Festival Hydro

Festival Hydro Inc.
187 Erie Street
P.O. Box 397
Stratford, ON
N5A 6T5

April 25, 2014

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

Re: Cost of Service Application EB-2014-0073

Dear Ms. Walli:

Festival Hydro is pleased to submit its Application for 2015 rates.

An electronic copy has been submitted to the Board through the RESS system, and two hard copies will be delivered to the OEB office.

This document is being filed pursuant to the Board's e-Filing Services.

Yours truly,

FESTIVAL HYDRO INC.

Y. Semsedini, P. Eng, MBA

CEO

Festival Hydro Inc.

2015 COS Application

Application

EB-2014-0073

Rates Effective: January 1, 2015

Date Filed: May 29, 2014

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File Number: EB-2014-0073

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Exhibit 1

ADMINISTRATION

Festival Hydro

File Number: EB-2014-0073

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Exhibit 1

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Exhibit 1

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Executive Summary

Executive Summary

This section of Festival's application provides an overview of the key elements of our application and our overall business strategy.

Festival submitted a letter to the OEB on January 4, 2013 seeking approval to align our rate year with our fiscal year (i.e. January 1), and also therefore requested a deferral from our rebasing date of May 1, 2014 to January 1, 2015. The rationale for the proposed alignment of rate year to fiscal year was to match distribution rates with the expenses upon with the rates were granted.

The summaries provided below for each exhibit of this application will highlight how Festival's strategy supports the four areas of focus identified by the Board in the RRFE report, customer focus; operational effectiveness; public policy responsiveness; and financial performance.

In 2012 Festival reviewed and published an updated Mission, Vision and Values document for the organization (included in E1/T6/S13). Using this document – Festival undertook strategic planning meetings in order to set the strategy for the organization for the upcoming years. The strategy was implemented and is as documented in the sections to follow.

Part of the strategy was a focus on the development of detailed Board Governance policies. The policy package was finalized and implemented in 2013 and has been included as part of Festival's application (E1/T6/S13).

In general, the approved strategy in place for Festival requires that each business decision made for the organization consider the following nine areas:

1. Does it add long term value to customers? (Customer Focus)
2. Will it allow Festival to continue to place the right people in the right positions to help achieve goals? (Operational Effectiveness)

3. Does it impact Festival's ability to maintain infrastructure and allow for growth? (Operational Effectiveness)
4. Will Festival be able to continue to serve the needs of the shareholder and community beyond a return on their investment? (Public Policy Responsiveness)
5. Is there future growth for revenue, skills, or resources? (Operational Effectiveness)
6. Will Festival maintain a positive, engaged workforce? (Operational Effectiveness)
7. Will Festival maintain the current level of return on equity? (Financial Performance)
8. Will Festival maintain a comparable dividend policy for the shareholder? (Financial Performance)
9. Has geography been considered and how Festival can serve customers efficiently? (Customer Focus)

These nine themes are highlighted throughout the application and are the core areas of focus for Festival. As indicated above – each of these themes can be tied into one of the areas of focus as identified by the OEB in their RRFE.

Festival Scorecard

On March 5, 2014 the Board issued its report on *Performance Measurement for Electricity Distributors: A Scorecard Approach*. The report sets out the Board's policies on the measures that will be used by the Board to assess a distributor's effectiveness and improvement in customer focus, operational effectiveness, public policy responsiveness, and financial performance to the benefit of existing and future customers.

Festival has prepared and included our scorecard attached below, which demonstrates, as part of the Application, our performance over the past five years based on the measures of the Board.

Based on the results of the performance measurements identified in Festival's scorecard, the following can be highlighted:

- Customer Focus: In the area of service quality – Festival is exceeding the industry standard for all three categories. The customer satisfaction category introduces three new measures which Festival is in the process of reviewing in order to ensure these metrics can be captured.

- Operation Effectiveness: System reliability stats have increased outside of the distributor specific range in 2013 as a result of two ice storms that impacted Festival's distribution territory. Asset management measurement includes a new metric to assess the progress of the distribution system plan. As the distribution system plan was developed in 2013 and 2014, data for this metric cannot be captured yet. Cost control in this category includes Festival's efficiency ranking (currently in group 4 for 2014 rates), and a total cost per customer and total cost per km of line which Festival has calculated in draft (as PEG reports have not been issued to date for F2013) are projected to increase based on the costs as highlighted in exhibit 2 for capital as it relates to the transformer station, and in exhibit 4 for increased OM&A costs partially as a result as the transformer station, but also partly due to other items outside of Festival's control as highlighted in E1/T2/S6 – executive summary for OM&A expenses.
- Public Responsiveness: Conservation and demand management metrics are included and are increasing – but Festival would like to note that the 2013 figures have not yet been finalized by the OPA. Connection of renewable generation metrics are also included and have been reported as having been connected and completed on time in the year when Festival had a connection request.
- Financial Ratios: Four financial metrics are included in the scorecard and Festival indicates that the liquidity and leverage ratios are increasing. Profitability (return on equity – both deemed and actual) metrics show that Festival's actual return for 2013 is expected to be above the deemed return.

With Festival's strategy implementation, the following provides a summary of the key elements of Festival's application.

Attachment 1 of 1

Festival Scorecard

Distributor Name: Festival Hydro Inc.

