 (2011 - \$9,643,977) [note 8] and a fair value of approximately \$10,058,356.

It was not practicable to estimate the fair value of the note payable as there are no future principal payments required under the terms of this debt.

Financial assets held by the Corporation, such as accounts receivable and unbilled revenue, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Burlington. No single customer in either year would account for revenue in excess of 3% of the respective reported balances.

BURLINGTON HYDRO INC.

Notes to Financial Statements, page 17

Year ended December 31, 2012

21. Emerging accounting changes:

(a) Transition to International Financial Reporting Standards ("IFRS"):

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

In October 2010, the AcSB approved the incorporation of a one year deferral of IFRS into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. This deferral has subsequently been deferred further to annual periods beginning on or after January 1, 2015.

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

The Corporation has decided to implement IFRS commencing on January 1, 2015.

(b) Accounting for rate regulated activities under IFRS:

IFRS does not currently provide guidance on accounting for the effects of rate regulation and the recognition of regulatory assets and liabilities. Currently, rate regulated entities do not recognize regulatory assets and liabilities in their IFRS compliant financial statements. The impact of rate regulated accounting has been disclosed in Note 7.

IFRS 1 provides an exemption from the retroactive restatement for entities with operations subject to rate regulation. This exemption permits, at the date of transition, an entity to use the carrying values of property, plant and equipment and intangible assets as deemed cost, thus avoiding the need to restate historical balances using IFRS principles or to determine fair value. The Corporation has elected to apply this exemption for all items of property, plant and equipment and intangible assets subject to rate regulation upon the adoption of IFRS.

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which contains recommendations on how regulatory reporting requirements should change in response to IFRS. The OEB has now initiated a second phase in its transition project, which involves amending certain regulatory instruments. The Corporation continues to evaluate the potential impacts of the recommendations contained in the Report of the Board on both the activities of the Corporation and its IFRS transition plan.

22. Comparative figures:

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

1 **RECONCILIATION BETWEEN FINANCIAL STATEMENTS**
2 **AND RESULTS FILED**

3 A detailed reconciliation between the financial results shown in Burlington Hydro's RRR
4 filings, Audited Financial Statements and with the regulatory financial results filed in the
5 application is presented at the next page. Changes include revisions to various USoA
6 accounts as instructed in the Board communication dated December 20, 2011.

7

INCOME STATEMENT RECONCILIATION TO OEB REPORTING
PRIOR TO POSTING OF O.E.B. JOURNAL ENTRIES
DECEMBER 2010

BHI Audited Financial Statements		OEB RRR filings		DIFFERENCE	NOTE	
Gross Margin	-28,636,083.79	Revenues from Services - Distribution	-28,636,083.79			
TOTAL	-28,636,083.79	TOTAL	-28,636,083.79	0.00		
Other Revenue	-2,176,729.21	Other Operating Revenues	-1,444,719.85			
		Other Income / Deductions	-13,417.26			
		Investment Income	-206,876.83			
TOTAL	-2,176,729.21	TOTAL	-1,665,013.94	511,715.27	(a)	
Control	1,126,482.99	Operation	4,047,491.39			
Stations	1,024,672.44	Maintenance	2,275,551.90			
Distribution	3,710,754.19					
Meter	461,133.67					
TOTAL	6,323,043.29	TOTAL	6,323,043.29	0.00		
Billing and Collecting	2,661,651.24	Billing and Collecting	2,344,508.86			
TOTAL	2,661,651.24	TOTAL	2,344,508.86	-317,142.38	(b)	
Administration	5,111,089.37	Community Relations	14,894.31			
Conservation and Demand Management	0.00	Administrative and General Expenses	4,799,044.61			
		Other Deductions	41,224.26			
TOTAL	5,111,089.37	TOTAL	4,855,163.18	-255,926.19	(c)	
Depreciation	6,581,092.46	Amortization	6,581,092.46	0.00		
Interest Expense	3,364,208.67	Interest Expense	3,425,561.97	61,353.30	(d)	

Income Taxes	1,567,502.42		Taxes	2,060,133.10			
Capital Taxes	492,630.68						
TOTAL	2,060,133.10		TOTAL	2,060,133.10		0.00	
NET INCOME	-4,711,594.87		NET INCOME	-4,711,594.87		-0.00	
EXPLANATION							
(a) Information Service Clerk			95,870.93				
Billing Clerk			71,932.97				
Customer Service Clerk			76,239.99				
15% of Meter Reading Contract			52,616.14				
Accounting Services to BESI			2,000.00				
Accounting Services to BHEI			2,000.00				
Bonus			272,408.54				
Carrying Charges on Regulatory Assets			<u>-61,353.30</u>				
			511,715.27				
(b) Remove Billing Clerk			-71,932.97				
Remove Customer Service Clerk			-76,239.99				
Remove 15% of Meter Reading Contract			-52,616.14				
Credit Insurance to Administration			<u>-116,353.28</u>				
			-317,142.38				
(c) Remove Information Services Clerk			-95,870.93				
Accounting Services to BESI			-2,000.00				
Accounting Services to BHEI			-2,000.00				
Bonus			-272,408.54				
Credit Insurance from Billing and Collecting			<u>116,353.28</u>				
			-255,926.19				
(c) Carrying Charges on Regulatory Assets				61,353.30			
				61,353.30			

INCOME STATEMENT RECONCILIATION TO OEB REPORTING
PRIOR TO POSTING OF O.E.B. JOURNAL ENTRIES
DECEMBER 2011

BHI Audited Financial Statements		OEB RRR filing		DIFFERENCE	NOTE	
Gross Margin	-29,486,411.86	Revenues from Services - Distribution	-29,486,411.86			
TOTAL	-29,486,411.86	TOTAL	-29,486,411.86	0.00		
Other Revenue	-2,124,526.87	Other Operating Revenues	-1,480,889.55			
		Other Income / Deductions	229,872.97			
		Investment Income	-466,734.25			
TOTAL	-2,124,526.87	TOTAL	-1,717,750.83	406,776.04	(a)	
Control	1,249,143.43	Operation	4,643,079.06			
Stations	1,267,648.74	Maintenance	2,544,529.69			
Distribution	4,157,033.46					
Meter	513,783.12					
TOTAL	7,187,608.75	TOTAL	7,187,608.75	0.00		
Billing and Collecting	2,228,818.24	Billing and Collecting	1,953,479.06			
TOTAL	2,228,818.24	TOTAL	1,953,479.06	-275,339.18	(b)	
Administration	5,581,814.55	Community Relations	18,588.30			
Conservation and Demand Management	0.00	Administrative and General Expenses	5,241,451.04			
		Other Deductions	63,529.74			
TOTAL	5,581,814.55	TOTAL	5,323,569.08	-258,245.47	(c)	
Depreciation	6,408,040.59	Amortization	6,408,040.59			
Interest Expense	3,330,349.93	Interest Expense	3,457,158.54	126,808.61	(d)	

Income Taxes	1,382,584.38		Taxes	1,656,976.70		
Capital Taxes	274,392.32					
TOTAL	1,656,976.70		TOTAL	1,656,976.70	0.00	
NET INCOME	-5,217,329.97		NET INCOME	-5,217,329.97		
EXPLANATION						
(a) Information Service Clerk	91,063.87					
Billing Clerk	64,313.01					
Customer Service Clerk	73,215.08					
15% of Meter Reading Contract	30,492.69					
Accounting Services to BESI	2,000.00					
Accounting Services to BHEI	2,000.00					
Bonus	270,500.00					
Carrying Charges on Regulatory Assets	-126,808.61					
	406,776.04					
(b) Remove Billing Clerk	-64,313.01					
Remove Customer Service Clerk	-73,215.08					
Remove 15% of Meter Reading Contract	-30,492.69					
Credit Insurance to Administration	-107,318.40					
	-275,339.18					
(c) Remove Information Services Clerk	-91,063.87					
Accounting Services to BESI	-2,000.00					
Accounting Services to BHEI	-2,000.00					
Bonus	-270,500.00					
Credit Insurance from Billing and Collection	107,318.40					
	-258,245.47					
(d) Carrying Charges on Regulatory Assets	126,808.61					
	126,808.61					

INCOME STATEMENT RECONCILIATION TO OEB REPORTING
PRIOR TO POSTING OF O.E.B. JOURNAL ENTRIES
DECEMBER 2012

BHI			OEB			DIFFERENCE		NOTE	
Gross Margin		-34,760,698.98	Revenues from Services - Distribution		-34,760,698.98				
TOTAL		-34,760,698.98	TOTAL		-34,760,698.98		0.00		
Other Revenue inc C. Charges		-2,255,177.36	Other Operating Revenues		-1,491,120.05				
			Other Income / Deductions		-171,679.85				
TOTAL		-2,255,177.36	TOTAL		-1,895,727.90		359,449.46	(a)	
Control		1,250,533.97	Operation		4,387,013.47				
Stations		1,149,503.90	Maintenance		3,149,391.19				
Distribution		4,514,629.66							
Meter		621,737.13							
TOTAL		7,536,404.66	TOTAL		7,536,404.66		0.00		
Billing and Collecting		3,298,429.65	Billing and Collecting		3,072,822.28				
TOTAL		3,298,429.65	TOTAL		3,072,822.28		-225,607.37	(b)	
Administration		5,876,754.26	Community Relations		16,073.00				
Conservation and Demand Management		0.00	Administrative and General Expenses		5,454,934.03				
TOTAL		5,876,754.26	TOTAL		5,564,000.27		-312,753.99	(C)	
Depreciation		8,525,106.04	Amortization		8,525,106.04		0.00		
Interest Expense		3,346,710.20	Interest Expense		3,525,622.10		178,911.90	(d)	
Income Taxes		1,729,658.00	Taxes		2,022,088.15				
Capital Taxes		292,430.15							
TOTAL		2,022,088.15	TOTAL		2,022,088.15		0.00		

NET INCOME		-6,410,383.38		NET INCOME		-6,410,383.38		
EXPLANATION								
(a) Information Service Clerk		106,051.23						
Billing Clerk		78,690.74						
Customer Service Clerk		85,416.63						
15% of Meter Reading Contract		0.00						
Accounting Services to BESI		2,000.00						
Accounting Services to BHEI		2,000.00						
Bonus		264,202.76						
Carrying Charges on Regulatory Assets		-178,911.90						
		359,449.46						
(b) Remove Billing Clerk		-78,690.74						
Remove Customer Service Clerk		-85,416.63						
Remove 15% of Meter Reading Contract		0.00						
Credit Insurance to Administration		-61,500.00						
		-225,607.37						
(c) Remove Information Services Clerk		-106,051.23						
Accounting Services to BESI		-2,000.00						
Accounting Services to BHEI		-2,000.00						
Bonus		-264,202.76						
Credit Insurance from Billing and Collecting		61,500.00						
		-312,753.99						
(d) Carrying Charges on Regulatory Assets		178,911.90						
		178,911.90						

1 **PROSPECTUS AND RECENT DEBT/SHARE ISSUANCE**
2 **UPDATE**

3 Burlington Hydro does not issues debt and/or shares nor does it issue prospectus.

1

ANNUAL REPORT

2 The annual report is presented at the next section Exhibit 1, Tab 3, Schedule 4,
3 Attachment 1

4



Burlington **hydroelectric** inc.
energizing **our** community™



Burlington**Hydro**Electric Inc. is an integral part of the community and an essential contributor to its economic growth and success. We are committed to helping make our city a great place to live, work and do business.

Burlington Hydro Electric Inc. is a trusted and innovative company committed to helping shape the energy needs of a vibrant city – providing essential electricity services and community investment to benefit our community of owners, now and in the future.

Burlington Hydro serves approximately 66,000 residential and commercial customers in the City of Burlington. We deliver electricity into the community through a network of 1,600 kilometres of medium-voltage distribution lines, while maintaining 32 substations.

Burlington Hydro Electric Inc. is an energy services company that is wholly owned by the City of Burlington. Burlington Hydro Inc. (BHI) and Burlington Electricity Services Inc. (BESI) are affiliate companies both of which are 100% owned by Burlington Hydro Electric Inc.

Table of **Contents**

2	Message from the Chair	13	Our People, Health & Safety
3	Message from the CEO	14	Customer Service
4	Operational Excellence	15	Shareholder Report
6	Hurricane Sandy	16	Auditors' Report
7	Community Energy Plan	17	Balance Sheet
8	Conservation and Demand Management	18	Statement of Earnings
10	GridSmartCity	19	Statement of Cash Flows
11	E-Services and TOU Pricing	20	Executive Team
12	Community Contributions	21	Board of Directors



Delivering Value that Benefits Our **Community of Owners**

Message from the Chair

Burlington Hydro Electric (BHEI) continues to focus on building long-term value for customers and our shareholder by placing emphasis on operational excellence and productivity gains, while maintaining a strong asset base through responsible financial management. The company is committed to providing essential electricity services and community investments that benefit our community of owners.

An essential part of that pledge includes sound capital investments that will ensure system reliability – meeting both the expectations of our customers and the needs of a growing city. Capital projects, such as the construction of the Tremaine Transformer Station in northeast Burlington has significantly improved supply capacity to the City and goes a long way in meeting future electricity demand.

While accommodating growth, the maintenance and replacement of aging infrastructure is of equal importance and is a critical part of our 10-year strategic planning process. On-going assessments of the health and performance of the distribution system are captured within the annual System Performance Report and Asset Management Strategy and are keeping our networks efficient, safe and reliable.

Our utility continues to demonstrate its leadership in grid modernization and to build on its reputation as industry innovators. We are showcasing fully integrated enterprise solutions by incorporating our Geographic Information System (GIS) with other independent functional systems. This innovation will enhance our ability to track and respond to outages - among other advantages - while using technology in ways that will upgrade our distribution system.

We are truly ‘energizing our community’ as our new brand affirms. Burlington Hydro Electric is moving forward to become more of an energy solutions company - where our regulated and non-regulated businesses not only meet the needs, but surpass the expectations of our customers.

In the near term, an important order of business will be our focus on the compilation of an optimal 2014 Rate Application to the Ontario Energy Board. A successful application and decision is critical to helping us realize a more predictable financial path forward to 2018.

On behalf of the BHEI Board of Directors, I’d like to thank Gerry Smallegange and his talented executive team. Their focus and professionalism has been integral to the company’s ongoing success. I’d also like to recognize the tireless dedication of my fellow board members and the unwavering support you have shown in ensuring the future sustainability of this company.

Charles Keizer *Chair, Burlington Hydro Electric Inc.*

Meeting the Energy Needs of a **Vibrant City**

Message from the CEO

At Burlington Hydro Electric, we define ourselves by our ability to contribute in a meaningful way to the social, economic and environmental well-being of our community. It is part and parcel of how we view corporate responsibility and the commitment we’ve made to our customers and shareholders to meet our city’s energy needs today and into the future – providing innovative energy solutions, while delivering safe, efficient and reliable power.

Importantly, we are aligning our business priorities with the City’s long-term strategic planning as it relates to responsible power management and energy sustainability. Our ability to meet the energy needs of an expanding city, where urban intensification will play an increasingly important part in our growth, is an essential ingredient in our future success and prosperity. A great deal has already been accomplished through our partnership with the City and other key stakeholders in the development of a Community Energy Plan (CEP). Upon completion, the plan will show us the way forward, with a focus on reducing the city’s carbon footprint and energy use, demonstrating environmental leadership, and creating economic development opportunities. Slated for release in 2013, the CEP will showcase Burlington as one of only a handful of communities who have successfully undertaken an energy planning process.

Collaboration and cooperation have increasingly become important lexicons in the way we approach aspects of our business. An evolving GridSmartCity® partnership continued its work with like-minded industry and institutional partners, exploring how we can realize greater efficiencies, identify economies of scale and scope, and encourage innovation to support sustainable growth. In 2012 we laid the groundwork for the formation of partner co-operatives – we are on the cusp of setting those cooperatives to work in 2013.

Our efforts are gaining welcome attention. Burlington Hydro has been recognized for its Performance Excellence, receiving the prestigious Ontario Power Generation (OPG) sponsored award from the Electricity Distributors Association (EDA). It serves as affirmation from our industry peers that we’re operating our business at the top of our game. The award is a fitting complement to the impressive MoneySense ‘2013 Best Places to Live’ ranking that has placed the City of Burlington first among mid-sized cities across Canada.

We are proud of our accomplishments. There were times that we went beyond our usual order of business – I am reminded of the lasting image of our line crew helping to restore power to hurricane-ravaged neighbourhoods on Long Island, New York, or our stepping forward to ensure that the tradition of the Lakeside Festival of Lights continued as a holiday fixture on our waterfront.

Our success reflects the efforts of a dedicated team of professionals. I’d like to thank our hard working employees for their ongoing contributions and for always placing our customers first. I’d also like to thank the Board for its ongoing support, particularly for their clarity of vision and for the kind of leadership that continues to drive us forward to achieve at the highest level.

Gerry Smallegange *President and Chief Executive Officer, Burlington Hydro Electric Inc.*





Operational *Highlights*

525
emergency call-out responses

156
transformers installed

10,132
locates delivered to customers

241
utility poles installed

745
new services installed



Burlington **hydroelectric** inc.

Focused on **Operational Excellence**

Burlington Hydro operates a distribution system that includes high voltage networks at 27.6 kV, 13.8 kV and 4.16 kV – all of which are monitored 24/7 on a feeder-by-feeder basis by our Control Room.

The first feeder crossing of Hwy 407 from the new transformer station site – at Tremaine Road and the 407 – was completed early in the year. Through this crossing and a second to come in early 2013, along with feeder extensions into and throughout Burlington, system operational flexibility will be increased and sufficient capacity will be made available to accommodate growth in the city over the next 25 years.

Burlington Hydro's asset management program includes field inspections for each asset, at a minimum of one inspection every three years. The asset data that is collected reflects the latest performance characteristics for the distribution system and establishes priorities for asset replacement.

Our 32 distribution substations contain large transformers and play a key role in the delivery of electricity throughout the city. To keep them functioning reliably, older transformers are replaced after they have been in service for 40 years, or longer. Although this action cannot eliminate unexpected failures, it certainly reduces the likelihood of such an event.