Performance Outcomes	Performance Categories	Measures	2008	2009	2010	2011	2012	2013	Trend	Target: Industry	Target: Distributor - specific for 2012
Customer Focus Services are provided in a manner that responds to identified customer preferences	Service Quality	New Residential Services Connected On Time	98.00%	100.00%	99.00%	99.20%	99.50%	99.40%	^	90%	
		Scheduled Appointments Met On Time	99.50%	100.00%	100.00%	100.00%	99.80%	99.20%	^	90%	
		Telephone Calls Answered On Time	98.30%	98.30%	98.30%	98.60%	78.70%	84.50%	^	65%	
	Customer Satisfaction	First Contact resolution									
		Billing Accuracy									
		Customer Satisfaction Survey Results									
Operation Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives	Safety	Public Safety)measure to be determind)	Consultation with ESA will identify a measure that is readily available for use.								
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted	1.14	0.55	1.86	1.08	1.04	4.00	^		atleast within 0.55 and 1.86
		Average Number of Times that Power to a Customer is Interrupted	1.33	1.18	1.93	1.73	1.42	3.11	^		atleast within 1.18 and 1.93
	Asset Management	Distribution System Plan Implementation Progress									
	Cost Control	Efficiency Assessment						4			
		Total Cost per Customer		$563	$608	$606	$632	$648	^		
		Total Cost per Km of Line		$39,836	$42,975	$43,484	$45,726	$50,947	^		
Public Responsiveness Distributors deliver on obligations mandated by government (eg., in legislation and in refulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	net Annual Peak Demand Savings (Percent of target achieved)				11%	32%	45%	^		6.23
		Net Cumulative Energy Savings (Percent of target achieved)				30%	108%	124%	^		29.25
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time			11	15	8	15	^	Applicable timeline prescribed by Ontario Regulation 326/09 made under the *Electricity Act*.	
		New Micro-enbedded Generation Facilities Connected On Time			2				>	90%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.57	0.53	0.48	0.49	0.37	0.49	^		
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.77	0.84	0.96	0.93	1.1	2.01	^		
		Profitability: regulatory Return on Equity — Deemed (included in rates)				9.85%	9.85%	9.85%	>		
		Profitability: regulatory Return on Equity — Achieved				11.71%	9.75%	10.50%	v		

Legend

^	up
v	down
>	flat
(green)	target met
(red)	target not met

A. Revenue Requirement

Festival's requested Service Revenue Requirement for the 2015 Test Year is $11,871,010. The service revenue requirement represents an increase of $1,582,816 or 15% over the 2010 Board Approved amount of $10,288,194.

Based on the projected load forecast and customer growth for the 2015 Test Year, as provided for in this Application, Festival has estimated a revenue deficiency of $949,615 based on its current rates. The computation of the revenue deficiency is as show in the RRWF in (E6/T1/S1). The principal drivers of the revenue deficiency are explained in detail in exhibit 6, but are as highlighted below:

- Increases in OM&A of approximately $896K (excluding the impact of changes to Festival's capitalization policies)
- Incremental return on rate base of approximately $1M as a result of the increase in rate base since Festival's last Cost of Service application in 2010 of approximately $22M (excluding the impacts of the changes to Festival's capitalization policies and change in estimated useful lives of property, plant and equipment.
- An increase in depreciation expense before considering policy changes of $1,078M representing the increased average net book value in 2015 versus 2010.
- Offset by a reduction to the revenue requirement of $808K representing the impacts of the changes to Festival's capitalization policies and changes in estimates in the useful lives of PP&E. Included within this amount is an overall reduction in depreciation expense partially offset by an increase in OM&A expenditures attributable to costs that are no longer eligible to be capitalized and an increase in return on rate base due to the higher average net book value as a result of slower asset depreciation.

- Reduction to forecasted PILS of $585K due to adjustments to taxable income. The reduction of taxable income versus accounting income is mainly due to amortization recorded for accounting purposes and allowable capital cost allowance deduction for tax purposes.
- Increase in revenue offsets of $78K as documented in E3/T3/S1 – other revenues.
- IRM rate and volume fluctuations in the 2011, 2012, 2013, and 2014 rate years resulting in an increase in service revenue charged under current rates of $555K

B. Budgeting Assumptions

Festival compiles budget information for three major components of the budgeting process: revenue forecasts, operation, maintenance and administration forecasts and capital expenditures. Budget information was prepared for both the Bridge and Test Years. 2014 bridge year forecasts were updated based on actual 2013 results, and the 2015 test year projections were also reviewed in light of 2013 results.

Revenue Forecast

The revenue budget includes three components: energy revenue, distribution revenue and other revenue.

The energy revenue for 2015 was forecasted using the weather normalized load forecast prepared by Festival as presented in E3/T1/S2. Rates for energy pass-through charges are described in E3/T1/S3.

Distribution revenue was forecast using the weather normalized volumes multiplied by both current approved distribution rates and by proposed rates in order to project revenue for the 2015 test year. Other revenues were reviewed on an item by item basis with each account projection being determined based on the most reliable historical indicator.