At the centre of our engineering, operational and asset management activities is our Geographic Information System which maps all of our field assets on a geo-referenced land base. This system is used to enhance the design process, model and analyze the distribution system, and improve the communication used in our safety activities, such as work protection. Burlington Hydro is recognized as an industry leader in this area.

Burlington Hydro Electric delivered its operating and capital plans on target and on budget in 2012.

Recognized for **Performance Excellence**

“Burlington Hydro is a company that understands excellence. **They ‘get it.’** They ‘get’ that being excellent means delivering outstanding performance – not once or twice – but time after time.”

Tom Mitchell, President and CEO, Ontario Power Generation

In 2012, Burlington Hydro was recognized by the Electricity Distributors Association (EDA), receiving the **industry's award for Performance Excellence by a Local Electricity Distributor** (LDC). The award is sponsored by Ontario Power Generation and is a highlight of the EDA award program. Burlington Hydro was recognized among its utility peers at the Association's Annual Meeting gala dinner in March 2013. Dignitaries representing all sectors of the electricity industry, including Ontario's Minister of Energy, the Hon. Bob Chiarelli, were on hand for the ceremony.

The distinguished award recognizes an Ontario LDC's performance excellence and is measured by five stringent performance parameters: occupational health and safety, operational excellence, financial operations, retail strategies for conservation and demand management, and contributions to the community.

On October 30, 2012, **Hurricane Sandy moved through Burlington bringing 94km/h winds and causing widespread power outages.** Burlington experienced the third highest wind speeds in the province from the storm and in total, 19,444 customers experienced outages lasting anywhere from one minute to just under three hours. Burlington Hydro crews worked through the night removing fallen trees on power lines and restoring electricity to the community. Due to the overwhelming damage caused by the storm in New York, Burlington Hydro sent two line crews and equipment to the US to assist with power restoration efforts (see page 6).

operational performance **excellence**

BHI's Hurricane Sandy Crew was officially **recognized and thanked** for their efforts by Burlington City Council at its February 2013 Council Meeting.

Lending a Hand to Our American Neighbours

In mid-November Burlington Hydro's nine-man crew arrived home from Long Island, New York after 11 days spent restoring power to one of the hardest hit areas devastated by Hurricane Sandy. Enduring 16-hour days and facing the added adversity of a Nor'easter that brought further damage and distress to the region, the crews worked through the hardship. According to Brad Cumming, Operations Manager, and crew lead, it was hard, physical work, but they had the satisfaction of knowing that they were making a difference and that they were doing the right thing. In neighbourhood after neighbourhood, as restoration efforts were completed, entire streets cheered as power came back on. Shouts of "thanks Canada," offerings of food and hot beverages, were common occurrences as thankful Americans recognized their efforts.

The New York crew included: Brad Cumming, Colin Saunders, Paul Cipolla, Matt Dow, James Dunham, Pete Vennell, Jim McClellan, Steve Roberts, and Dave Turner.

"I just wanted to pass on this Canadians' pride in what your people are doing for those in need. Hearing about this made my chest puff out in pride. I wanted to let you know that your peoples' dedication to their work and to helping those in need was noticed far beyond just Burlington."

Letter from Pembroke, Ontario

"I want to personally thank the Burlington Hydro crew who were so selfless and Canadian in their extreme sacrifice in dreadful conditions to go the extra hours to see the power was reconnected [in Long Island] ... You are heroes. You are the stuff that makes other Canadians proud."

Letter from British Columbia

Developing a **Community Energy Plan**

Burlington Hydro, in partnership with the City of Burlington, is playing a key role in the ongoing development of a Community Energy Plan (CEP). A wide range of local stakeholders have been brought together as part of this collaborative process – from Union Gas and Halton Region, to the Burlington Economic Development Corp. and the Ontario Power Authority, among others.

By capitalizing on synergies available at the local level, it is expected that the CEP will enhance site planning, building design and efficiency, as well as providing new energy supply options. The plan envisions an 'economically prosperous community that offers a high quality of life' that is driven by economic growth and urban intensification – characteristics that are guiding the city's development as envisioned in its Official and Strategic Plans. Burlington Hydro is a vital partner in this process, ensuring stable and safe distribution networks and sustainable energy options accommodate the city's planned growth and economic development.

After a public process to engage and gain local input, the Community Energy Plan is scheduled to be released by year-end 2013.

Identify areas where **conservation and efficiency measures** can be focused

Assess the **potential for local generation**, particularly renewable energy

Assess land-use planning issues and their energy implications

Energy **Mapping**

The CEP incorporates the development of a cutting-edge Energy Mapping component that will assist Burlington Hydro in identifying where future infrastructure is required and help in targeting customers who may be candidates for conservation and demand management programs.

hurricane sandy and community energy plan



Burlington **hydroelectric** inc.



1,594

residential customers
signed on to the **peaksaver
PLUS®** program

4,370

coupons redeemed on
energy-efficient products

Delivering programs that **help residents conserve**

2,278

inefficient **heating and
cooling** systems replaced

564

fridges & freezers
picked up and recycled

delivering conservation and demand management **programs**

Delivering Programs that **Help Residents Conserve**

In conjunction with the Ontario Power Authority (OPA), Burlington Hydro delivered a portfolio of saveONenergy™ Conservation and Demand Management (CDM) programs to its residential customers in 2012. saveONenergy conservation programs for the home are designed to make it easier than ever for our customers to conserve energy and manage their electricity use. The programs included: Heating and Cooling Incentive, Fridge and Freezer Pickup, peaksaver PLUS®, New Home Construction, Seasonal Appliance Exchange and Coupon Events.

Curtailing Power Use in **Times of High Demand**

Burlington Hydro was one of the first utilities in Ontario to offer the **demand management peaksaver PLUS®** program. An extension of the original **peaksaver®** program, participating customers received free programmable thermostats and energy displays, where eligible. The program allows remote access to air conditioners so that they can be dialed up on those occasions when the province's demand is critically high – normally on hot, humid afternoons during the summer months.

Note: The program results for 2012 were released in March 2013 by the OPA and were as yet unverified at the time of publication. Final results will be published in August 2013.

Tailored Programs for **Business**

BHI offered more than **10 saveONenergy Conservation and Demand Management (CDM) programs tailored for business and industry** in 2012. The CDM team is made up of industry experts who provide direct assistance to businesses, including: site assessments, energy efficiency measure identification, conceptual designs, identification of suitable vendors, suppliers and installers, incentive applications, inspections, and due diligence. The program portfolio also included a demand response program that compensated four participating Burlington businesses (DR3 Program) for reducing their energy demand at times when the power system was strained and nearing capacity.

95

businesses signed up for **Electricity Retrofit Incentives**

69

businesses participated in the **Small Business Lighting Retrofit program**

Lighting Retrofit Improves **Efficiency**
and Realizes **Savings** for Ippolito Fruit
and Produce

Established in the 1930's and incorporated in 1946, **Ippolito Fruit and Produce's** locations in Burlington, handle bulk and packaged products under the Queen Victoria and Frisco's brands. Two 100,000 square foot facilities, each with state-of-the-art packaging lines, support an extensive line of fresh and packaged produce. The Electricity Retrofit Incentive replaced old, inefficient fluorescent and metal halide lamps in Ippolito's facilities in Burlington with efficient, high performance lighting fixtures.

70

efficient high performance
office lamps installed

227

efficient high performance
high bay lamps installed

237,914 **kWh**

estimated **annual energy savings**. This is
equivalent to powering 20 homes for a year



Pursuing Opportunities through **GridSmartCity®**

GridSmartCity* is a co-operative of utilities, smart grid innovators, industry regulators, government, academia and other electricity industry stakeholders. The 32-partner organizations work collectively to support: research, productivity and efficiency improvements, demonstration/beta projects, the emergence of electric vehicles and charging stations, conservation programming, the adoption of self-healing grids, renewable energy and co-generation, community energy planning and the formation of LDC cooperatives.

Since its inception in 2009, the partnership has sought common ground on a number of industry issues, while continuing to pursue emerging partner opportunities. Specifically, among its ten LDC partners, agreement has been reached to cooperate on business activities by sharing information and knowledge through a cooperative – on regulatory filings, labour relations, conservation planning, reliability advancements, among others.

To learn more about the GridSmartCity partnership and its activities, visit www.gridsmartcity.com.

*Burlington Electricity Services Inc. has been licensed by BHEI to hold the ownership and management rights for the GridSmartCity brand.

Transformative Leadership & Partnerships - **2012 Roundtable**

On November 29, 2012, close to 200 leaders from Ontario's electricity sector gathered in Waterloo, Ontario to participate in a round table discussion focused on enhancing LDC scope and efficiency. Concurrent breakout sessions sparked dialogue on opportunities to increase the scope of LDC businesses and whether the sector was making progress on pursuing a path to regulatory reform. Frank McKenna, Deputy Chair, TD Bank Group and former Canadian Ambassador to the United States, gave a keynote on entrepreneurial spirit in changing times, while inspirational speaker and author, Dr. Lance Secretan, spoke about transformative business leadership.

The Round Table is an annual presentation of GridSmartCity, attracting a broad cross-section of industry leaders who come together to share, debate and implement approaches and initiatives that are helping to shape tomorrow's electricity sector.

New **Time-of-Use Rates** and **E-service** Choices

Burlington Hydro's residential and small business customers* made the transition to Time-of-Use (TOU) pricing in 2012. To coincide with the new pricing regime, BHI also introduced a dynamic new bill format to better assist customers in understanding the breakdown of energy costs and other line items. Colour banded peak periods and pie charts, electric and water usage comparison charts, and helpful information on conservation programming, among other topics, are now featured on customers' bills.

Customers can also sign up for a free and comprehensive website application called the **Time-of-Use Toolkit** that was created to help families better understand and manage their electricity use. It's a tool with a number of exciting features – hourly usage summaries, rate comparisons and an electricity prediction tool, among others. Customers can securely log-on to the Toolkit using any computer with Internet access.

For those customers who want to avoid the hassle of receiving paper bills, Burlington Hydro also offers the **ViewMyBill e-service**. Customers can conveniently view their current and past hydro bills from any web connection by simply signing on to the service.

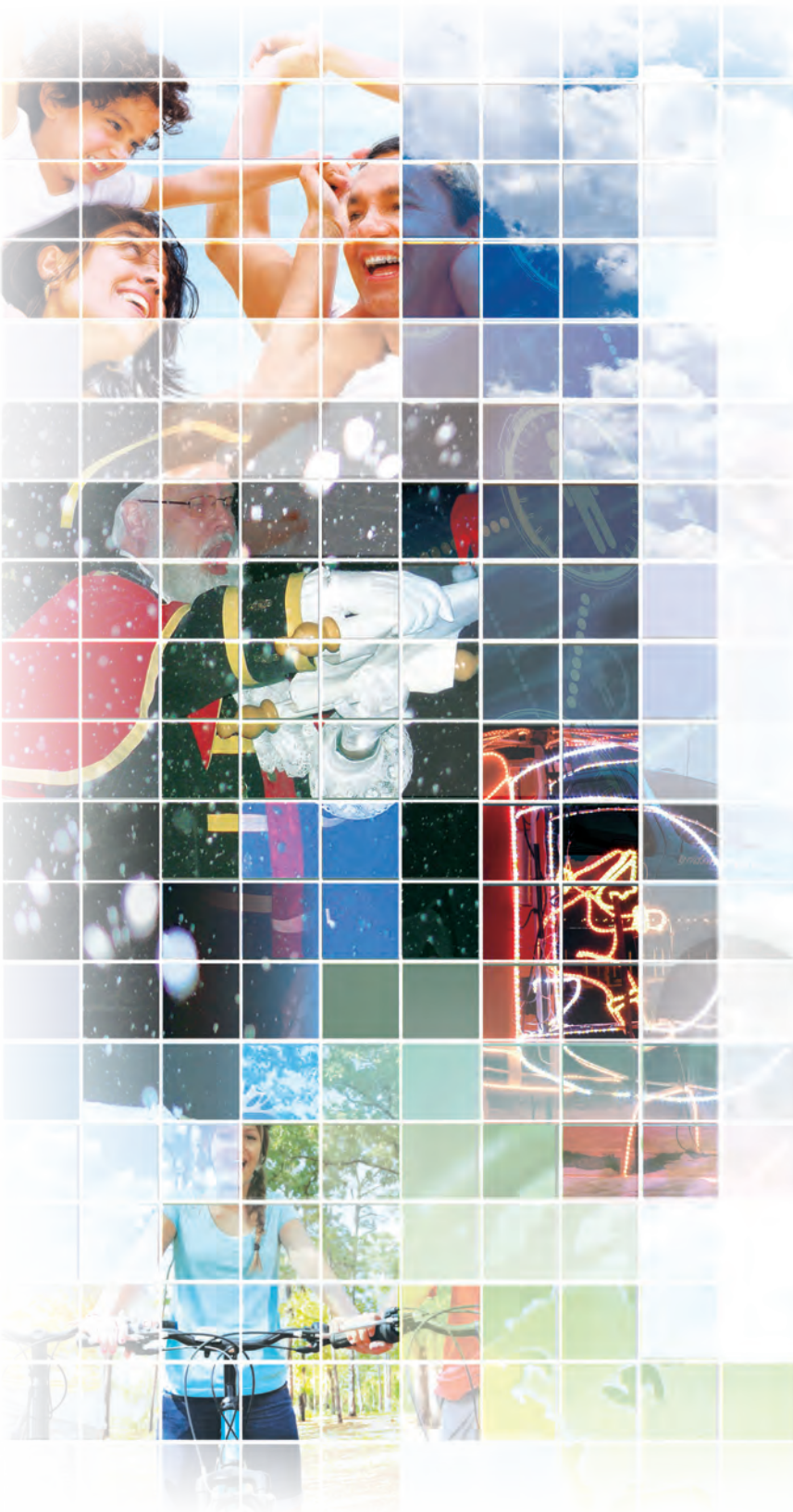
*Except customers who have signed with an electricity retailer and pay a contracted price for their electricity.

11,000
customers are currently using the
TOU Toolkit

8,500
customers can view their bill online with
ViewMyBill

GridSmartCity and e-service





Investing in a **New Generation** of Workers

Burlington Hydro's apprenticeship program has been previously recognized by the Halton Industry Education Council (HIEC) for excellence in promoting skilled trades in the region. BHI continues to build on that reputation and understands the importance of partnering with community college co-op programs in order to provide practical work experience for students who will become our future workforce. Co-op placements in 2012 supported Powerline Technician and Electrical Engineering Technology programs.

Student placements came from Conestoga, Cambrian, and Mohawk College Co-op Programs

Giving Back to the Community

Building on the momentum of its platinum level participation for a decade of outstanding United Way involvement, Burlington Hydro employees continued their giving ways in 2012. In addition to fundraising barbecues, bake sales and silent auctions, employees gave through payroll deduction - contributions that were then matched by the company.

Over \$28,000 was raised in 2012, representing a record high **United Way fundraising** effort by BurlingtonHydro.

Festival of Lights is a **Community Favourite**

Burlington Electricity Services Inc. assumed responsibility for the coordination and operation of Burlington's annual Lakeside Festival of Lights in 2012. Now in its 17th year, the Festival lit up Spencer Smith Park from early December to mid-January and attracted 10s of thousands to Burlington's waterfront. As the main contributor to this popular annual celebration, our volunteer crew assisted with wiring, set-up and removal of displays, as well as marketing and administrative support.

Over **50 holiday lighting displays** helped bring the holiday spirit to the City's waterfront for the **17th Annual Lakeside Festival of Lights**.

investing in our people and putting **health and safety first**

Investing in Our People is an **Investment for Success**

Burlington Hydro recognizes the importance and value of maintaining a highly skilled and engaged workforce, where all employees are customer focused and proud to work for the company. In 2012, BHI launched a new brand strategy to help the company achieve its business objectives while engaging and inspiring employees. It dovetails with BHI's three-year Talent Management Plan that builds on existing programs and focuses efforts on attracting, retaining, and engaging its employees. It all adds up to the company's commitment to be a great place to work, while supporting a customer-centric focus.

Putting **Health and Safety First**

Activities to promote staff health and wellness, and initiatives that encourage teamwork and innovative thinking, contributed to creating a positive and safe workplace in 2012. BHI continues to develop and execute programs that support a preventative approach to safety where employees are empowered, accountabilities are clear and outcomes are tied to measurable performance objectives and goals.

The Infrastructure Health & Safety Association's (IHSA) Paths to Zero Award program recognizes a healthy and safe work environment that is achieved through strict criteria and measurement standards. BHI was audited in 2012 for its Gold (Outcomes) Award, Level II, which was successfully completed in January 2013.

Lifelong **Safety Awareness**

Burlington Hydro is proud of its affiliation with Rob Ellis and his passionate campaign to promote awareness of workplace safety for young people and with employers. In May 2012, the 'Our Youth at Work' tour came to Burlington's Corpus Christi Catholic Secondary School. As corporate sponsors, our senior executives interacted directly with students at the event. Mr. Ellis' unique approach of bringing students, parents, educators and corporate executives together to talk about workplace safety has impacted more than five million people across North America.

4,000 elementary school children in Burlington were recipients of **electrical safety** presentations in 2012.

Award Winning **Safety Leadership**

The annual Ontario Electrical Safety Awards recognize and celebrate leadership and achievement in the promotion of electrical safety in Ontario. Burlington Hydro was recognized by the Electrical Safety Authority (ESA) in 2012 for its significant contribution in advancing public and workplace electrical safety awareness with the Powerline Safety Award.