Operations, Maintenance and Expense Forecast

The OM&A expenses for the 2014 bridge year and 2015 test year were forecast using work plans, estimated pay grid progressions, capital budgets and prior years historical costs. The expenditures were submitted to Festival's Board of Directors in November 2013 for approval and reflected the following assumptions:

Wages:

- Union Wages reflect Festival's estimate of industry average increases in the bridge year and test year at approximately 2.5%. Union negotiations began in Q1 of 2014, but have not been finalized as of the date of filing this application.
- Salaries reflect movement of the individual currently in the position along the existing salary grid with assumed cost of living adjustments of 2.5%.
- Other changes in staffing levels to occur include retirement of a lineman in 2015 for which an apprentice was hired in 2011 to cover this deficiency.

Operating and Maintenance, Billing and Collecting, General Administration

- Costs other than labour have assumed to increase 2.0% unless they are specific in nature in which case judgment was used to project the expected expense for the bridge or test you.

Regulatory Costs

- 2015 Cost of Service application assumed to cost $30K plus $10K in intervenor costs. Festival assumed full recovery through rates from January 2015 to December 2019.
- Assumed OEB Annual assessments of $60K and $3K in other cost awards.
- Assumed Annual distributor license fee of $800

Amortization:

- 2015 Amortization is calculated based on revised asset useful lives and a MIFRS basis.

PILS:

- Regulatory PILS calculated as per Board model.

Capital Budget

The capital budget is formulated on a project by project basis. The maintenance program is relied on to identify any assets that must or should be removed from service and replaced in order to maintain secure and reliable supply. Projects are prioritized by location and asset condition.

Capital spending to replace existing aging infrastructure is required in order to maintain safe and reliable delivery of electricity to Festival's customers.

Additional information on Festival's approach to asset investment planning is included in E2/T2/S1.

C. Load Forecast Summary

The Load forecast as presented in exhibit 3 indicates that Festival predicts kwH in the test year to be 594,474,691. This in comparison to the 2010 board approved amount of 600,000,000 kwH and 2010 actual amount of 572,326,732 kwH (a 0.9% decrease over 2010 Board approved amount, but a 3.4% increase over 2010 actual kwH). Festival has projected customers in the load forecast at 27,375 as compared to 25,874 as the 2010 Board approved amount, and 25,805 2010 actual customer numbers representing a 5.8% increase over 2010 Board approved figures and a 6.1% increase over 2010 actual customers.

With regards to the overall process of load forecasting, it is Festival's view that conducting a regression analysis on historical purchases to produce an equation that will predict future purchases is appropriate. Festival has readily available the monthly amount of kWhs purchased from the IESO and others. With a regression analysis these purchases can be related to other monthly explanatory variables, such as heating degree days and cooling degree days, which occur in the same month. The results of regression analysis produce an equation that predicts the purchases based on the explanatory variables. This prediction model is then used as the basis to forecast the total level of weather normalized purchases for Festival for the 2014 bridge and 2015 test year which is converted to billed kWh by rate class.

As per the Elenchus report included in E3/T1/S2/A1:
For purposes of calculating the load forecast Elenchus has applied the following methodologies:

- For the kWh forecast for Residential, GSLT50, and USL rate classes Elenchus has used a normalized NSLS load profile applied against the share values of historical rate class annual usage. Customer/Connection forecast have been calculated by using an eight year geomean formulation.
- For the kWh forecast for the GSGT50 and Large Use rate classes Elenchus has used the Interval load profile applied against the share values of historical rate class annual usage. For the kW forecast Elenchus has applied a kW/kWh ratio based on the

2013 actual ratio. Customer forecast have been calculated by using an eight year geomean formulation.

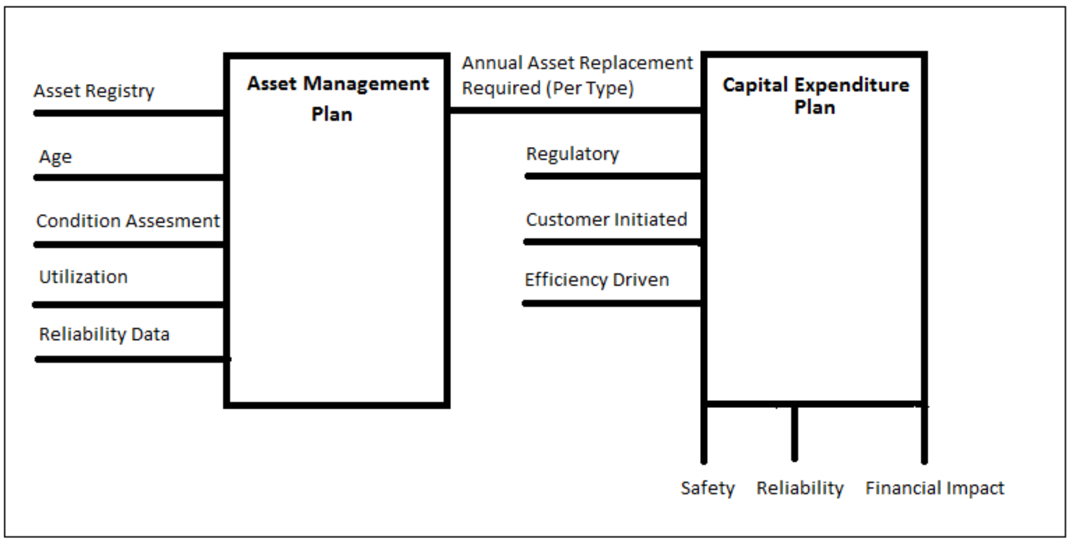
- For the kWh forecast for the Street Light and Sentinel rate classes Elenchus has used the streetlight profile applied against the shore values of historical rate class annual usage. For the kW forecast Elenchus has applied a kW/kWh ratio based on the 2013 actual ratio. Customer forecast have been calculated by using an eight year geomean formulation.
- For the CDM adjustment to base load forecast for all rate classes Elenchus has applied methodology akin to the Boards Appendix 2I formulation.