677 customers served per BHI employee (one of the highest ratios in Ontario)

trusted

68,839

calls handled by customer service

caring

Burlington Hydro continues to **rank among the best managed and operated local utilities in Ontario**. It is a reputation that we have earned and one that we take great pride in preserving as we look to the future.

innovative

Burlington Hydro exceeded **Ontario Energy Board Standards for Customer Service** in 2012.

friendly

8,532 written customer inquiries responded to

Eliminating Paper Waste

Over 90 per cent, or approximately **60,000 customers**, are no longer returning their bill payments through the regular mail service. In 2012, BHI identified which customers were no longer using the return envelope traditionally included in customer bills and stopped including them. The removal of the return envelopes is not only helping to eliminate waste paper, but in some small way, helping our environment – it's also saving the utility approximately \$6,000 annually in handling costs.



Burlington **hydroelectric** inc.

Shareholder Report 2012 Financial Performance

BHEI has made dividend payments to our shareholder, the City of Burlington for 12 consecutive years. Since 2001, total cash funds provided to our shareholder, represented by dividend and interest payments, have exceeded \$79 million.

Net **Income**

Burlington Hydro continues to deliver strong and sustainable returns for our shareholder, the City of Burlington. Net income from operations in 2012 was \$7 million, exceeding budget and representing another strong performance for the company.

\$7 million

Burlington Hydro's (BHEI) net income

10%

return on equity

\$4.8 million

combined interest and dividends to the city

Dividends and Interest

We are proud of our track record of returning value to our shareholder through annual dividends. In 2012, the City of Burlington received \$2 million in dividends from Burlington Hydro Electric Inc. and interest revenue from Burlington Hydro Inc. of \$2.8 million for a total return of \$4.8 million.

Looking to the **Future**

Burlington Hydro is in a strong financial position as we look ahead to fiscal 2013. Our priorities remain the same: continue to invest in infrastructure to meet our customers' needs, focus on driving operational excellence, and maintain a strong financial base to guide long-term customer and shareholder value.

While 2013 will see industry and economic challenges, Burlington Hydro is well positioned to continue to deliver value to our customers and to our shareholder. With long-term funding having been completed for our new Transformer Station, we are entering 2013 with strong liquidity and a balance sheet that will enable the corporation to continue to meet the needs of Burlington's growing community.

Financial Report

Annual Review

rt



Independent *Auditors' Report*

Report of the Independent Auditors on the Summary Consolidated Financial Statements.

To the *Shareholder*:

The accompanying summary consolidated financial statements of Burlington Hydro Electric Inc. which comprise the summary consolidated balance sheet as at December 31, 2012, the summary consolidated statements of earnings and retained earnings and cash flows for the year then ended are derived from the audited consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, of Burlington Hydro Electric Inc. as atand for the year ended December 31, 2012.

We expressed an unmodified audit opinion on those financial statements in our report dated March 28, 2013.

The summary consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles applied in the preparation of the audited consolidated financial statements of Burlington Hydro Electric Inc. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Burlington Hydro Electric Inc.

Management's Responsibility for the *Summary Consolidated Financial Statements*

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with Canadian generally accepted accounting principles.

Auditors' *Responsibility*

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Burlington Hydro Electric Inc. as at and for the year ended December 31, 2012 are a fair summary of those consolidated financial statements, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
March 28, 2013
Hamilton, Canada



Burlington**hydroelectric**_{inc.}

Consolidated *Balance Sheet*

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and temporary investments	\$ 13,684,422	\$ 15,607,192
Securities held as customers' deposits	2,989,191	3,194,263
Accounts receivable	15,800,226	16,272,928
Unbilled revenue	21,348,702	20,474,503
Payment in lieu of taxes receivable	248,292	756,810
Inventories	2,025,607	1,904,397
Work orders in progress	405,570	209,783
Prepaid expenses	494,623	374,923
	56,996,633	58,794,799
Property, plant and equipment	92,986,734	83,287,182
Intangible assets	8,870,566	2,793,927
Other assets	-	4,209,173
Future payment in lieu of taxes	5,068,235	5,030,657
	\$ 163,922,168	\$ 154,115,738
Liabilities and Shareholder's Equity		
Current liabilities:		
Ontario infrastructure loans	\$ 6,516,522	\$ 493,786
Accounts payable and accrued liabilities	14,987,938	21,842,554
Customers' deposits	2,989,191	3,194,263
Work order deposits	2,551,761	1,647,669
Deferred revenue	1,471,381	1,101,270
Other current liabilities	2,160,824	1,903,808
	30,677,617	30,183,350
Other liabilities	4,655,200	-
Note payable	47,878,608	47,878,608
Ontario infrastructure loans	8,633,669	9,150,191
Liability for future benefits	3,352,255	3,172,353
Shareholder's equity:		
Capital stock	45,639,338	45,639,338
Retained earnings	22,209,253	17,215,670
Paid in capital	876,228	876,228
	68,724,819	63,731,236
	\$ 163,922,168	\$ 154,115,738

Consolidated Statement of *Earnings and Retained Earnings*

Year ended December 31, 2012, with comparative figures for 2011

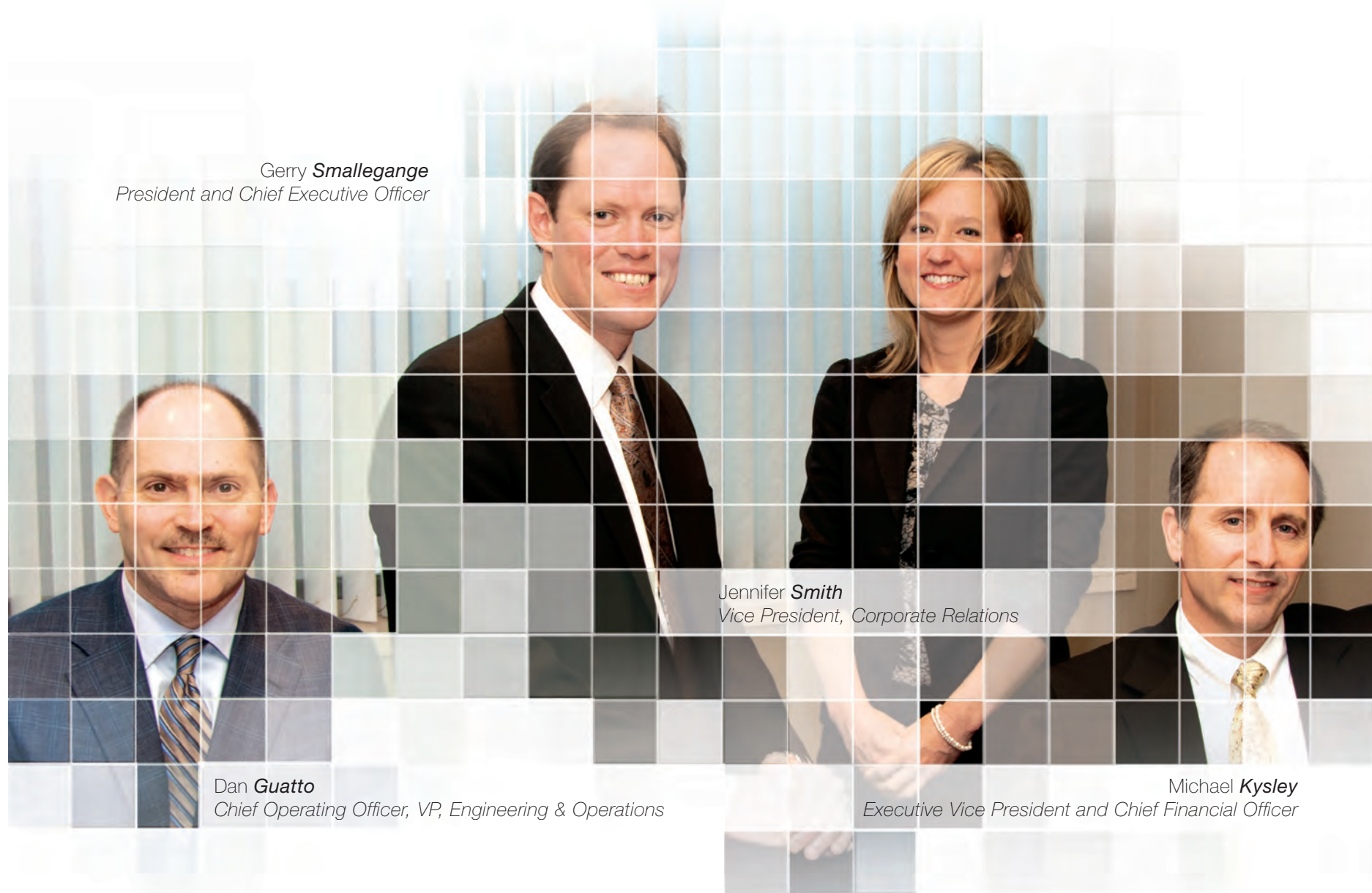
	2012	2011
Revenue	\$ 192,628,707	\$ 181,805,119
Cost of sales	159,643,386	151,129,220
	32,985,321	30,675,899
Other operating revenue	2,148,250	2,250,424
Smart meters disposition	986,301	-
	36,119,872	32,926,323
Expenses		
Operations and maintenance	7,458,580	7,187,609
Billing and collection	2,555,368	2,287,503
General administration	6,636,297	6,360,209
Depreciation and amortization	7,199,316	6,429,414
	23,849,561	22,264,735
Earnings before interest expense and payment in lieu of taxes	12,270,311	10,661,588
Interest expense	3,346,710	3,330,350
Earnings before payment in lieu of taxes	8,923,601	7,331,238
Payment in lieu of taxes:		
Current	1,504,087	1,812,649
Future	425,931	(223,312)
	1,930,018	1,589,337
Net earnings	6,993,583	5,741,901
Retained earnings, beginning of year	17,215,670	14,523,769
Dividends paid	(2,000,000)	(3,050,000)
Retained earnings, end of year	\$ 22,209,253	\$ 17,215,670

Consolidated Statement of *Cash Flows*

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations	\$ 9,669,109	\$ 11,389,149
Financing:		
Repayment of Ontario infrastructure loans	(493,786)	(356,023)
Ontario infrastructure loans issued	6,000,000	2,500,000
Securities held as customers' deposits	205,072	(148,915)
Customers' deposits	(205,072)	133,318
Dividends paid	(2,000,000)	(3,050,000)
Contributions and grants	1,890,942	1,091,247
	5,397,156	169,627
Investments:		
Purchase of intangible assets	(6,273,157)	(1,474,487)
Purchases of property, plant and equipment	(9,862,333)	(9,041,747)
Purchase of contributed capital	(1,290,568)	(455,191)
Proceeds on sale of property, plant and equipment	8,441	5,400
Other assets/liabilities	428,582	532,847
	(16,989,035)	(10,433,178)
Increase (decrease) in cash and temporary investments	(1,922,770)	1,125,598
Cash and temporary investments, beginning of year	15,607,192	14,481,594
Cash and temporary investments, end of year	\$ 13,684,422	\$ 15,607,192

statement of earnings and *cash flows*



Gerry **Smallegange**
President and Chief Executive Officer

Jennifer **Smith**
Vice President, Corporate Relations

Dan **Guatto**
Chief Operating Officer, VP, Engineering & Operations

Michael **Kysley**
Executive Vice President and Chief Financial Officer

Committed Leadership - The Executive Team

Burlington Hydro Electric's talented and dedicated executive team is committed to promoting the company's core business strengths, with a focus on corporate responsibility and sustainability.



Charles **Keizer**, Chair



Darla **Youldon**



Don **Dalicandro**



Jeff **Fielding**



John **Maheu**



Mayor Rick **Goldring**



Phil **Nanavati**

Clarity of Vision 2012 Board of Directors

The Board of Directors provides vision and experienced counsel to ensure the success of BHEI, bringing value to our shareholder and the community at large.

Burlington Hydro Electric Inc.
1340 Brant Street
Burlington, Ontario · L7R 3Z7
t: 905-332-1851 f: 905-332-8384
www.burlingtonhydro.com
www.gridsmartcity.com



Exhibit 1: Administrative Documents

Tab 4 (of 5): Materiality Threshold

1

MATERIALITY THRESHOLD

2 The Minimum Filing Requirements state that a distributor with a distribution revenue
3 requirement greater than \$10 million and less than or equal to \$200 million must use
4 0.5% of distribution revenue requirement in order to determine its materiality threshold.
5 With a proposed base revenue requirement of \$29M, Burlington Hydro has calculated its
6 materiality threshold to be in the amount of \$150,000.

7

Exhibit 1: Administrative Documents

Tab 5 (of 5): Administration

LEGAL APPLICATION

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

AND IN THE MATTER OF an Application by
Burlington Hydro Inc. to the Ontario Energy Board
for an Order or Orders approving or fixing just and
reasonable rates and other charges for the
distribution of electricity as of May 1, 2014.

Introduction

1. Burlington Hydro Inc. (the “Applicant” or “Burlington Hydro”) is a corporation incorporated pursuant to the Ontario Business Corporations Act with its head office in the City of Burlington, Ontario.
2. Burlington Hydro carries on the business of distributing electricity to approximately 66,000 customers within the City of Burlington pursuant to electricity distribution license ED-2003-0004.
3. On December 11, 2012, the Board issued a letter identifying the list of distributors that are scheduled to file a cost of service application in respect of their 2014 rates under the 4th Generation Incentive Rate-setting method. Burlington Hydro was identified in Appendix A of that letter, and is applying on a cost of service basis.
4. Burlington Hydro has prepared this Application in accordance with the filing requirements issued by the Board as *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications* and updated on July 17, 2013.

1

2 **Relief Sought**

3 5. Burlington Hydro hereby applies to the Ontario Energy Board (the “OEB”)
4 pursuant to Section 78 of the Ontario Energy Board Act, 1998 (the “OEB Act”) for
5 approval of its proposed distribution rates and other charges set out at Exhibit 1
6 Tab 5 Schedule 3 of the pre-filed evidence.

7 6. Specifically, Burlington Hydro hereby applies for an order or orders granting
8 approval of:

9 a. its forecasted 2014 distribution revenue requirement of \$28,856,594;

10 b. the proposed distribution rates attached (and set out at Exhibit 8, Tab 4,
11 Schedule 4) to allow the Applicant to recover its forecasted 2014
12 distribution revenue requirement, effective May 1, 2014;

13 c. the Applicant’s current distribution rates becoming interim commencing
14 May 1, 2014 until its proposed distribution rates are implemented;

15 d. the further approvals set out at Exhibit 1, Tab 5, Schedule 3.

16 7. Based on current distribution rates and forecasted load, the Applicant forecasts a
17 gross 2014 revenue sufficiency of \$717,401.

18 8. The 2014 distribution rates proposed by the Applicant will result in overall bill
19 impacts as follows:

20

Table 1-12: Proposed Bill Impacts

Customer Class	Volume		RPP Rate Class	Monthly Total Bill	
	kWh	kW		\$ change	% change
Residential	800		Winter	-\$3.06	-2.81%
GS < 50 kW	1,500		Non-res	\$6.56	3.18%
GS 50 to 4,999 kW		100	Non-res	\$11.41	1.23%
USL	2000		Non-res	\$-20.00	-7.72%
Street Lighting		0.22	n/a	\$0.08	3.25%

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

10. Burlington Hydro requests that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

11. Burlington Hydro hereby certifies that the application has been reviewed and approved by the CEO and executive team and certifies that the information and evidence presented herein is accurate to the best of the Applicant's knowledge.

12. Burlington Hydro requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant and the Applicant's counsel, as follows:

Kathi Farmer
 Manager, Regulatory Affairs
 Burlington Hydro Inc.
 1340 Brant Street
 Burlington, ON L7R 3Z7
 Tel: 905.332.1851 extension 284
 Email: kfarmer@burlingtonhydro.com

1 Counsel for Burlington Hydro:
2 Mr. Andrew Taylor and Mr. Michael Buonaguro
3 The Energy Boutique
4
5 120 Adelaide Street West
6 Suite 2500
7 Toronto, ON M5H 1T1
8 Tel: 416-644-1568
9 Fax: 416-367-1954
10 Email: ataylor@energyboutique.ca
11 mrb@mrb-law.com
12

13 DATED at the City of Burlington on October 1, 2013.

14

STATEMENT OF PUBLICATION

Upon receiving the Letter of Direction and the Notice of Application and Written Hearing from the Board, Burlington Hydro will immediately arrange to have the Notice of Application and Hearing for this proceeding published in;

- the Hamilton Spectator being the newspaper which has the highest paid circulation in Burlington Hydro's service area (specifically, an estimated readership of 364,000 and an estimated daily circulation of 103,000); and
- the Burlington Post being the local community not-paid-for newspaper which has the highest circulation in Burlington Hydro's service area (specifically, an estimated readership of 140,000 and an estimated circulation 63,000).

Burlington Hydro will also post the Notice of Application on its website and will have paper copies available at its office for customers to review.

Once the Notice of Application and Written Hearing has been published in the above listed newspapers, Burlington Hydro will immediately file an Affidavit of Publication with proof of publication.

Burlington Hydro will also post the Application on its internet site at: <http://www.burlingtonhydro.com>.

OVERVIEW OF APPLICATION AND LIST OF APPROVAL REQUESTED

In preparing this Application, Burlington Hydro has considered the impact on its customers, with the goal of minimizing those impacts. Customer impacts including percentage average Total Bill Impact are set out at Exhibit 8 Tab 4 Schedule 4. Embedded in this monthly bill impact is the effect of revised distribution rates (monthly service charge and volumetric rate), revised Loss Factors, Stranded Meter Rate Rider and Deferral and Variance.

The current rates will result in a Return on Equity in 2014 greater than the level currently allowed by the OEB. The decrease in rates is required to:

1. Maintain current capital investment levels in infrastructure to ensure a safe, reliable distribution system.
2. Manage human and financial resources at a level which will ensure regulatory compliance, ESA compliance, promote conservation programs and effectively support its customer's needs.
3. Ensure that the utility is able to accommodate new connections and that new assets related to the new development are included in the utility's rate base.
4. Earn the OEB prescribed rate of return.
5. Ensure the continued financial viability of the company.