D. Rate Base and Capital Plan

Summary of major Distribution System Plan Drivers

Festival Hydro's Distribution System Plan considers many elements in deriving the overall system strategy. Below is a graphical summary of the various inputs:

Distribution System Plan



The main drivers of the DSP and capital expenditures are Infrastructure replacements as derived from the Asset Management Plan, customer connections as required and reliability improvements as derived from customer feedback. Infrastructure replacements and general plant including IT infrastructure, buildings and fleet represent 57% and 19% of the 5 year projected budget respectively. Customer connections as requested by third parties account for 12% of the budget and reliability improvement derived from customer feedback including reinsulation of OH systems and replacement of live front padmounted switch gear account for 12%.

Rate Base Requested for the Test Year

Festival has calculated its 2015 rate base as $63,100,999, an increase of $23M over the 2010 Board approved rate base of $40,127,578 (57%). The increase in rate base is attributable to an increase in the average net book value of assets of $21.4M and an increase in working capital allowance of $1.6M. Festival's gross fixed assets have increased by $19.3M over the 2010 Board approved amount of $75.1M to the 2015 test year amount of $94.4M. A large percentage of this increase relates to the transformer station that was built and put into service in 2013.

Capital Expenditures requested for the test year

Included below is a copy of the capital expenditures requested for the 2015 test year. A detailed description of the projects identified below can be found in Appendix 4 of the Distribution System Plan in E2/T2/S1. Total expenditures requested for the test year are $2,621,500. Total Board approved capital expenditures included in Festival's 2010 cost of service application were $3,357,000. The amount requested for 2015 represents a $725,500 decrease in capital additions (22%).

FESTIVAL HYDRO

2015 CAPITAL BUDGET

		2015 Budget
Overhead Distribution Projects		**$800,000**
S	M8 Feeder Rebuild (Ontario to Douro)	$125,000
S	Trinity Street (Brunswick to Regent)	$90,000
S	King Street (Albert to Douro)	$60,000
S	Reinsulate	$150,000
SM	Elgin Street (Church to James)	$90,000
SM	Jones Street (James to Church & Peel)	$60,000
SF	John Street (High St to Sparling)	$75,000
SF	Jarvis Street & Lloyd Eisler St.	$150,000
Underground Distribution Projects		**$370,000**
S	M.S. #9 Conversion Ph 1 (Greenwood, Glastonbury, Nethercott)	$230,000
S	Vault Repair (Vault #3)	$30,000
S	Switchgear - 2 deadfront units	$110,000
Distribution Transformers - Purchases only - no labour		**$205,000**
Miscellaneous Projects		**$200,000**
Capital Additions -Customer driven		**$204,000**
New/Upgraded Services		**$117,500**
Distribution Meters		**$175,000**
	Residential/Commercial/Industrial	$175,000
Distribution Automation (SCADA, GIS, Outage Management)		**$50,000**
	Scada Enhancements	$50,000
Tools & Misc. Equipment		**$30,000**
	Tools - Operations (74" ADI Pruner Allan Fyfe; Jubb)	$25,000
	Misc Purchases	$5,000
	SUB TOTAL	**$2,151,500**
Lands and Buildings		**$90,000**
	Administration Building	$65,000
	Service Centre	$25,000
Vehicles and Trailers		**$135,000**
	pickup, trailer and electric vehicle	$135,000
Computer Equipment		**$245,000**
Software Purchases		$205,000
Hardware Purchases		$40,000
	TOTAL	**$2,621,500**

Costs Requested for renewable energy connections/expansions, smart grid, and regional planning initiatives.

Festival does not have any costs relating to renewable energy connection/expansions or regional planning initiatives in relation to the Distribution System Plan. Festival is therefore not seeking to recover any costs from ratepayers for renewable energy connection costs.

Smart Grid projects in the Test year are summarized below:

Cyber Security - $42,000
GIS - $30,000
Electric Vehicle - $70,000

Appendix 2-AB
Table 2 - Capital Expenditure Summary from Chapter 5 Consolidated Distribution System Plan Filing Requirements

First year of Forecast Period: *2015*

CATEGORY	Historical Period (previous plan[1] & actual)															Forecast Period (planned)				
	2010			2011			2012			2013			2014			2015	2016	2017	2018	2019
	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual[2]	Var					
	$ '000		%	$ '000		%	$ '000		%	$ '000		%	$ '000		%	$ '000				
System Access	295,600	285,868	-3.3%	609,000	439,986	-27.8%	364,000	503,122	38.2%	452,000	272,227	-39.8%	315,000		-100.0%	321,500	328,000	334,500	341,000	347,500
System Renewal	2,468,400	2,116,936	-14.2%	2,111,000	2,306,268	9.3%	2,146,000	1,759,913	-18.0%	1,706,500	2,036,400	19.3%	1,688,000		-100.0%	1,490,000	1,513,000	1,539,000	1,565,000	1,592,000
System Service	498,000	377,833	-24.1%	200,000	93,154	-53.4%	465,000	523,091	12.5%	881,500	673,952	-23.5%	310,000		-100.0%	310,000	314,000	316,000	318,000	320,000
General Plant	485,000	359,166	-25.9%	471,500	219,406	-53.5%	434,000	505,287	16.4%	403,000	405,208	0.5%	460,000		-100.0%	500,000	427,000	826,000	445,000	415,000
TOTAL EXPENDITURE	3,747,000	3,139,803	-16.2%	3,391,500	3,058,814	-9.8%	3,409,000	3,291,413	-3.4%	3,443,000	3,387,787	-1.6%	2,773,000	-	-100.0%	2,621,500	2,582,000	3,015,500	2,669,000	2,674,500
Increase in major spare parts		41,549			-			66,863			-									
smart meters and related computer equipment reclassified from USOA 1555								3,694,577												
contributed capital USOA 1995	- 390,000	- 474,049			- 106,480			- 342,654			- 154,030		- 150,000			- 120,000	- 120,000	- 120,000	- 120,000	- 120,000
TS CWIP USOA 2205		879,452			312,730			7,830,663			5,860,659									
Non Rate-Regulated Utility Property USOA 2017 (solar)		44,951			249,738			-			-									
TOTAL EXPENDITURE		3,631,705			3,514,802			14,540,863			9,094,416		2,623,000			2,501,500	2,462,000	2,895,500	2,549,000	2,554,500
System O&M	$1,472,730	$1,446,517	-1.8%	$1,509,548	$1,539,820	2.0%	$ 1,539,739	$2,202,237	43.0%			--	$1,929,022		-100.0%	$2,104,096	$2,084,956	$2,123,978	$2,171,021	

Notes to the Table:

1. Historical “previous plan” data is not required unless a plan has previously been filed
2. Indicate the number of months of 'actual' data included in the last year of the Historical Period (normally a 'bridge' year):

Explanatory Notes on Variances (complete only if applicable)

Notes on shifts in forecast vs. histrical budgets by category

System Access - historical budget vs forecast is stable over the planning horizon. System access is mostly driven by 3rd party work and no major changes are expected. The forecast period budget is 10% below historical actual to date.
System Renewal - forecasted budget for SR projects decreases compared to historical budget due to the age and system condition of assets as defined in the asset management report. spending stays stable over the forecast budget
System service - forecasted budget for SS decreases slightly from the historical to forecast period, but spending remains stable.

Notes on year over year Plan vs. Actual variances for Total Expenditures

There is one historical year the variance exceeds +-10 percent of spending, 2010. As was described in the DSP, $515,000 was removed from the 2010 budget do to additonal spending required in the smart meter roll out.

Notes on Plan vs. Actual variance trends for individual expenditure categories

System Access - The variance for this category is attributed to the amount of actual work required to be completed by customers. All work in this category is customer driven for which FHI has no control.
1 System Renewal - Although system renewal had year to year variances the total variance over the 4 year reported period is less than 1%. this can be attributed to timing.

E. OM&A Expense

Overall Cost Drivers and Cost Trends

Cost drivers are reviewed in detail in E4/T2/S1. Since Festival's last rebasing application in 2010 there have been many changes in the electricity distribution sector which have translated into incremental OM&A expenditures. Some of these changes include:

- Implementation of smart meters
- Time of use pricing
- Mandated conservation and demand management programs
- Requirements under the Green Energy Act with respect to renewable generation
- Implementation of revised depreciation and capitalization policies for regulatory accounting purposes as a result of rate regulated entities being required to convert to IFRS effective January 1, 2015.

OM&A for the Test Year vs. the last Board Approved Amount

Festival is requesting recovery of total OM&A expenses in the 2015 test year of $5,144,251. In 2010, OM&A expenses of $3,980,676 were approved by the Board. This represents an increase in OM&A costs of $1.2M since the last Board approved amounts (29%).

Festival has also experienced increased OM&A expenditures attributable to the following:

- Salaries and wages which are trending upwards and have increased by approximately 3% per year
- Increased OMERS pension costs
- Transformer station operation costs

The table below highlights the main cost drivers impacting OM&A expenditures since Festival's last rebasing application in 2010:

Summary of Cost Drivers From 2010 COS to 2015 TY		
Cost Driver	$ 000's	%
Future Benefits/OMERS	101	9%
Net Labour Related Costs	533	46%
Materials/Maintenance	63	5%
IT & Smart Meters	157	13%
Acct Policy/Admin	169	15%
Transformer Station	140	12%
	1,163	

Note that 37% of the drivers identified above are the result of mandated or required changes that caused Festival's OM&A costs to increase (OMERS premiums, smart meter/TOU implementation, accounting policy changes required to convert to MIFRS).

Inflation Rates used for OM&A Forecasts

A labour inflation rate has been used to calculate 2015 salaries, wages and benefits for the 2015 test year. A union negotiation is ongoing and is expected to be finalized shortly after the filing of this application and coming into effect May 1, 2015. 2.5% is the anticipated overall cost increase expected to be included in this final agreement. It is anticipated that this increase will be applied to all labour costs of the organization and this has been taken into account in the 2015 projections.