In this proceeding, Burlington Hydro is seeking the following approvals:

- Approval to charge rates effective May 1, 2014 to recover a base revenue requirement of \$29,376,549, as set out in Exhibit 6.
- Approval of proposed rates as set out in Exhibit 8.
- Approval of the proposed capital structure, with a deemed common equity component of 40% and a deemed debt component of 60%, as set out in Exhibit 5 consistent with the Report of the Board on Cost of Capital and 2nd

1 Generation Incentive Regulation for Ontario's Electricity Distributors dated
2 December 20, 2006.

- 3 • Approval of the previously authorized Specific Service Charges.
- 4 • Approval of the proposed loss factor of 1.04 as set out in Exhibit 8.
- 5 • Approval to continue to charge Rural Rate Protection Charges and Wholesale
- 6 Market Service rate as set out in Exhibit 8.
- 7 • Approval of the Retail Transmission – Network Service and Retail
- 8 Transmission – Connection rates, in accordance with the Guideline for
- 9 Electricity Distribution Retail Transmission Service (G-2008-0001), Revision
- 10 1.0 issued July 22, 2009 and models issued July 7, 2011.
- 11 • Approval of the proposed rate riders set out at Exhibit 9.

12
13 Burlington Hydro is in a credit position as far as its Deferral and Variance Accounts is
14 concerned. Burlington Hydro is requesting the disposition of the amounts specified in
15 Exhibit 9 over a two year period, via a rate rider, allocated to all classes. Burlington
16 Hydro is also requesting a Stranded Meter Rate Rider over a two year period to recover
17 the stranded meter assets as a result of the implementation of the smart metering
18 infrastructure. Burlington Hydro has included the Smart Meter Entity charge of 0.79 per
19 customer per month to recover the costs of the IESO relating to the smart meter
20 infrastructure.

- 21
22 • Approval to dispose of Deferral and Variance Account balances as at
- 23 December 31, 2012 with interest to December 31, 2013, over a two-year
- 24 period using the method of recovery described in Exhibit 9.
- 25 • Approval to dispose of the 1589-RSVA/Power variance account, sub-account
- 26 Global Adjustment, by way of a distinct rate rider charged to customers not
- 27 subject to the Regulated Price Plan, as calculated in Exhibit 9.
- 28 • Approval to use the Board Approved 1595 account – Disposition and
- 29 Recovery of Regulatory Balances and sub-accounts to record the disposition
- 30 and recoveries of Deferral and Variance account balances.

- 1 • Approval of transfer of Smart Meter related capital expenses to Rate Base.
- 2 Further information can be found at Exhibit 2.
- 3 • Approval to transfer Smart Meter related operating expenses to the utility's
- 4 test year OM&A. Further information can be found at Exhibit 4.
- 5
- 6 Burlington Hydro has followed OEB rate making and accounting policy and is proposing
- 7 that its distribution rates be decreased. For these reasons Burlington Hydro proposes
- 8 that the Application be dealt with by way of written hearing.

OPERATING ENVIRONMENT

Serving over 65,000 residential and commercial customers, Burlington Hydro is committed to delivering safe, efficient and reliable electricity on an ongoing basis to the inhabitants of the City of Burlington. Burlington Hydro operates under distribution licence ED-2000. The boundaries of the licenced service area are:

West:

- Hwy. #6 (North Shore to Old York Rd.)
- Snake Rd. (Old York Rd. to Main St. S.)
- Mountainbrow Rd. to Kerns Rd.
- Kerns Rd. / Parkside Dr. / MillboroughTownline (Mountainbrow Rd. to Derry Rd.)

North:

- Plains Rd to Snake Rd to Mountainbrow Rd to King Rd ending at Kerns Rd.
- Derry Rd. (MillboroughTownline to Bell School Line)
- #1 Side Road (Bell School Line to Tremaine Rd.)

East:

- Bell School Line (Derry Rd. to #1 Side Road)
- Tremaine Rd. / Burloak Dr. (#1 Side Rd. to Lakeshore Rd.)

South:

- The shore of Lake Ontario

The utility's total service area is 188 square km, of which 90 square km are rural and the remainder is urban. Geographically, Burlington is located in Halton Region between the north shore of Lake Ontario and the Niagara Escarpment. Economically, Burlington is located near the geographic center of the Golden Horseshoe, a densely populated and industrialized region home to over 1 million people.

1 Burlington Hydro's strategic focus is to achieve excellence and continuous improvement
2 across all aspects of its business including: community and employee safety; responsive
3 customer service; operational efficiency and reliability; responsible long term planning;
4 and conservation programs. The company is committed to deploying and maintaining
5 assets capable of serving over the long term. This outcome is achieved through the
6 prudent deployment of technology, responsible financial management, and system
7 renewal and innovation to assure the availability of electricity supply to meet customer
8 needs and growth. Burlington Hydro receives power from 5 Transmission stations
9 owned by HONI that is stepped down to delivery voltages at Burlington Hydro's 32
10 substations. Burlington Hydro owns and is responsible for the maintenance of 1,000km
11 of overhead lines and over 700km of underground lines. A schematic diagram of
12 Burlington Hydro's distribution system presented as an attachment to this schedule.

13 Burlington Hydro does not own or operate assets that operate at voltages greater than
14 50kV. The OEB has not previously deemed a distribution asset owned and operated by
15 Burlington Hydro as a transmission asset. Furthermore, Burlington Hydro is not seeking
16 an Order of the Board that will deem transmission assets to be distribution assets.

17 Burlington Hydro's neighboring electricity distribution utilities are:

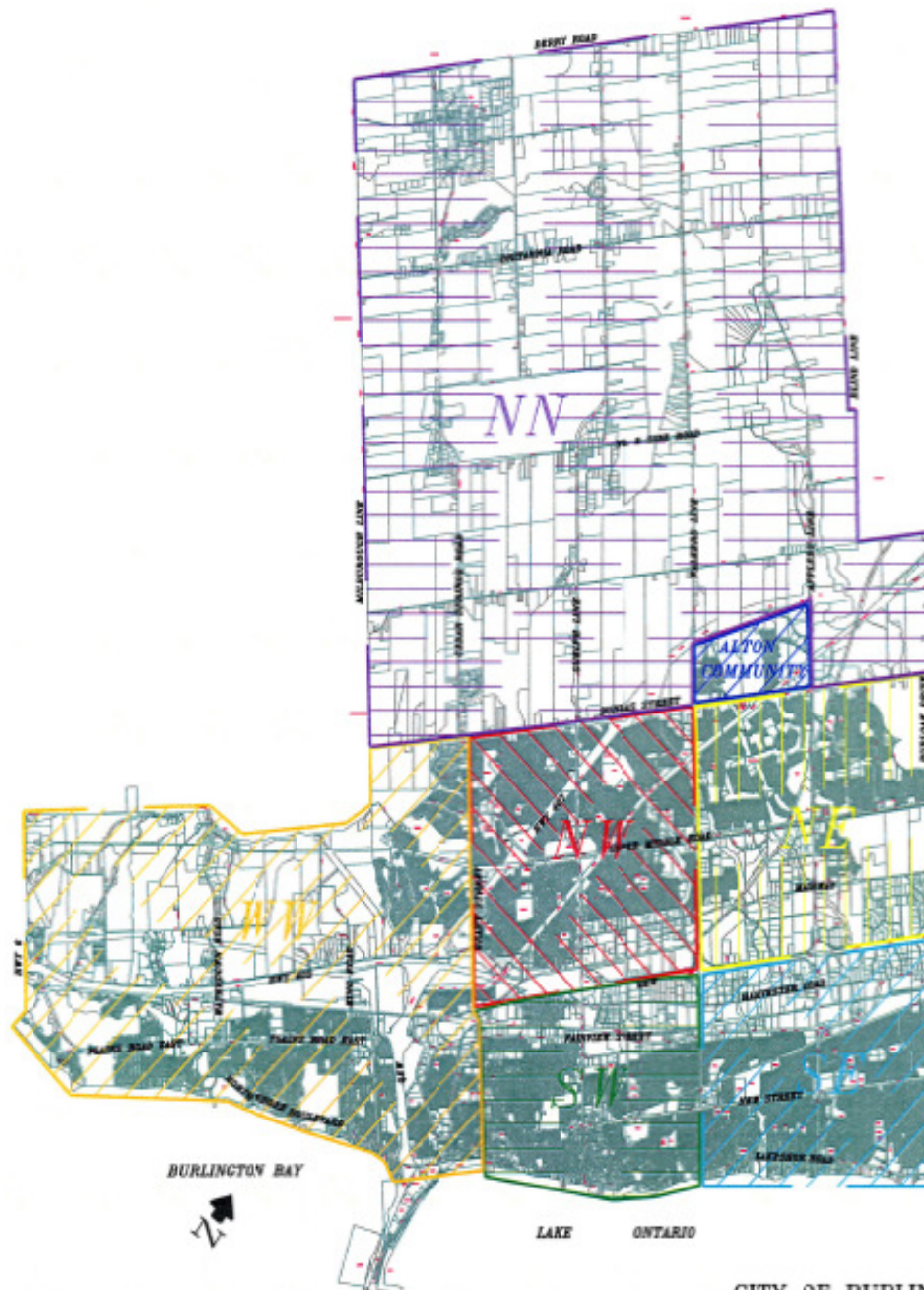
- 18
- 19 • Horizon Utilities to the West;
 - 20 • Milton Hydro to the North;
 - 21 • Hydro One Networks to the Northeast; and
 - 22 • Oakville Hydro to the East.
 - 23 •

24 A map of Burlington Hydro's licenced service area is presented at the next page.

25 There are no embedded utilities within Burlington Hydro's distribution service territory
26 and Burlington Hydro is not a host utility to other distributors.

27

RESIDENTIAL SERVICE AREAS



CORPORATE ORGANIZATION

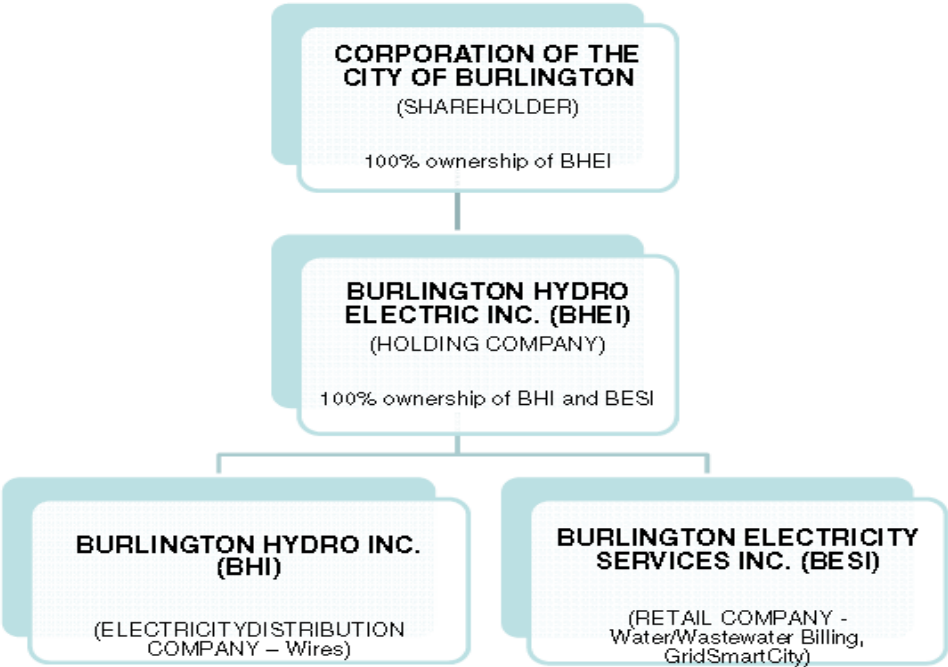
As shown in the Corporate Entities Relationship Chart at Exhibit 1, Tab 1 Schedule 7, the Burlington Hydro family of companies is 100% owned by the Corporation of the City of Burlington (the "Shareholder"). Burlington Hydro Electric Inc. ("BHEI" or the "Holding Company") retains ownership on behalf of the Shareholder of two subsidiary companies: Burlington Hydro Inc. ("Burlington Hydro" which is the distribution or wires company) and Burlington Electricity Services Inc. ("BESI") which is the services company and owner of the GridSmartCity entity). GridSmartCity is an association which brings together a wide range of stakeholders from local LDCs, industry and government to work together to promote the growth of smart grids and green renewable energy.

Burlington Hydro manages all aspects of the electricity distribution business and is regulated by the OEB. BESI is a non-regulated company and engages in those aspects of BHEI's business which are not regulated. Pursuant to a Service Agreement [reference] Burlington Hydro provides water/waste water billing services to BESI. BESI provides Burlington Hydro (and the other members of GridSmartCity) with information on the implementation of smart grid technologies.

The Corporate Entities Chart is presented at the next page.

1

Table 1- 13:Corporate Entities Chart



2

3

UTILITY ORGANIZATION

Burlington Hydro Inc. ("Burlington Hydro") has a staff of approximately 100 persons. Reporting directly to the Burlington Hydro President and Chief Executive Office – who in turn reports to the Burlington Hydro Board of Directors – are three senior managers:

- Executive Vice President and Chief Financial Officer,
- Vice President Engineering and Operations, and
- Vice President Corporate Relations.

The above relationships are shown in the Utility Organization Chart presented at the next page. The Executive Vice President and Chief Financial Officer is responsible for all internal and external financial activities of the company including liaison with banks and other financial institutions; ensuring appropriate capitalization and liquidity for the company; providing financial reports to the Board of Directors, Shareholder and the senior management team; guiding the development of budgets and tracking the company's progress towards achieving approved financial targets; metering, information systems and customer billing; liaison with regulatory bodies including the OEB and legal counsel; purchasing and stores; and conservation and demand management; safeguarding company assets through insurance risk management and internal control procedures.

The Vice President Engineering and Operations is responsible for designing and planning Burlington Hydro's distribution system; piloting smart grid and other emerging distribution technologies; ensuring that employees and public remain safe when interfacing with the distribution system; ensuring the reliable operation – including maintenance and repair – of the distribution system; and ensuring that customer requests for electricity service are provided promptly and according to code.

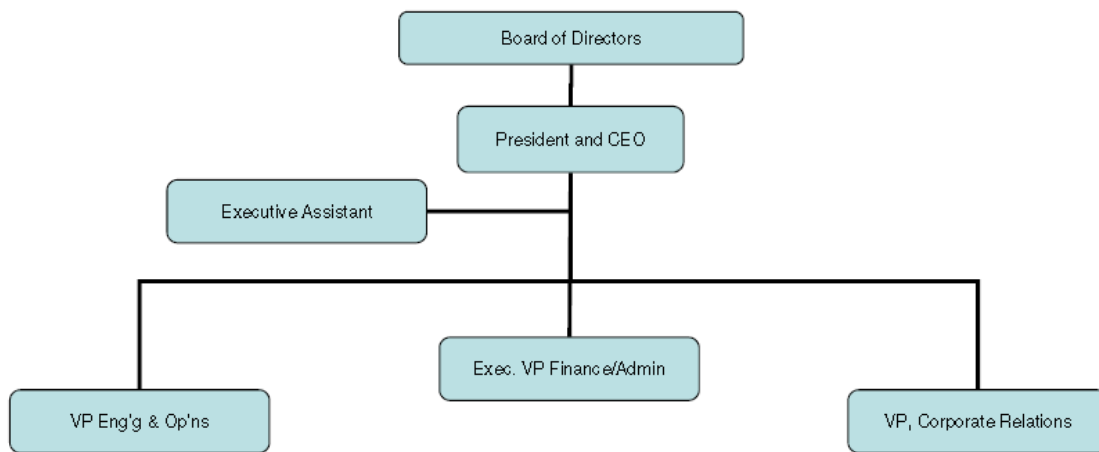
The Vice President Corporate Relations is responsible for external communications with customers, public and media; providing a single point of contact for customer enquiries, providing human resources support including salary and benefit services; maintaining effective communications throughout the company; and ensuring that operations and

1 office staff have access to the highest quality information and training to allow them to
2 perform their work safely and efficiently.

3

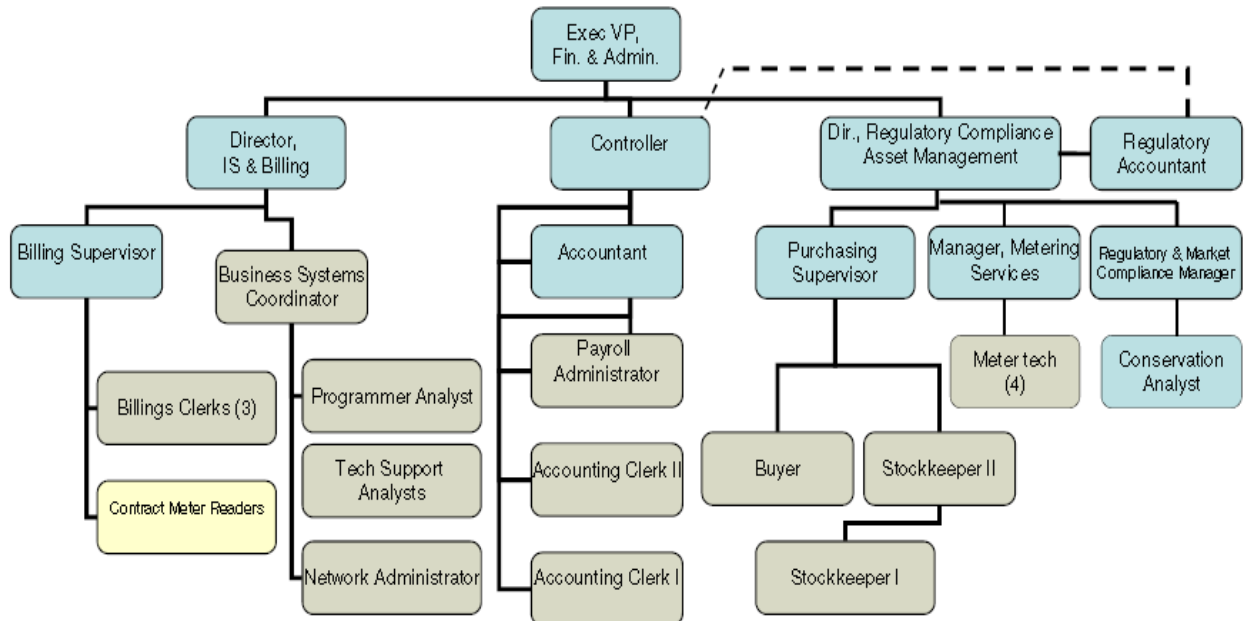
4 Burlington Hydro's Corporate Organizational Chart is presented below.