Other costs expected to be impacted by inflation have been projected to increase 2% in the 2015 OM&A test year figures.

Transformer Station Costs

In 2013, Festival received approval for the ICM application related to the new Transformer Station required for serving customers in Stratford. Festival used a competitive bidding process for the construction of the TS, and followed this practice for the on-going monitoring and maintenance of the TS. An RFP process was used to select a vendor for the 24/7 control room monitoring of the TS and the planned annual maintenance of the TS. The proponents contacted for the 24/7 control room monitoring were other LDCs who have existing control rooms in place, with capacity to monitor an additional transformer station. By partnering with another LDC, Festival has avoided the on-going OM&A costs associated with developing and staffing its own 24/7 control room. For the planned annual maintenance contract, the vendors selected were private contractors who have extensive experience and expertise in this specialized field. By outsourcing this maintenance work, Festival has avoided the on-going OM&A costs associate with hiring employees with the skill sets needed to complete this work. The expected annual OM&A costs related to the transformer station have been mitigated without impacting reliability.

Total Compensation for the Test Year

Total compensation is projected at $4,462,579 for the 2015 test year as compared to the 2010 Board approved amount of $3,557,575. This represents an increase of $905K or 25%. Note that the table above highlights the cost drivers relating to OM&A only, and these compensation figures include salaries/wages and benefits capitalized.

Overall Bill Impact Expected

While the revenue requirement through base distribution rates for test year 2015 is projected to increase from the bridge year 2014, many customers will in fact see a decrease in their 2015 distribution charges. During the 2014 bridge year, customers are currently paying about $650,000 through Incremental Capital (ICM) rate riders to cover the cost of the transformer station. These rate riders will end effective January 1, 2015 as the costs are being incorporated into distribution rates. In addition, a smart meter incremental revenue requirement rate rider has been included in 2014 rates, and similar to the transformer station, while the operating costs appear as direct cost drivers in the table presented above, the rate impact as a result of the implementation of smart meters has already been considered in a prior proceeding. There are also negative rate riders being proposed in this application representing the repayment of the deferral and variance accounts. All of these changes are resulting in reductions in distribution rates for residential, GS <50kW, Unmetered scattered load, sentinel lights, and street lighting customers. Festival has highlighted overall bill decreases for all customer classes except the large use customer class is showing a modest total bill increase.

A table of distribution charge impacts and total bill impacts by customer class can be found in E1/T2/S10.

Summary

As highlighted in greater detail in exhibit eight, the overall bill impact to our customers in this Application is reasonable. As noted above, many of the operating costs driving the increase in the distribution rates since the 2010 board approved figures were (i) out of the control of Festival, or (ii) the result of including in distribution rates costs from existing rate riders that had already been considered in previous rate setting proceedings.

F. Cost of Capital

Festival has followed the *Report of the board on Cost of Capital for Ontario's Regulated Utilities* dated December 11, 2009 to determine its capital structure and relied on the board's November 25, 2013 *Cost of Capital parameter Updates Letter* for the most recent cost of capital parameters. Festival will update the cost of capital parameters when new parameters are made available prior to the Board's decision regarding Festival's 2015 Distribution Rates.

G. Cost Allocation and Rate Design

The Cost Allocation model used by Festival Hydro is version 3.1 issued on August 2, 2013. Festival has followed the policies as outlined in the March 31, 2011 report and as presented within the Cost Allocation Model.

On March 31, 2011 the Board issued its Report of the Board on the Review of Electricity Distribution Cost Allocation Policy, EB-2010-0219. This report contained several revisions to the Board's policy with respect to cost allocation that were to be implemented through cost of service applications beginning with the 2012 test year. In the report, the Board noted that the default weighting factors should now be used only in exceptional circumstances and that distributors were expected to develop their own weighting factors that better reflecting rate class costing. Festival has developed a set of weighting factors for the purpose of preparing this study.

For the 2015 Cost allocation model, Festival followed a consistent approach with the initial 2006 and 2010 studies in terms of breaking out of assets, capital contributions, depreciation, accumulated depreciation, customer data and load data by primary, line transformer and secondary categories were developed from the best data available to Festival Hydro, its engineering records, and its customer and financial information systems. The current model incorporates the 2015 test year customer numbers, kWh load forecast, and kW demand values. There have been no direct allocations within the model.

For streetlighting, Festival Hydro completed a study to determine the number of lights per connection by going into the service territory and taking sample tests. It was found that there was generally one connection for every eight lights. This is the ratio used in the 2015 model, which compares to the default five to one ratio used in the 2010 Cost of service model.

In terms of load profiles, Festival utilized the load profiles that Hydro One prepared of the 2006 Cost Allocation model and scaled the profiles to match the 2015 load forecast. The 2015 demand values are based on the weather normalized load forecast used to design rates.

While most ratios for 2015 are similar to the ratios from 2010, there have been some changes which are primarily a result in the differences in forecasted loads used in the 2010 model compared to the updated load projections used in the 2015 model. In the determination of weighting factors, it was noted that since Festival's last Cost of Service Study in 2010, the complexities related to meter reading and billing for residential and G.S. < 50 kW more closely reflect those costs experienced by the G.S> > 50 kW and Large Use classes, due to the added complexities associated with smart meters and TOU pricing.

The contribution from streetlighting has gone up substantially, primarily due to the change in the light to connection ratio from the standard five to one used in the 2010 model to the eight to one ratio based on a study completed by Festival. Unmetered scattered load is well over the target range. The table below compares the 2015 allocated costs by rate class to the 2010 COS cost allocation results.

A) Allocated Costs

Classes	**Costs Allocated from Previous Study**	**%**	**Costs Allocated in Test Year Study (Column 7A)**	%
Residential	$ 5,377,136	52.27%	$ 6,271,138	52.83%
Residential Hensall	$ 138,600	1.35%	$ 155,603	1.31%
GS < 50 kW	$ 1,542,736	15.00%	$ 1,655,912	13.95%
GS > 50 kW to 4999 kW	$ 2,713,580	26.38%	$ 3,477,352	29.29%
Large Use	$ 277,500	2.70%	$ 163,571	1.38%
Unmetered Scattered Load (USL)	$ 28,137	0.27%	$ 24,874	0.21%
Sentinel Lighting	$ 13,666	0.13%	$ 6,821	0.06%
Street Lighting	$ 196,840	1.91%	$ 115,738	0.97%
Total	$ 10,288,195	100.00%	$ 11,871,009	100.00%

Festival Hydro is proposing in this application to re-align its revenue to cost ratios by adjusting the allocations of revenue among rate classes in order to reduce some of the cross-subsidization that is occurring and to bring all ratios within the target ranges. The following re-alignments are proposed for each rate class in order to bring all classes within the target ranges:

- Residential class in well within the range at 104.46, so no adjustments are proposed.
- Residential Hensall is being adjusted from 103.02 to 104.46 in order to harmonize Residential Hensall with the regular Residential class.
- General Service <50 kW is within the range so no adjustments have been made It continues to have the highest ratio at 116.78.
- General Service > 50 kW has been raised by 1.45 from the current ratio of 81.48 to 82.93, and is being used as the offset account to be increased as result of reduction to USL and sentinel lights.
- Large Use is at 100.71 so no adjustment required.
- Sentinel lights is within the range at 86.05 so no adjustment required.
- Street Lighting is beyond the range at 147.68 so Festival proposes a 27.68 adjustment in test year 2015 to bring this class to the 120 maximum target immediately.
- Unmetered Scattered Load is at 202.68. Festival is proposing to reduce by 82.68 over the to bring this class to the 120 maximum target immediately.

The table below provides the final proposed ratios after processing the changes noted above, which have been by Festival to calculate its proposed distribution rates in Exhibit 8.

C) Rebalancing Revenue-to-Cost (R/C) Ratios

Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year: 2013	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	%	%	%	%
Residential	106.47	104.51	104.51	85 - 115
Residential Hensall	106.27	103.06	104.51	80 - 120
GS < 50 kW	112.03	116.79	116.79	80 - 120
GS > 50 kW to 4999 kW	81.31	81.41	82.85	80 - 120
Large Use	112.03	100.62	100.62	85 - 115
Unmetered Scattered Load (USL)	70.00	202.66	120.00	70 - 120
Sentinel Lighting	70.00	86.09	86.09	80 - 120
Street Lighting	120.00	147.62	120.00	80 - 120

H. Deferral and Variance Accounts

Festival has followed the Board's guidance in the Accounting Procedures Handbook ("APH") and FAQs for recording amounts in the deferral and variance accounts. We have also followed the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR) (EB-2008-0046, July 31, 2009) for the disposition of these accounts. Festival has completed and included the Board's "2014_EDDVAR_Continuity_Schedule-CoS" spreadsheet at E9/T2/S2/Att1, which has been reconciled to the December 31, 2013 USOA trial balance as reported under 2.1.7 of the RRR reporting, and the Audited Financial Statements.

Festival, as part of its 2015 COS application, is requesting approval for the disposition of all Group 1 and Group 2 Deferral and Variance accounts ("DVAs") based on the balances outstanding at December 31, 2013 and interest projected through to December 31, 2014. The table below provides a summary of the amounts being claimed for disposition (all accounts) as part of the 2015 COS application. It also identifies which accounts Festival is/is not requiring continuation. Details regarding the amounts being claimed for each account and the basis for continuing or not continuing the account is provided in Exhibit 9.