5 **Table 1-14: Corporate Organizational Chart**



6

Table 1-15: Corporate Organizational Chart – Engineer and Operations



PLANNED CHANGES TO THE ORGANIZATIONAL STRUCTURE

No changes to Burlington Hydro's corporate and operational structures are planned at the present time. Burlington Hydro will continue to monitor developments in the industry as it relates to Smart Grid and Green Energy to determine whether it needs to adjust its structure accordingly.

1

CORPORATE GOVERNANCE

2 Burlington Hydro has filed its August 2013 internal report on governance as Exhibit 1,
3 Tab 5, Schedule 6, Attachment 1.

4

Attachment 1 (of 1):

Corporate Governance Annual Report

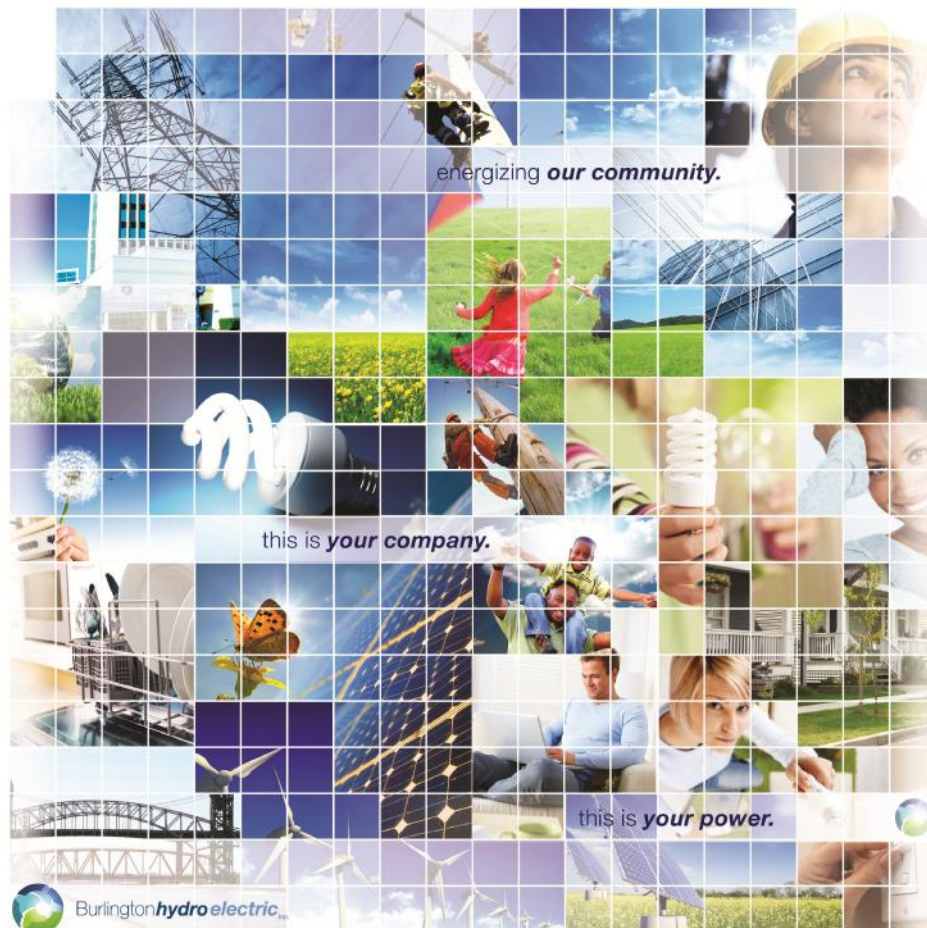
BURLINGTON HYDRO ELECTRIC INC.

BOARD OF DIRECTORS POLICIES



Burlington **hydroelectric** inc.

OCTOBER 2013



Contents

MISSION STATEMENT	6
BOARD CORPORATE VALUES STATEMENT.....	7
BOARD ACCOUNTABILITY STATEMENT.....	8
1.0 BOARD MEMBER COMPENSATION POLICY.....	9
1.1 GENERAL PURPOSE AND SCOPE.....	9
1.2 COMPENSATION.....	9
2.0 DIRECTORS AND COMMITTEES OF THE BOARD POLICY	11
2.1 GENERAL PURPOSE AND SCOPE.....	11
2.2 ROLE OF DIRECTORS.....	11
2.3 ROLE OF THE BOARD CHAIR	12
2.4 COMMITTEES	13
2.5 ASSIGNMENT AND ROTATION OF COMMITTEE MEMBERS	14
2.6 COMMITTEE TERMS OF REFERENCE	14
a) Governance and Audit Committee	14
b) Budget Committee.....	18
c) Human Resources and Compensation Committee.....	19
d) Communications Committee	20
e) Nominations Committee.....	20
2.7 COMMUNICATONS WITH SHAREHOLDER.....	21
3.0 DIRECTORS CODE OF CONDUCT POLICY	22
3.1 GENERAL PURPOSE AND SCOPE.....	22
3.2 CODE OF CONDUCT	22
3.3 DUTY TO DISCLOSE	23
3.4 DIRECTOR’S ANNUAL COMPLIANCE STATEMENT	24
4.0 DIRECTOR EDUCATION POLICY	25
4.1 GENERAL PURPOSE AND SCOPE.....	25
4.2 EDUCATION	25

5.0 DIRECTOR'S REMOVAL POLICY	27
5.1 GENERAL PURPOSE AND SCOPE	27
5.2 REMOVAL	27
6.0 BOARD MEMBER EXPENSE REIMBURSEMENT POLICY	29
6.1 GENERAL PURPOSE AND SCOPE	29
6.2 REIMBURSEMENT	29
6.2.1 General	29
6.2.2 Continuing Education	30
6.2.3 Other	30
.....	31
7.0 ENTERPRISE RISK MANAGEMENT POLICY	31
Role and Responsibilities of the Board	31
8.0 POLITICAL DONATIONS POLICY	32
Corporate Political Donations	32
Individual Political Donations	32
9.0 IN CAMERA MEETINGS POLICY	33
8.1 GENERAL PURPOSE AND SCOPE	33
8.2 IN CAMERA MEETINGS	33
9.1 GENERAL PURPOSE AND SCOPE	33
9.2 IN CAMERA MEETINGS	33
10.0 MEETINGS POLICY	34
10.1 GENERAL PURPOSE AND SCOPE	34
10.2 ATTENDANCE AND PARTICIPATION	34
A. General	34
B. Participation at Meetings	35
C. Electronic Voting	35
Procedure	35
10.3 PERSONS ENTITLED TO ATTEND BOARD MEETINGS	35
10.4 ADJOURNMENT OF BOARD MEETINGS	35
10.5 RULES OF ORDER	36
10.6 MINUTES OF BOARD MEETINGS	36

11.0 NEW DIRECTOR ORIENTATION POLICY	37
11.1 GENERAL PURPOSE AND SCOPE.....	37
11.2 ORIENTATION	37
12.0 ENGAGING INDEPENDENT ADVISORS FOR BOARD MATTERS	39
11.0 13.0 MANAGEMENT STAFF COMPENSATION PHILOSOPHY	40
AND CEO COMPENSATION.....	40
13.1 PAY FOR PERFORMANCE PHILOSOPHY	40
13.2 OBJECTIVES.....	40
13.3 PRINCIPLES	41
13.4 BOARD PRESIDENT / CEO COMPENSATION	42
12.0 14.0 CEO/MANAGEMENT AUTHORITY LIMITS POLICY	43
.....	43
14.1 EXECUTIVE LIMITATIONS.....	43
14.2 BOARD-PRESIDENT RELATIONSHIP	44
14.3 MATTERS REQUIRING BOARD REVIEW AND APPROVAL.....	44
A) MATTERS REQUIRING SHAREHOLDER CONSENT	44
B) BUDGET AND BUSINESS PLAN DOCUMENTATION	44
C) RISK MANAGMENT.....	44
D) COMPENSATION AND HUMAN RESOURCES.....	45
E) FINANCIAL REPORTING REQUIREMENTS	45
A – SUPPLEMENTAL NOTES - MISCELLENIOUS BOARD GOVERNANCE INFORMATION.....	47
1. BOARD OF DIRECTORS OF THE BURLINGTON HYDRO ELECTRIC GROUP OF COMPANIES	47
2. BOARD OF DIRECTORS REGISTER.....	48
3. BHEI STANDING COMMITTEES.....	48
4. 2013 BOARD MEETING SCHEDULE.....	49
5. 2014 PROPOSED BOARD MEETING SCHEDULE	50
6. BHEI BUSINESS PLAN PROCESS FOR 2013.....	51

MISSION STATEMENT

The mission of Burlington Hydro Electric Inc., its subsidiaries and affiliates, is:

- To safely and efficiently deliver reliable electrical energy to customers in the City of Burlington in an environmentally sustainable manner.
- To provide a safe and rewarding environment for employees.
- To conduct our business in accordance with our corporate values.
- To ensure that future supply of electrical energy is available to meet the growing needs of our customers in the City of Burlington.
- To build shareholder value.
- To be a community partner.

BOARD CORPORATE VALUES STATEMENT

In pursuit of our mission, Burlington Hydro Electric Inc., its subsidiaries and affiliates (the "Company"), holds certain core values:

1. The Company Cares for People

- We provide a safe, healthy and fulfilling work environment for our employees, with fair remuneration, fair management and opportunities for learning and professional development.
- We value our relationships with our customers and work to win their trust and support.
- We interact with customers, employees, the public, and our business partners with integrity and respect, and at all times act in a responsible and professional manner.

2. The Company Cares for the Community

- We are good corporate citizens and take pride in making significant contributions to community programs in which we can add value such as fundraising, energy conservation projects, business development activities, school safety programs, clean air initiatives, crime prevention programs, and other community giving such as blood donor clinics.
- We value the communities we serve and the environment in which we operate, managing environmental risks to eliminate or minimize adverse impacts associated with our businesses.

3. The Company Cares about Stewardship

- We value the long term health and sustainability of the Company.
- We will assure availability of a future electricity supply to meet customer needs and growth.

4. The Company Cares about Performance

- We value a fully integrated business model: we deliver superior products to our customers in a safe and efficient manner, striving for excellence and continuous improvement in all aspects of our business.

5. The Company Cares about Shareholder Value

- We create sustainable value for our shareholder by understanding and addressing customer needs, focusing on and promoting core business strengths, and pursuing appropriate business opportunities.

BOARD ACCOUNTABILITY STATEMENT

1. General Accountability:

- The Board's primary duty is to supervise the management of the business and affairs of Burlington Hydro Electric Inc. (the "Company"), its subsidiaries and affiliates.
- The Board's oversight relationship with management and accountability to shareholder(s) is to be guided by the Company's Statement of Mission, Vision and Values.
- Directors are expected to work with their fellow Directors to fulfill the mandates of the Board and the Committees of the Board.

2. Specific Accountabilities

- Each Director is expected to be familiar with the Shareholder Direction, the By-laws of the Company, its subsidiaries and affiliates, Board Policies, the mandates of the Board and the mandates of the Committees of the Board on which the Director serves.
- Each Director will be well-informed on the business and affairs of the Company, its subsidiaries and affiliates, and on the economic, regulatory and community environments in which the Company, its subsidiaries and affiliates, operate.
- Each Director is expected to work cooperatively with his or her fellow Directors for the long-term benefit of the Company, the shareholder(s), its subsidiaries and affiliates, and to provide thoughtful and informed counsel to management.
- Each Director is at all times expected to possess and demonstrate the highest levels of personal and professional integrity.
- Each Director is expected to demonstrate his or her commitment to the Board, the Company and its subsidiaries and affiliates, through preparation for and participation in meetings of the Board and Committees of the Board on which the Director sits, and to engage in full and frank discussions of all matters before the Board and those Committees.

1.0 BOARD MEMBER COMPENSATION POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

1.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the remuneration guidelines and process for Directors of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”).

Remuneration is governed under Article 4.8 of the Shareholder Direction Relating to Burlington Hydro Electric Inc., which states:

‘The remuneration of members of the Board for their respective services as Directors will be as determined by the Shareholder from time to time.’

In general, this policy provides for an overview of the requirements for a proper review and recommendation of changes to compensation of Directors when the Board determines that changes are warranted.

1.2 COMPENSATION

- A. It is the policy of the Board that Directors should receive a competitive level of compensation reflecting the responsibilities and duties of the Directors, the competitive practices of the electric utility sector, and the ability of the Corporation to pay.

- B. The Compensation Committee will ~~regularly~~ review the compensation of Directors every two years. The process will be undertaken by an external 3rd party, with a target to a 75 percentile, beginning in 2015. The Committee will make recommendation to the Board for consideration when it is determined that changes in compensation are warranted.
- C. When the Board agrees that a change in compensation is warranted, a letter of request will be drafted by the Chair to the Shareholder indicating the reasoning and need for changes in remuneration.
- D. Changes in compensation of Directors may only occur with prior written approval of the Shareholder as indicated in Article 5.2, subsection (r) which states:
'Neither the Corporation nor any Subsidiary will, without the approval of the Shareholder: (r) change the remuneration of members of the Board of Directors of any Subsidiary:'

2.0 DIRECTORS AND COMMITTEES OF THE BOARD POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

2.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the terms of reference for standing committees and provides guidelines for Director Performance and rotation on committees. Special committees of the Board may be constituted from time to time to review particular interests of the business.

In general, each Director is required to participate on a minimum of one standing committee, and a maximum of three, except the Chair who may participate in all standing committees.

2.2 ROLE OF DIRECTORS

The Board of Directors is responsible for ensuring that the entity has a vision and strategic plan in place, with operating practices consistent with the ability of the organization to meet its goals and objectives.

The Board hires the President and determines his/her compensation. It holds the President accountable for achieving agreed upon goals and meeting specific performance targets.

Individual Board Members have no independent decision-making authority. The Board's only decision-making power comes from its collective authority as the duly constituted Board of the Corporation, meeting under the by-laws of the Corporation. Individual Board members may not direct management

in any way, and should not purport to have any decision-making authority on behalf of the Board to outside parties, unless authorized by the Board pursuant to a Board resolution.

While individual Board members cannot direct any action by the Corporation, the Board members have an important role in providing advice to senior management at Board and committee meetings. Each member brings a unique set of skills and expertise to the Board. Both the Board and senior management should benefit from this resource.

To the extent that a Board member requests information of management, such request, outside of Board or Committee meetings shall be made through the Chair.

The members of the Board do not constitute the management of the organization. It sets broad parameters, establishes policy and controls, ensures that management is in place to achieve the organization's objectives, and it monitors management's performance against the established objectives.

The law imposes a high standard of care on Directors. They must use due diligence in discharging their duties. They must take reasonable steps to inform themselves via management of the affairs of the Corporation and must make their own assessments of the proposals presented to them by management.

They must **always** act in the best interests of the Corporation. This obligation extends outside of Board meetings. The Directors' loyalty must be to the Corporation, and not a political or personal agenda, and the Directors must have sufficient time and capacity to stay informed about, and carefully examine the affairs of the Corporation.

In addition to their obligations to act diligently, honestly and in the best interests of the Corporation, various statutes impose personal liabilities on Directors and it is up to each Director to make himself/herself aware of such statutes.

2.3 ROLE OF THE BOARD CHAIR

The Board Chair chairs all Board meetings. The Chair serves at the pleasure of the Board*. The Chair is appointed by the shareholder's representatives on the Board. Before vacating office, it is the Chair's final duty to solicit input for the selection of the incoming Chair in consultation with the Shareholder's representatives.

In consultation with the President, the Chair sets the agendas for the Board meetings, ensures the meeting discussions are focused, ensures there is proper decorum at meetings, ensures good information flow and ensures decisions are clear and supported by resolutions where necessary. The Chair ensures regular and appropriate communication with the Shareholder, the Directors and the broader community.

The Chair ensures that meetings are conducted in an orderly fashion and that all Directors are encouraged to actively participate in Board deliberations. The Chair must be balanced, exercising good

judgement and common sense in moving the business of the Board forward and ensuring the Board's Corporate Governance Guidelines are adhered to. By nature of the position, the Chair is frequently an informal sounding board for the President and is the conduit for the transmission to the President, on behalf of the Board, any emerging Board views or concerns so that management can address the issues in a timely fashion. The Chair is, ideally, the fulcrum upon which accountability turns. He/she must ensure a viable vision and mandate for the organization supported by good governance practices in achieving the necessary accountability of management to the Board, and the Board to the Shareholder. The Chair, in consultation with Board Members, is also responsible for evaluating the performance of the CEO and establishing goals and objectives.

The role of the Chair necessitates the Chair devoting more time for Board business than the other Directors. The Chair is a non-executive position, that is, the Chair, like the other Directors, is not part of the management team. This is necessary so that no confusion arises as to the role of the Board.

2.4 COMMITTEES

Committees are responsible for monitoring assigned areas and developing strategic policy and recommendations for the consideration of the Board as a whole. Committees only have the authority delegated to them by the Board. Committees should not be involved in the day to day operations or administration of the business – the Board and Committee focus is on governance and stewardship, rather than on the responsibility of management, which is executing strategy and managing day to day operations. The role of committees is to:

- Assist the Board with strategy and policy development.
- Comment and provide advice on preliminary recommendations from management to the Board within the framework of Board-approved goals and policy statements.
- To make recommendations to the Board based on information and recommendations from management.

A. It is the policy of the Board of Directors that there are three Standing Committees, namely:

- a) Governance and Audit Nominations Committee
- b) Finance (Budget & Audit) Committee
- c) Compensation Committee

And two Ad Hoc Committees:

- a) Communications Committee
- b) Nominations Committee

B. Committee will have a minimum of three members, none of whom shall be officers of the corporation (with the exception of the Chair of the Board). The members of the Committee will

be appointed at the meeting of the Board of Directors immediately following each annual general meeting.

- C. The schedule of meetings of each committee will be determined by its chair, based upon the annual work plan designed to discharge the responsibilities of the committee as set out in its mandate. The chair of the committee will develop the agenda for each committee meeting through consultation as appropriate with members of management, staff and the committee. Each committee will report to the Board on the results of each committee meeting by way of formal meeting minutes.

2.5 ASSIGNMENT AND ROTATION OF COMMITTEE MEMBERS

The Board Chair, in consultation with the Board, is responsible for proposing to the Board, the membership and chair of each committee. In preparing his recommendations, the Board Chair will take into account the preferences and skills of the individual Directors. The Board favours a periodic rotation in committee chairs and membership in a way which recognizes and balances the need for renewal of ideas as well as continuity and maintenance of functional expertise.

2.6 COMMITTEE TERMS OF REFERENCE

The following provides the mandate and terms of reference for standing committees of the Board:

a) Governance and Audit Committee

While all Directors have a duty to act in the interests of the corporation, the Governance and Audit committee has a significant role in acting independently from the executive to ensure the interests of the Shareholder are properly protected in relation to governance, financial reporting and internal control. The Committee shall be an advisory committee to the Board and is responsible for the Board governance and external audit function of the corporation and in such capacity will:

- i. Recommend issues and policies to be discussed at the Board meetings to reflect timely and complete information and decision making at the Board level;
- ii. Review regularly the mandates of the Board committees and recommend changes as needed;
- iii. Monitor the quality of relationship between management and the Board and recommend improvements;
- iv. Ensure ongoing education of Board members in the development and enhancement of skills for proper Board governance;
- v. Assist the Board as a source of expertise and advice on new developments in corporate governance and compliance;
- vi. Review any matter of financial policy or procedure directed to the committee by the Board or the CEO.
- vii. Monitor the integrity of the financial statements of the corporation, reviewing significant financial reporting judgements contained within;

- viii. Review the corporation's internal financial controls and risk management systems;
- ix. Monitor and review the effectiveness of the corporation's internal audit function;
- x. Make recommendations to the Board for the appointment of external auditor, external auditor terms of engagement and remuneration;
- xi. Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
- xii. Implement and update policies on the engagement of the external auditor to supply non-audit services, taking into account ethical and legislative guidelines or requirements.

The Governance and Audit Committee is responsible for conducting an annual assessment of the overall performance of the Board and committees and reporting on the same to the Board. The objective of this review is to contribute to the process of continuous improvement in the Board's execution of its responsibilities.

A. General Purpose and Scope

This policy statement describes the general purpose, responsibilities and policies for the services that Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as "Burlington Hydro" or the "Company") may request the external audit firm to perform. In general, this policy provides assurance that the external audit firm, providing services in addition to the external audit, are evaluated for their independence with potential concerns noted and strategies identified to mitigate these concerns. Where this cannot be achieved, the external audit firm will not be engaged for the additional services. This policy also identifies prohibited services where there is clearly a conflict of interest.

B. Responsibility of the Board of Directors

The Board of Directors (the Board) is ultimately responsible for ensuring an independent external audit function is completed for audit assurance engagements.

To carry out this responsibility the Board shall:

1. Review and approve the External Auditor Services Policy.

C. Responsibilities of the Audit and Governance Committee

With the exception of approving the External Auditor Services Policy, the Board delegates responsibility for ensuring an independent external audit function is completed for audit assurance engagements to the Audit and Governance Committee.

To carry out this responsibility the Audit and Governance Committee shall:

1. Assess the skills and resources of the external audit firm, taking into account the risks and complexity of the Company, and be satisfied with the content of the external audit firm's engagement letter prior to it being signed.
2. Monitor and obtain assurances regarding the independence of the external audit firm

3. Assure that the scope of the External Audit Plan, as presented by the external auditors, is appropriate, risk based, and addresses the major areas of concern.
4. Obtain assurance that the External Audit has been conducted in accordance with Canadian GAAS.
5. Assure that any matters the external audit firm wishes to bring to the attention of the Board are given adequate attention.
6. Review all material correspondence between the external audit firm and Management related to audit findings.
7. Hold regular meetings with the external audit firm, without Management present, to:
 - understand all significant issues relating to the external audit that may have arisen between the external audit firm and Management in the course of the audit and to understand how those issues have been resolved;
 - review the extent that accounting practices being used by Burlington Hydro are appropriate relative to the materiality of the item; and
 - address any other matters that the external audit firm believes that the Audit and Governance Committee should be aware of in order to exercise its responsibilities.
8. Discuss with Senior Management and the external audit firm the results of the audit, the annual financial statements and related documents, the audit report, and any related concerns that the external audit firm may have.
9. Regularly review the external auditor's performance.
10. Approve the listing of Audit, audit-related and non-audit services set forth in sections 3-B2, 3-B3 and 3-B4 as permissible services and do not require pre-approval of the audit committee.
11. Approve non-audit services as listed in section 3-B5. If approved by the Audit and Governance Chair, the approval shall be reported back at the next Audit and Governance Committee meeting.
12. Annually review the list of services in sections 3-B2, 3-B3, 3-B4, and 3-B5, and recommend changes as required.

D. Management

Management is responsible for the integrity and preparation of the Company's financial statements and for reporting to the Board. Processes for the preparation of financial statements are subject to the requirements of the **External Auditor Services Policy**.

To carry out this responsibility Management shall:

1. Develop and implement sound, prudent organizational and procedural controls which are in compliance with this policy.
2. Demonstrate proactively a keen awareness of their responsibilities for assuring adherence to internal control policies and procedures.
3. Not use its authority to override established policies. In the case of the **External Auditor Services Policy**, any variance to the policy must be referred to the Board for further approval.
4. Fully co-operate with and support the auditor in the carrying out of the audit engagement.

E. Policy Philosophy

From time to time Burlington Hydro may request additional services performed by the external audit firm in addition to external audit assurance engagements. Benefits, such as practicality, knowledge of the entity and efficiency, can be derived when Burlington Hydro uses the external audit firm to perform services in addition to the audit. However, this can involve additional risks and responsibilities where the auditor's independence may be impaired or questioned.

F. Services

F1 General

The external audit firm shall only provide those services that do not conflict with the external auditor's independence.

The external audit firm is permitted to provide audit services, audit related services, and non-audit services as specified in sections B2, B3, and B4 without pre-approval. Section B5 identifies services that require prior approval from the Audit and Governance Committee for each instance.

F2 Audit Services

Audit services may include:

- a) Statutory audits or financial audits for subsidiaries or affiliates of the Burlington Hydro Electric Inc., including issuing the audit opinion for group reporting purposes and on the statutory financial statements.
- b) Attestation of management reports on internal controls.
- c) Consultation with the Company's management as to the accounting or disclosure treatment of transactions or events, and/or the actual or potential impact of final or proposed rules, standards or interpretations by regulatory or standard setting bodies.

F3 - Audit-Related Services

Audit related services are assurances and related services that are reasonably related to the performance of the audit or the functions that the external auditor traditionally performs.

Audit related services may include:

- a) Tax services and procedures relating to income tax provisions and potential tax implications and exposures
- b) Due diligence work and audits on divestments and acquisitions.
- c) Advice on accounting, policies, and disclosure.
- d) Special purpose Information Technology and treasury audits and reviews.
- e) Use of specialists, e.g. pension, corporate finance, real estate and insurance, provided these services are relied upon for the audit of the Company.
- f) Opinions/reports on other information provided by the Company
- g) Forensic audits.
- h) Financial statement audits of employee benefit plans.
- i) Consultations by the Company's management as to the accounting or disclosure treatment of transactions.

- j) Attest services not required by statute or regulation.
- k) Information systems reviews not performed in connection with the audit (i.e. application, data centre and technical reviews).
- l) Statutory, subsidiary or equity investee audits incremental to the audit of the consolidated financial statements.

F4 - Non-Audit Services

Non-audit services are routine and recurring services, which would not impair the independence of the external auditor, are consistent with applicable rules on auditor independence, and do not need prior approval from the Audit and Governance Committee.

Non-audit services may include:

- a) Risk management advisory services, e.g. assessment and testing of security controls.
- b) Tax planning and tax consultation regarding statutory, regulatory or administrative developments, merger and acquisition tax due diligence, transfer pricing documentation.
- c) Additional guidance to assist the Company in evaluating threats to independence created when providing these services, and identifying safeguards that will often be available to reduce the threats to independence to an acceptable level.
- d) Consultations by the Company's management as to industry or professional pronouncements.

F5 - Non-Audit Services that Require Approval

The following categories of non-audit services require approval by the Audit Chair or Audit and Governance Committee:

- a) Human resource services.
- b) Internal audit services.
- c) Financial information systems design and implementation.
- d) Merger, acquisition, and divestiture services.
- e) Process and productivity improvement services.
- f) Information technology services that have not been identified in Sections 3 or 4.
- g) Any other service that the Audit Committee determines which is permissible by regulation.

Note: In order to enhance the independence of the external audit firm, it shall be the policy of the Company that the fees paid to the external audit firm for non-audit services shall only be permitted to exceed \$10,000 in exceptional circumstances that are approved in advance by the Board after due consideration of the independence issue and the availability of other service providers.

b) Budget Committee

The Budget Committee is responsible for reviewing the appropriateness of Management's annual business and operating plans and ensuring a proper balance between the needs for growth, profit and sustainability of the business. The Budget Committee assists in establishing financial goals in support of the business plan. The Committee will:

- i. Review and recommended approval of annual business, capital or operating plans and budgets for the Corporation, or any amendment thereto to the Board;
- ii. Review and recommend approval of management's projected financial forecasts, financial models and planning documentation to support the corporation's business strategy to the Board;
- iii. Assist in the establishment of financial goals or 'end-statements' that are sufficiently challenging in support of the strategic plan;
- iv. Review any material deviation from the approved business, capital or operating plans or budgets with recommendations to the Board;
- v. Review and approve any material contracts outside of the ordinary course of business.

c) Human Resources and Compensation Committee

The Human Resources and Compensation Committee is responsible for oversight and review of the development and administration of compensation and related programs for the Corporation, and more specifically, the CEO. The Committee assists the Board Chair in setting goals and objectives for the CEO. It is the responsibility of the Board Chair to evaluate the CEO and with the Compensation Committee assistance make recommendations to the Board for compensation. The Committee also provides guidance to management with respect to Human Resource policies in general and succession and leadership development plans for sustainability of the Corporation. The Committee will:

- i. Review and recommend to the Board the compensation structure and annual projected increase to the salary budget;
- ii. Review and recommend to the Board for approval salary adjustments of the CEO position;
- iii. Review and recommend to the Board the design, criteria, participation, measurement and proposed payouts/targets of incentive programs;
- iv. Review and recommend to the Board specific details of any benefit plans and perquisites for the CEO;
- v. In support of the Board Chair, establish, monitor, review and recommend to the Board for approval the annual specific goals and objectives of the CEO and the attainment of the goals and objectives annually;
- vi. Provide guidance to management in accordance with Board direction in respect to a succession and development plan for the CEO position;
- vii. Provide guidance to management in accordance with Board direction in respect to Human Resource policies to ensure policies are in compliance with applicable laws and regulations;
- viii. Review and approve Management's recommendations regarding the hiring and firing of senior officers and related severance packages.

d) Communications Committee

The Communications Committee is responsible for the review and approval of specific communications, policies and processes on behalf of the Board of Directors in respect to communications with the Shareholder, customers and other key stakeholders. The Committee additionally monitors and provides guidance to management on communications matters. The Committee will:

- i. Provide guidance to Management in accordance with Board direction in respect to the formulation of communication plans and execution of communications activities;
- ii. Provide guidance to Management in accordance with Board direction in respect to the formulation of communication plans in support of timely, accurate and continuous disclosure, and in support of Shareholder direction and significant business objectives of Burlington Hydro and its subsidiary companies;
- iii. Periodically review and monitor communications specific communications materials in support of the business strategy and direction on behalf of the Board of Directors.

e) Nominations Committee

The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the Shareholder. Led by the Board Chair, the Nominating Committee has been given the responsibility of gathering the names of potential nominees, screening their qualifications against the current skill set and experience needs of the Board and making recommendations in this regard to the Board and to the Shareholder. An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Chair of the Board. The Nominations Committee will:

- i. Create a description of the minimum competencies required of a potential nominee to be considered for a position on the Board;
- ii. Identify, interview and conduct appropriate references for potential nominees for Board positions;
- iii. Develop and maintain a 'pool' of candidates for possible appointment to the Board as vacancies arise;
- iv. Meet at a minimum annually to review the potential nominees and reach a consensus on a recommended to the Shareholder and the Board the next appointee to the Board.
- v. Ensure proper orientation of new Board appointees. Identify any educational requirements that may enhance performance of the appointee.

BOARD SKILLS MATRIX

In order to provide good governance for the Company and to ensure that the mission of the Company is achieved, it is desirable that the Directors should collectively possess the following skill sets. In addition, when new candidates are being considered for election to the Board, priority should be given to candidates who possess skills that are not well represented on the Board.

- Corporate Legal
- Electricity Sector Experience
- Regulated Utility Management
- Electricity Regulation and Policy
- Corporate Financial Management
- Audit and Accounting
- Stakeholder Communications
- Government Relations
- Budgeting
- Human Resources
- General Executive Management
- Operations Management
- Technical Expertise in Related Areas
- Project Management
- Strategic Planning
- Board Governance

2.7 COMMUNICATONS WITH SHAREHOLDER

Communications to the Shareholder on strategic and policy level issues should be in writing and the sum and substance of these communications shall be approved by the Board prior to being communicated to the Shareholder.

3.0 DIRECTORS CODE OF CONDUCT POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

3.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the general duty of each Director of Burlington Hydro Electric Inc. and its subsidiaries and affiliates (the "Company") to disclose any conflict of interest, whether actual or perceived, where the Director, the Director's family or business, may realize a benefit from the actions taken by the Company.

In general, this policy provides assurance that the Company's Directors will serve in the best interest of the Company and remain independent from potential concerns of conflict. Where this cannot be achieved, the Director must disclose the nature of the conflict and the potential benefit to the director, the Director's family or business.

3.2 CODE OF CONDUCT

In general, common law prohibits a director from doing business with the Company. However, a Director may from time to time be in a business which routinely provides goods and services to the Company. The general standard is very restrictive and the following procedures will be adhered to when it is deemed appropriate that a Director enter into a commercial contract with the Company.

- Written notice – The Director shall notify the Board in writing of his or her interest, or the interest of the Director's family, or the Director's business, at the time the Director, a member of the Director's family or the Director's business first becomes interested in a transaction.
- Abstain from voting – the director shall abstain from participating in any discussion of or voting on any resolution to approve or disapprove the contract or transaction in question.
- Fair and reasonable – The final consideration is that the contract or transaction must be fair and reasonable and must be seen to be fair and reasonable to the Company at the time it is approved or confirmed.

3.3 DUTY TO DISCLOSE

- Each director has a duty to disclose any potential conflict of interest of the director, the director's family or the director's business.
- Each director has a duty to disclose any information that he or she may have by virtue of another relationship that is of vital importance to the Board.
- Each director has a duty to avoid being in a position of breaching a fiduciary responsibility to the Company by virtue of owing the same responsibility to another organization.

(SEE COMPLIANCE STATEMENT ON NEXT PAGE)

3.4 DIRECTOR'S ANNUAL COMPLIANCE STATEMENT

(To be signed at the Annual General Meeting)

I, _____, a Director of Burlington Hydro Electric Inc. (the "Company") hereby confirm that since my election to the Board of Directors or my last Annual Compliance Statement, as the case may be:

1. I have complied with the Conflict of Interest provisions of the *Business Corporations Act of Ontario*, and with the Board Conflict of Interest and Duty to Disclose policy.
2. I have not been found guilty of or held liable for any violation of the Criminal Code or of any other applicable law.
3. I have not been involved in any civil, administrative or criminal process alleging violation, either personally or by a company or entity under my control, of the Criminal Code, any applicable securities law or any other law applicable to corporate or director conduct.
4. To the best of my knowledge, I have complied with all other laws applicable to company Directors in Ontario.
5. I have complied with the By-laws of the Company, its subsidiaries and affiliates.
6. I have complied with the Shareholder Direction from the City of Burlington.
7. I have complied with all Board Policies, and to the best of my knowledge, have complied with all Policies of the Company, its subsidiaries and affiliates.
8. Confidentiality
9. Independent legal advice – refer to Director's Manual for all documents

DATED at Burlington, Ontario, this _____ day of _____, 20__.

Signature

4.0 DIRECTOR EDUCATION POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

4.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the general duty of each director of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”) to be educated on matters of current Board governance and the various business matters that are the responsibility as they occur from time to time.

4.2 EDUCATION

- a) The Company will provide a director orientation and education program for all individuals recruited to the Board, with emphasis on skills identified in the Board Skills Matrix set out in Policy 2.0 Directors and Committees of the Board, Section 2.6, Part E – Nominations Committee.
- b) The Company shall make available such resources as may be reasonably required for any industry-related or governance-related continuing education requirements of its Directors.
- c) Each director shall have the responsibility for maintaining a sufficient knowledge base of matters relating to corporate governance.
- d) Each director shall consider what continuing educational requirements such director may have in connection with discharging the director’s duty to continue to exercise the care, diligence and

skill that a reasonably prudent person would exercise in the course of serving as a member of Board of Directors of the Company.

- e) Each Director is to submit a yearly education plan to the Board Chair - \$2,500 / year / Board member.

5.0 DIRECTOR'S REMOVAL POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

5.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the circumstances and process under which an involuntary termination of a Director's service may be required.

In general, this policy provides for an overview of the requirements for removal of a Director of the Board should it be deemed that their continued service on the Board is no longer effective or even counter-productive.

5.2 REMOVAL

- A. It is understood that the Shareholder retains the sole right to request the replacement of a current director of the Board with whom they have lost confidence.
- B. It is a recognized practice of good governance and a policy of the Board that Directors should retain their independence of thought as well as the duty of honesty, loyalty, care, diligence, skill and prudence. However, should a circumstance arise that is determined by the majority of the Board that a Director is no longer effective or is counter-productive, the Board may recommend to the Chair that the Director be removed.

- C. In the circumstance where the Chair has been requested to proceed with the replacement of a Board member, the Chair will notify the Shareholder and provide details of the circumstances surrounding the request. Should the Shareholder determine that such action is necessary, the Shareholder will proceed with appropriate notification of the Director. In all cases, the exercise of tact and diplomacy and confidentiality is required.
- D. A Director who has been involuntarily removed from the Board may still retain certain of the liabilities of current Directors with respect to the actions of the Company prior to his or her removal from the Board.

6.0 BOARD MEMBER EXPENSE REIMBURSEMENT POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

6.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the general expense reimbursement guidelines for a Board Director of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”).

In general, a Director may incur expenses in the course of discharging his or her responsibility as a Director. Subject to the limitations outlined below, a Director shall be reimbursed for these expenses.

6.2 REIMBURSEMENT

6.2.1 General

A Director is entitled to receive reimbursement up to \$500 per calendar year for general expenses that he or she incurs in the course of discharging his or her duty as a Director. The director is expected to submit an expense report with all supporting receipts. The Chair of the Board will approve the expense report. In the case of expenses incurred by the Chair of the Board, expenses will submit an expense report and supporting receipts to the Chair of the Audit and Governance Committee for approval.

6.2.2 Continuing Education

A Director is entitled to receive reimbursement for continuing education courses that contribute to the knowledge base of matters relating to corporate governance and Board operations.

6.2.3 Other

If a Director is requested by the Board to represent the Company in an official capacity (i.e. a conference or meeting), as a Director of Burlington Hydro, the Director shall be reimbursed for all reasonable costs of fulfilling this duty.

7.0 ENTERPRISE RISK MANAGEMENT POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

Role and Responsibilities of the Board

- The Board is responsible for overseeing enterprise risk management for Burlington Hydro Electric Inc. (the "Company"), its subsidiaries and affiliates.
- The Board is responsible for understanding the significant risks inherent in the operations of the Company its subsidiaries and affiliates, and for monitoring those risks on an annual basis, or more frequently as determined by the Board.
- The Board is responsible for monitoring emerging risks facing the Company its subsidiaries and affiliates, and for reviewing the implications of emerging risks with management.

8.0 POLITICAL DONATIONS POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

Corporate Political Donations

The Board shall not authorize or approve political donations by Burlington Hydro Electric Inc. (the "Company") or any of its subsidiaries or affiliates.

Individual Political Donations

Individual Directors may voluntarily make political donations as private citizens and at their own expense, provided that such donations are in conformity with all applicable laws, and do not create the impression that the donations are those of the Company or any of its subsidiaries or affiliates.

9.0 IN CAMERA MEETINGS POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

9.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the protocol of *in camera* meetings of the Board of Directors of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”).

In general, *in camera* meetings are sometimes desirable as an opportunity to discuss issues without the presence of members of management. The following outlines general policies of *in camera* meetings.

9.2 IN CAMERA MEETINGS

General:

1. The Board may have an in camera meeting whenever it is deemed desirable to do so.
2. Committees of the Board may have in camera meetings whenever it is desirable to do so.
3. Minutes of *in camera* meetings shall be prepared by the Chair of the Board or the Chair of the Committee, as applicable, and kept with the confidential records of the Board Chair.

10.0 MEETINGS POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

10.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the general expectation of meeting participation of a Director of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”).

In general, a Director is expected to make all reasonable efforts to attend the Board meetings of the Company. It is preferable that the Director attend in person, but he or she may attend a meeting using telecommunication methods, such as telephone, internet, video conferencing, or other means as may be available from time to time.

10.2 ATTENDANCE AND PARTICIPATION

A. General

1. A Director should attend all official meetings of the Board that are duly called by the chair.
2. Subject to the exception indicated below, a Board member shall resign if he or she misses more than three (3) meetings annually duly called by the chair.
3. If a Board member misses more than three (3) Board meetings annually owing to extenuating circumstances, the Board shall have right to waive the required resignation of the Director.

B. Participation at Meetings

A Director is expected to participate at all meetings in order for the company to benefit from the judgement and experience of the Director. The Director should engage in full and frank discussion on all matters before them.

C. Electronic Voting

Between in-person Board meetings, the Board may vote by e-mail on routine matters raised by the Chair.

Step 1: Do all participants agree to an email vote?

Step 2: The vote is put forward by email.

Procedure

- The Chair may present a motion by e-mail to all members of the Board and request discussion by e-mail and/or a vote by e-mail.
- When discussing a motion by e-mail, Board members must remember to use the "Reply All" option for their e-mail comments in order that every Board member is able to read the comment. The Chair may establish a date by which the decision will be closed.
- The Chair will specify a deadline by which Board members must vote in order to be included in the count. Board members must also use the "Reply All" option when voting.
- For a motion to be passed by e-mail, at least a quorum of Board members must participate in the voting, and a simple majority must vote affirmatively. The Chair does not vote except to break a tie.
- Shortly after the conclusion of the e-mail voting process, the Chair shall inform Board members of the outcome of the vote by e-mail.
- The action of the Board shall be appropriately recorded in minutes which shall be presented for approval at the next in person meeting of the Board.

10.3 PERSONS ENTITLED TO ATTEND BOARD MEETINGS

The only persons entitled to attend a meeting of the Board are the Chair, the Directors and any other person or persons admitted on the invitation of the Chair or with the consent of the meeting.

10.4 ADJOURNMENT OF BOARD MEETINGS

- A meeting of the Board may be adjourned upon motion with the support of a majority of Directors in attendance at the meeting.
- Unless a date for reconvening the adjourned meeting is set at the time of adjournment, the adjourned meeting shall be reconvened at the call of the Chair or in accordance with the provisions of the By-laws.

10.5 RULES OF ORDER

- Meetings of the Board will be governed by Roberts Rules of Order.
- If Roberts Rules of Order do not provide for a matter of procedure, the Chair may adopt such procedure as the Chair considers to be fair and reasonable in the circumstances.

10.6 MINUTES OF BOARD MEETINGS

Minutes shall be taken of all meetings of the Board and all meetings of Committees of the Board and will be kept in a Minute Book.

11.0 NEW DIRECTOR ORIENTATION POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

11.1 GENERAL PURPOSE AND SCOPE

This policy statement describes the orientation process provided to each new director of Burlington Hydro Electric Inc. and its subsidiary companies (collectively referred to as “Burlington Hydro” or the “Company”) to familiarize the new director with Board requirements, practices and standards as well as the operations of the companies.

In general, this policy provides for an overview of the minimum requirements for a proper orientation process and mandates that orientation shall occur.

11.2 ORIENTATION

- A. New Directors will be provided with an orientation program which will include written information about the duties and obligations of Directors, the business of the company, documents from recent Board meetings, opportunities for meetings and discussion with senior management and other Directors as appropriate and tours of the company’s facilities. The details of the orientation will be tailored to reflect that individual’s needs and areas of interest as well as required components. The orientation program will be jointly facilitated by the Chair and the President.

- B. When appointed to a Board committee, Directors will be provided appropriate terms of reference of the committee, information and orientation to prepare them to participate effectively. Committee orientation will be facilitated by the Chair of the committee.

12.0 ENGAGING INDEPENDENT ADVISORS FOR BOARD MATTERS

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

11.013.0 MANAGEMENT STAFF COMPENSATION PHILOSOPHY AND CEO COMPENSATION

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

13.1 PAY FOR PERFORMANCE PHILOSOPHY

A market-oriented, customer service focussed business requires a team of highly talented and skilled individuals. To attract, retain, motivate, and develop talented individuals Burlington Hydro Electric Inc. will provide a competitive and rewarding compensation plan. This plan has been developed to reinforce our desire to build a team that demonstrates teamwork, leadership excellence, business knowledge, integrity, and commitment. Inherent in this philosophy is the opportunity for above-average performance levels by employees to receive compensation increases consistent with the Company's Pay for Performance and Incentive Compensation Plan.

13.2 OBJECTIVES

The following objectives will form the foundation of the Company's management compensation plan:

- ◆ **TALENT:** To attract, retain, develop, and motivate the best person available for each position
- ◆ **QUALITY WORK:**
To emphasize the importance of work performance excellence and reward it accordingly

◆ **POSITIVE WORK ENVIRONMENT:**

To achieve business plan results by creating a positive work environment where compensation practices demonstrate the Company's commitment to fairness and equity, individual development and growth, as well as contributing to the success of the business.

◆ **CAREER ORIENTATION:**

To encourage self-development, skill and competency development by offering challenging work assignments and career opportunities based on individual and team performance.

◆ **RECOGNITION:**

To gain the commitment of all team members to the Company's values and mission by sharing credit for personal success and business success through the informal and formal recognition of personal and team contributions.

13.3 PRINCIPLES

These four principles will be our guide to managing compensation plan practices:

◆ **LABOUR MARKET COMPARISONS:**

Burlington Hydro Electric Inc. will offer and pay salaries that are competitive with other similar size companies and like-industry companies. Competitive is defined at or about the 50th percentile of the market. Total compensation will position the company between the 50th percentile and at the 75th percentile of market data.

◆ **PERFORMANCE ORIENTATION:**

Burlington Hydro Electric Inc. is dedicated to a pay-for-performance orientation when determining individual merit increases, incentive compensation awards and other forms of formal recognition. Performance measures and goals will be used to establish and communicate performance standards. Exceeding the performance standards will set the basis for recognizing excellence in achievement and employees can expect to be rewarded for outstanding accomplishments.

◆ **COMMUNICATIONS:**

Burlington Hydro Electric Inc. will make every effort to communicate the compensation plan clearly to all management employees. However, understanding the compensation plan is a two-way responsibility. Managers are expected to ensure that all team members understand the compensation plan and philosophy.

◆ **ADMINISTRATIVE PRACTICES:**

Burlington Hydro Electric Inc. is committed to the fair and equitable administration of the compensation and incentive plan. All management will be made knowledgeable about the pay and recognition programs to ensure uniformity of practices.

13.4 BOARD PRESIDENT / CEO COMPENSATION

The compensation of the President/CEO will be determined annually by the Board, within the approved salary range for the position, and will be based on the Pay for Performance Philosophy, Objectives and Principles set out in the Burlington Hydro Electric Inc. Compensation Philosophy for Management Staff. One of the Principles of the Compensation Philosophy is to offer and pay salaries that are competitive with other similar sized companies and like-industry companies. Competitive is defined as being at or about the 50th percentile of the market.

The President/CEO's compensation will include the following:

- Base Compensation.
- Bonus of up to 25 per cent of base compensation.
- Use of a Company owned or leased Highlander Hybrid vehicle or equivalent.
- Cell phone.
- Annual executive medical.

12.014.0 CEO/MANAGEMENT AUTHORITY LIMITS POLICY

Review Date: _____ **Amended Date:** _____

Date of Board Approval (Resolution No.): _____

Approved by: _____

(Corporate Secretary on behalf of the Board of Directors)

Version (Resolution No.) _____ **replaced by Version** _____.

This document has been prepared for the exclusive use of the Burlington Hydro Electric Inc. Board of Directors. The use or reproduction hereof by others may only be done with the express written permission of an authorized representative of the Burlington Hydro Electric Inc. Board of Directors. If there is a discrepancy between this electronic/printed policy and the written copy held by the policy owner, the most recent revised copy prevails.

14.1 EXECUTIVE LIMITATIONS

The President shall not cause or permit any practice, organizational circumstance, activity, or decision that is either imprudent or in violation of commonly accepted business practices or professional ethics.

1. Budgeting in any fiscal year shall not deviate materially from Board Ends policies, risk financial jeopardy, or fail to be derived from a multi-year business plan.
2. Staff compensation and benefits (including severance) shall not deviate materially from current market conditions.
3. Board information will have no significant gaps in timeliness, accuracy or completeness.
4. Financial performance shall not incur jeopardy or compromise the Board's Mission/Results policies.
5. The scope of business activities shall recognize any shareholder agreement and relevant shareholder documents, directions or regulatory restrictions and deviations from same shall require Board and/or shareholder approval.
6. Risk management procedures shall be explicit and updated to protect the organization, Directors, officers and staff from exposed liabilities.

14.2 BOARD-PRESIDENT RELATIONSHIP

The Board will link governance and management functions and performance through the President.

1. All Board authority delegated to the operational organization is delegated through the President, so that all authority and accountability for the operational organization is considered to belong to the President.
2. The President is accountable to the Board for achieving the Corporate Objectives and achieving provisions of the Mission/Results policies within the Executive Limitations policies.
3. The Board limits the latitude the President may exercise in practices, methods, conduct and other “means” by establishing Executive Limitations policies.
4. As long as the President uses any reasonable interpretation of Mission/Results and Executive Limitations policies, the President is automatically authorized to establish all further policies, make all decisions, take all actions, establish all practices, and develop all activities.
5. Monitoring data that disclose the degree of organizational performance, compliance with Mission/Results policies will be systematically gathered by the Board and considered to be the only evaluation of President Performance.
6. Individual Board members can never carry the instructive authority of the Board, nor can they waive requirements set out by the Board.

14.3 MATTERS REQUIRING BOARD REVIEW AND APPROVAL

A) MATTERS REQUIRING SHAREHOLDER CONSENT

- Any matter requiring shareholder consent pursuant to the Shareholder Direction dated the 7th day of December, 1999.

B) BUDGET AND BUSINESS PLAN DOCUMENTATION

- annual corporate and business objectives, financial and non-financial,
- annual strategic plans,
- financial plans including proposed corporate financing and investments,
- annual operating and capital budget,
- budgeted, uniquely identifiable, capital project expenditures over \$1,000,000,
- unbudgeted, uniquely identifiable projects over \$500,000 or
- leases with terms exceeding 5 years or greater and having a dollar value over \$3,000,000

C) RISK MANAGEMENT

- general risk management policies,
- purchase (or sale) of the shares of any company or of any real property interest of BHEI,

- partnerships or joint ventures involving capital commitments or contributions greater than \$12,000,000,
- summary of material terms of contracts having a commercial value in excess of \$12,000,000, prior to execution, where:
 - i. such contract does not have provisions limiting the total liability of BHEI,
 - ii. such contracts have no provision excluding liabilities for consequential damages or economic losses,
 - iii. such contracts are for products or services new to the market served or for products or services to be sold into markets not previously served by BHEI or identified in the business objectives or strategic plan,
 - iv. contracts containing penalty clauses or liquidated damages clauses in excess of the value of the contract.

D) COMPENSATION AND HUMAN RESOURCES

- appointment of corporate officers or direct reports to the President/CEO,
- compensation for the President/CEO,
- collective agreement with IBEW if proposed settlement deviates materially from the approved board directive

E) FINANCIAL REPORTING REQUIREMENTS

- The Board should be presented with financial statements (in conjunction with the Board's meeting schedule), complete with an analysis of variances between actual and budget, by major classification,
- The President shall not publicly distribute financial statements to parties other than the Shareholder, unless required by legislation or regulation.

BHEI:

Item/Type of Expenditure	Approval Required
Annual budget	Board
Expenditures >\$100,000	President/CEO
All other expenditures	VP Finance/CFO

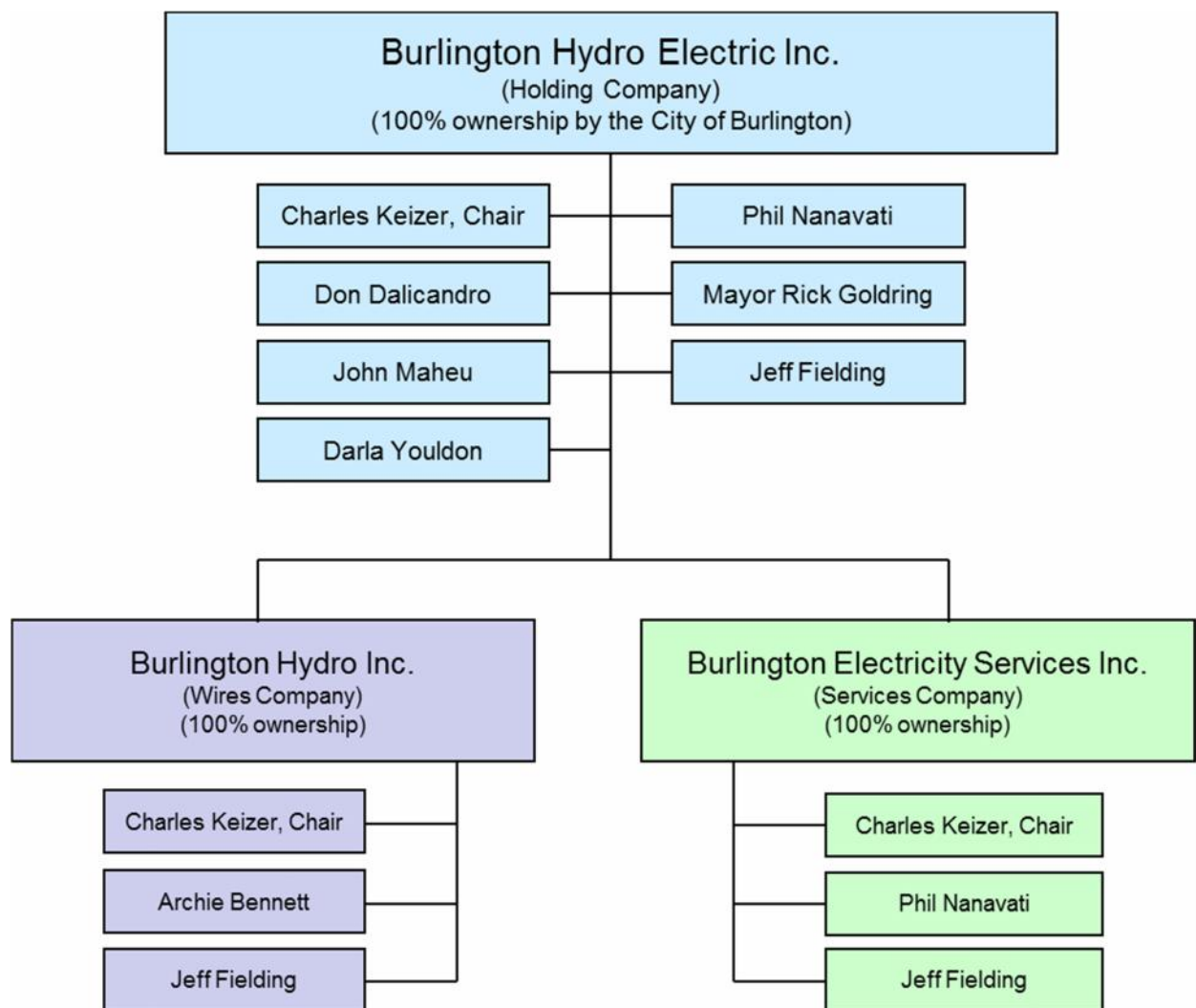
BHI and BESI:

Item/Type of Expenditure	Approval Required
Annual budget	Board
Expenditures in excess of \$500 000 *	President/CEO
Expenditures up to \$500,000	VP Finance/CFO, COO
Expenditures up to \$100,000	Respective departmental Director
Expenditures up to \$50 000	Respective departmental Manager
Investments	VP Finance/CFO
Remittance payroll deductions	Director of Human Resources

- Except for regularly recurring invoices such as; IESO electricity, Canada Customs and Revenue Agency remittances, Goods and Services remittances, Region of Halton Water Billing. Approval for these recurring invoices may be delegated by the President to any two signing officers of the company.
- It is acknowledged that the President or other officers of the corporation may need to act promptly in emergency situations (for example: major storm or catastrophic system damage). In these circumstances, the President and senior officers may exceed the Authority Limits but will immediately inform the Chair of the Board, or if unavailable, the Chair of the Audit and Governance Committee of the situation and reasons why the limits were exceeded.

A – SUPPLEMENTAL NOTES - MISCELLENOUS BOARD GOVERNANCE INFORMATION

1. BOARD OF DIRECTORS OF THE BURLINGTON HYDRO ELECTRIC GROUP OF COMPANIES



2. BOARD OF DIRECTORS REGISTER

Name	Appointment Date	End of Term Date	Replaced
James Barnett	December 7, 1999	March 8, 2001	
Neil Bryson	December 7, 1999	December 31, 2005	
Annette Cyr	December 7, 1999	April 25, 2006	
Gordon Forstner	December 7, 1999	December 31, 2009	
Robert MacIsaac	December 7, 1999	December 1, 2006	
Evan McDade	December 7, 1999	August 16, 2004	
James Spence	December 7, 1999	October 19, 2003	
Richard Johnston	November 26, 2001	April 29, 2008	James Barnett
Michael Schwenger	March 22, 2004	April 27, 2010	James Spence
Gary Graham	November 15, 2004	April 26, 2011	Evan McDade
Archie Bennett	February 20, 2006	April 26, 2012	Neil Bryson
Tim Dobbie	April 25, 2006	June 1, 2007	Annette Cyr
Cam Jackson	December 4, 2006	November 30, 2010	Robert MacIsaac
Robert Carrington	June 2, 2007	November 30, 2007	Tim Dobbie
Roman Martiuk	December 3, 2007	August 26, 2011	Robert Carrington
Phil Nanavati	April 29, 2008	April 2015	Richard Johnston
Darla Youldon	January 26, 2010	April 2017	Gordon Forstner
Charles Keizer	April 27, 2010	April 2017	Michael Schwenger
Rick Goldring	December 1, 2010	N/A	Cam Jackson
Don Dalicandro	April 26, 2011	April 2018	Gary Graham
Jeff Fielding	January 26, 2012	N/A	Roman Martiuk
John Maheu	April 26, 2012	April 2019	Archie Bennett

3. BHEI STANDING COMMITTEES

*BHEI Standing Committees as proposed for approval by motion at June 27, 2013 Board Meeting

Budget Committee

Chair - Phil Nanavati
Rick Goldring
Charles Keizer
Darla Youldon

Corporate Governance and Audit Committee:

Chair - Don Dalicandro
Jeff Fielding
Charles Keizer
John Maheu

Human Resources and Compensation Committee:

Chair - Darla Youldon
Don Dalicandro
Rick Goldring
Phil Nanavati

Communications Committee (Committee of the Whole):

Chair - Charles Keizer
Don Dalicandro
Jeff Fielding
Rick Goldring
John Maheu
Phil Nanavati
Darla Youldon

Nominations Committee (Committee of the Whole):

Chair - Charles Keizer
Don Dalicandro
Jeff Fielding
Rick Goldring
John Maheu
Phil Nanavati
Darla Youldon

4. 2013 BOARD MEETING SCHEDULE

Thursday, January 31, 2013 at 8:00 AM at BHEI Boardroom (Strategic Update)

Thursday, March 28, 2013 at 8:00 AM at BHEI Boardroom (Audit)

Thursday, April 25, 2013 at 12:00 PM at Paletta Mansion – Annual General Meeting

Thursday, May 30, 2013 at 8:00 AM (location TBD) – Board Strategic Planning Session

Thursday, June 27, 2013 at 8:00 AM BHEI Boardroom (Business Plan Input)

Thursday, September 26, 2013 at 8:00 AM at BHEI Boardroom (Business Plan Approval)

Thursday, October 31, 2013 at 8:00 AM at BHEI Boardroom (Safety)

Thursday, November 28, 2013 at 7:30 AM (location TBD) – GridSmartCity Round Table

Thursday, December 12, 2013 at 12:00 Noon at Paletta Mansion – Luncheon and Board/
Shareholder Meeting

5. 2014 PROPOSED BOARD MEETING SCHEDULE

Thursday, January 30, 2014 at 8:00 AM at BHEI Boardroom – Strategic Update

Thursday, March 27, 2014 at 8:00 AM at BHEI Boardroom – Audit

Thursday, April 24, 2014 at 12:00 PM at Paletta Mansion – Annual General Meeting

Thursday, May 29, 2014 at 8:00 AM (location TBD) – Board Strategic Planning Session

Thursday, June 26, 2014 at 8:00 AM BHEI Boardroom – Business Plan Inputs

Thursday, September 25, 2014 at 8:00 AM at BHEI Boardroom – Safety

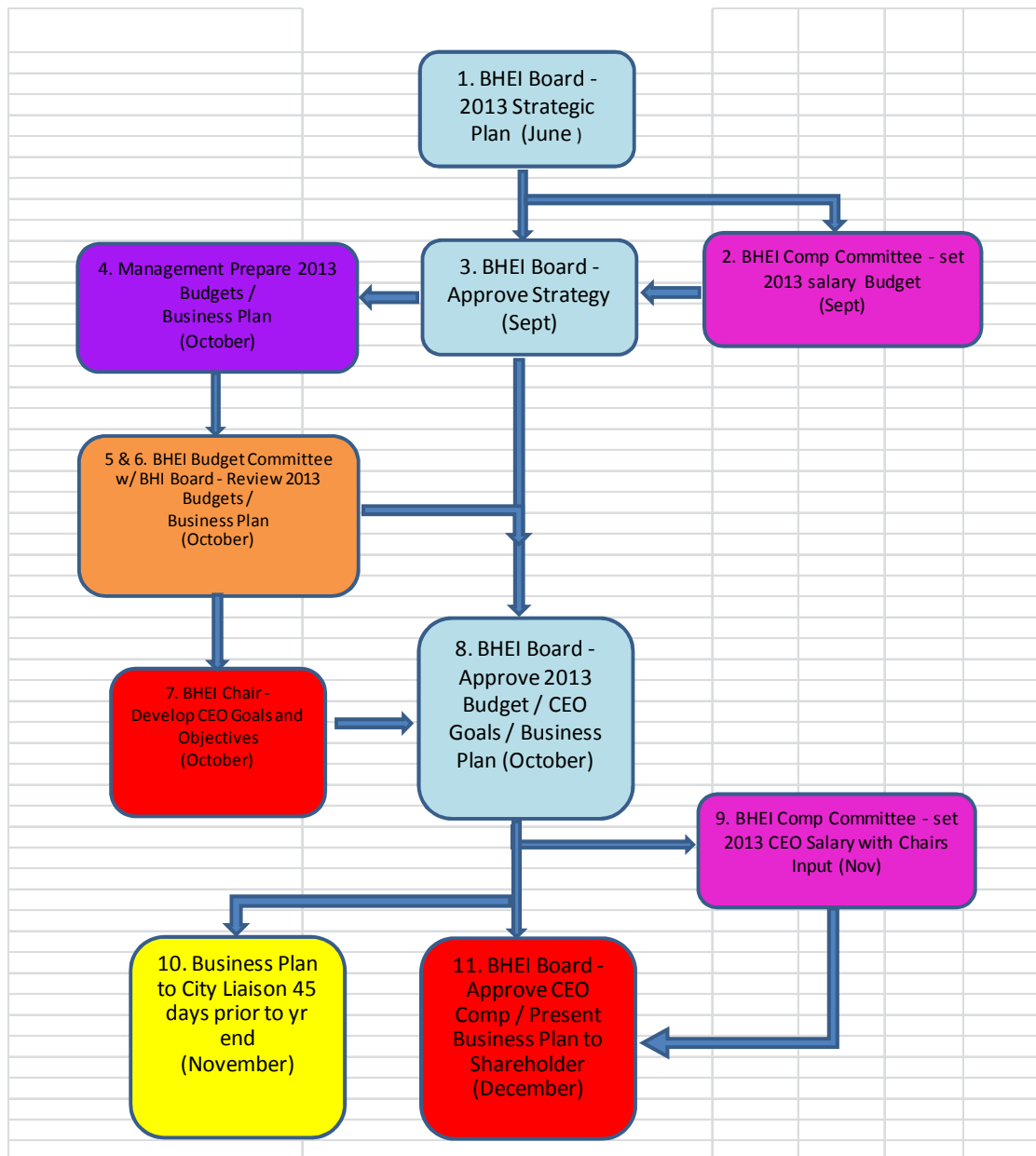
Thursday, October 30, 2014 at 8:00 AM at BHEI Boardroom – Business Plan Approval

Thursday, November 27, 2014 at 7:30 AM (location TBD) – GridSmartCity Round Table

Thursday, December 11, 2014 at 12:00 Noon at Paletta Mansion – Luncheon and Board/
Shareholder Meeting

6. BHEI BUSINESS PLAN PROCESS FOR 2013

[illegible]



ACCOUNTING STANDARDS FOR REGULATORY AND FINANCIAL REPORTING

In 2008, the Accounting Standards Board of Canada ("AcSB") prescribed that publicly accountable entities were required to transition to IFRS by 2011. On March 30, 2012, the AcSB issued the Accounting Standards Board – Decision Summary, March 20-21, 2012, which indicated the AcSB's decision to allow an additional one-year deferral of the mandatory adoption of IFRS to January 1, 2013 for Canadian utilities with qualifying rate-regulated activities for financial reporting purposes. In September 2012, the AcSB decided to extend the deferral by another year to January 1, 2014.

Further to the AcSB's decision, the OEB issued a letter dated April 30, 2012 re: Impact of the Decision to Defer the Mandatory Date for the Implementation of International Financial Reporting Standards to January 1, 2013 by the Canadian Accounting Standards Board. The letter states the following:

"The Board notes that by virtue of the existing AcSB standard the rate-regulated utilities are required to adopt IFRS by January 1, 2013. The Board therefore expects that all 2013 cost of service applications will be filed on the basis of MIFRS."

In February 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. Discussions at the International Accounting Standards Board's (IASB) January 2013 meeting indicate that the IASB is on track to:

- publish an exposure draft proposing the interim IFRS described under "December 2012 News" (below) in March 2013; and
- issue an interim standard by the end of the year.

Burlington Hydro reports its financial results using Canadian Generally Accepted Accounting Principles. Burlington Hydro plans to transition to International Financial

1 Reporting Standards as of January 1, 2015, consistent with the AcSB current exposure
2 draft.

3 In accordance with the letter issued by the OEB on July 17, 2012 Burlington Hydro has
4 implemented the following financial and regulatory accounting policy changes, both
5 effective January 1, 2013:

- 6 • Changes to the capitalization of burdens and overheads; and
- 7 • Changes to depreciable lives.

8 Burlington Hydro has quantified the impact of these accounting policy changes on its
9 revenue requirement and recorded the impact in USoA 1576. Details are presented at
10 Exhibit 2, Tab 9.

11 In an effort to facilitate the review of the application, Burlington Hydro has adopted the
12 following OEB nomenclature:

- 13 • Financial data for 2010, 2011 and 2012 was prepared using the previous
14 accounting policies and are termed "OldCGAAP"; and

15 Financial data of the 2013 Bridge Year and 2014 Test Year was prepared using the
16 current accounting policies and are termed "NewCGAAP".

**STATEMENT OF DEVIATION OF FILING
REQUIREMENTS**

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

The excel version of the complete 2014 Cost of Service checklist is being filed in conjunction with this application

CHANGE IN ACCOUNTING METHODOLOGY

Burlington Hydro is proposing to change the estimated useful lives of its assets to be consistent with those set out in the Kinectrics Report commissioned by Enersource Corporation, Burlington Hydro Inc., Oakville Hydro, Halton Hills Hydro and Milton Hydro dated December 10, 2009 ("BHI's Kinectrics Report"). The useful lives proposed by Burlington Hydro in this Application are consistent with the useful lives in the Kinectrics Report commissioned by the OEB dated July 8, 2010. Burlington Hydro's accounting methodology change in this regard took effect on January 1, 2013.

Burlington Hydro is also proposing to change its accounting policy for the accounting of overhead costs associated with capital work as clarified by the Board in its letter dated February 24, 2010. These changes are consistent with the letter of direction issued by the Board July 17, 2012.

In making these changes, Burlington Hydro believes it will ensure that the company is comparable to other distribution utilities in the Province. Burlington Hydro understands the need for comparability between distribution utilities.

Burlington Hydro has also adopted the various account changes prescribed by the Board in relation to the USoA (Article 210 – Chart of Accounts and Account 220 – Account Descriptions).

Consistent with recent applications to the Board, Burlington Hydro no longer includes PST in its OM&A cost estimates.

Regulatory costs and the incremental one-time cost have been normalized by allocating one fifth of that total to the 2014 Test Year.

Burlington Hydro is not proposing other changes in methodology.

1 **ACCOUNTING TREATMENT OF NON-UTILITY**
2 **RELATED BUSINESS**

3 Burlington Hydro provides water/waste water billing services to BESI. Additionally,
4 Burlington Hydro conducts conservation and demand management (CDM) activities on
5 behalf of the Ontario Power Authority in order to meet the CDM targets that are a
6 condition of Burlington Hydro's license. Burlington Hydro retains separate books of
7 accounts for these billing and CDM activities. Apart from the above and the distribution
8 of electricity to its customers, Burlington Hydro engages in no other business activities.

1 **BOARD DIRECTIVES FROM PREVIOUS DECISIONS**

2 In Decision and Order, EB-2009-0259 issued March 1, 2010, the OEB directed
3 Burlington Hydro to provide evidence in its next rate rebasing application as follows:

4
5 *"Burlington is directed to address this issue more fully at its next rebasing; specifically,*
6 *the Board expects Burlington to lead evidence regarding the value of the services*
7 *received from and provided to the City in relation to the use of poles, and to provide*
8 *documentation of the terms of the arrangement between Burlington and the City."*

9
10 (Decision and Order, EB-2009-0259, March 1, 2010)

11
12 In its June 21, 2012 Decision and Order on Burlington's Application for the disposition
13 and recovery of the costs incurred to deploy Smart Meters, offset by amounts recovered
14 through the operation of the Smart Meter Funding Adder, (EB-2012-0081) the Board
15 directed Burlington, in its next rate rebasing application, to address smart meter-related
16 operational efficiencies and costs savings beyond those identified in that Application.

17
18 In response to the Board's request for quantified operational efficiencies related to smart
19 meters, Burlington Hydro is of the opinion that it is premature to deal with this matter.
20 Burlington Hydro is taking steps to leverage the data that Smart Meters will make
21 available (for example, we plan to deploy an Outage Management System that will make
22 use of Smart Meter data to locate the origin of a power interruption and to automatically
23 alert a crew of the outage; when fully deployed it may be possible to avoid dispatching a
24 crew because the system will rely on programmed intelligence to detect an interruption,
25 correctly identify the cause of the outage, automatically open and close switches to
26 make safe and reroute power flows to minimize the duration of the interruption). While
27 Burlington Hydro is preparing for the deployment and commissioning of these systems it
28 is premature to identify any operational efficiencies or cost savings.

- 1 Burlington Hydro is the subject of one Accounting Order that was issued on May 30,
- 2 2013 (EB-2013-0186). Burlington Hydro has complied with this Order and with all the
- 3 requirements of the Accounting Procedures Handbook.

CONDITIONS OF SERVICE

Burlington Hydro is in the process of updating its Conditions of Services. Amongst the proposed revisions are the following subjects:

- Time of Use (consumption data retrieval and billing alignment with applicable regulations and directions from the Smart Meter Entity);
- Customer Service issues such as Low- Income customers and deposit policy;
- Connection of customer owned generation;
- Connection of renewable generation; and
- Review and revisions to rate classes such as MicroFIT Generator Rate Classification.

Once the 2014 Cost of Service Application is filed, Burlington Hydro will focus its efforts on updating its Conditions of Service. The expected effective date of the revised document is January 1, 2014. The current conditions of service can be found on Burlington Hydro's website.

<http://www.burlingtonhydro.com/terms-conditions.html>