Summary of Deferral and Variance Accounts for 2015 COS Applicati		Principal Balance Dec 31, 2013	Interest Balance Dec 31, 2013	Total Dec 31, 2013	2014 Dispositions	2014 Projected Interest	2015 COS Claim	Per 2.1.7 31-Dec-13	Continuation of Account
LV Variance Account	1550	128,226	- 338	127,887	-	1,885	129,772	127,887	Yes
RSVA - Wholesale Market Service Charge	1580	- 2,290,273	- 70,186	- 2,360,459	-	- 33,667	- 2,394,126	- 2,360,459	Yes
RSVA - Retail Transmission Network Charge	1584	280,788	2,703	283,491	-	4,128	287,619	283,491	Yes
RSVA - Retail Transmission Connection Charge	1586	388,014	16,315	404,329	-	5,704	410,033	404,329	Yes
RSVA - Power (excluding Global Adjustment)	1588	220,717	- 7,424	213,293	-	3,245	216,538	213,293	Yes
RSVA - Global Adjustment	1589	1,004,195	51,814	1,056,009	-	14,762	1,070,771	1,056,009	Yes
Recovery of Regulatory Asset Balances	1590	94,824	- 46,558	48,266	-	1,394	49,659	48,266	Yes
Smart Meter Entity Charge Variance Account	1551	15,533	137	15,670	-	228	15,898	15,670	Yes
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	-	-	-		-	-	-	
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	- 191,884	- 120,251	- 312,135	254,512	-	- 57,623	- 312,135	No
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	-	1,640	1,640	-	-	1,640	1,640	No
Total of Group 1 Accounts (excluding 1589)		**-$349,860**	**-$172,148**	**-$522,009**		**-$2,322**	**- 269,819**	**-$522,009**	
Other Regulatory Assets - Sub-Account - Deferred IFRS Transitior	1508	$109,628	$3,770	113,398	-	1,612	115,010	113,398	Yes
Other Regulatory Assets - Sub-Account - Incremental Capital Cha	1508	$2,157	$113	2,269	-	32	2,301	2,269	No
Other Regulatory Assets - Sub-Account - Other - ICM Rate Rider	1508	$15,036,188	$17,623	15,053,811	- 15,053,811	-	0	15,053,811	No
Retail Cost Variance Account - Retail	1518	-$51,066	-$2,363	- 53,429	-	- 751	- 54,180	- 53,429	Yes
Misc. Deferred Debits - 2010 Rate Application Costs	1525	12,000	3,725	15,725	- 12,000	-	3,725	15,725	No
Retail Cost Variance Account - STR	1548	- 1,367	- 46	- 1,413	-	- 20	- 1,433	- 1,413	Yes
Other Deferred Credits	2405	45,209	-	45,209	-	-	45,209	45,209	No
Total of Group 2 Accounts		**$15,152,749**	**$22,822**	**$15,175,571**	**-$15,065,811**	**$872**	**110,632**	**$15,175,570**	
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592								
Total of Account 1562 and Account 1592		**-$159,506**	**-$5,083**	**-$164,589**	**-$37,211**	**$0**	**-$164,589**	**-$127,377**	No
LRAM Variance Account	1568	**$173,425**	**$2,401**	**$175,826**	**$54,271**	**$2,484**	**$178,310**	**$121,555**	Yes
IFRS-CGAAP Transition PP&E Amounts Balance + Return Compo	1575	- 696,846	-	- 696,846	- 826,853	- 190,462	- 1,714,161	- 696,846	Yes
Accounting Changes Under CGAAP Balance + Return Componen	1576	-	-	-	-	-	-	-	
Total Balance Allocated to each class for Accounts 1575 and 1576		**- 696,846**	**-**	**- 696,846**	**- 826,853**	**- 190,462**	**- 1,714,161**	**- 696,846**	
Smart Meter Capital and Recovery Offset Variance - Sub-Account	1555	**$0**	**$0**	**$0**	**$234,537**	**$0**	**$234,537**	**$0**	No
					ICM Rate Rider Claim		326,336.00		
					Total Claim		**- 1,298,753.69**		
			Total balances being reported Dec 31, 2013 on RRR 2.1.7					**13,950,893.36**	

Reconciliation to Audit Financial Statements:	
Balance per Audit Financial Statements at December 31, 2013	**11,841,146.00**
Add: Future income tax payable	**2,109,748.00**
Total per Continuity Schedule at Dec 31, 2013	**13,950,894.00**
(also as reported on Dec 31, 2013 RRR 2.1.7)	

Group 1 Accounts were last disposed of as part of the 2010 COS application, with disposition of balances as of Dec 31, 2008 plus projected interest. In each year of the 2011 to 2014 IRM filings, the net Group 1 Account Balances did not equal or exceed the threshold levels and as such the balances being claimed represent the net transactions for the period January 1, 2009 to December 31, 2013 plus projected interest to December 31, 2014.

Group 2 accounts were last disposed of as part of the 2010 COS proceeding. The balances being requested for disposition as part of this proceeding represent net transactions for the period January 1, 2009 to December 31, 2013, included carrying charges and with projected interest to December 31, 2014.

Provided below are the proposed rate riders commencing January 1, 2015. Because of the planned harmonization of residential rates, the Residential and Residential Hensall customer numbers and kWh were added together when calculating the rate riders in order to determine one rate rider applicable to all residential customers.

Rate Rider Calculation for Deferral / Variance Accounts Balances (excluding Global Adj.)

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocated Balance (excluding 1589)	Rate Rider for Deferral/Variance Accounts	
Residential	kWh	140,900,799	-$ 323,936	- 0.0023	$/kWh
General Service < 50 kW	kWh	64,179,620	-$ 117,481	- 0.0018	$/kWh
General Service > 50 to 4999 kW	kW	944,456	-$ 718,966	- 0.7612	$/kW
Large Use	kW	34,360	-$ 29,497	- 0.8585	$/kW
Unmetered Scattered Load (per connection	kWh	660,967	-$ 2,069	- 0.0031	$/kWh
Sentinel Lighting (per connection)	kW	356	-$ 445	- 1.2487	$/kW
Street Lighting (per light)	kW	11,995	-$ 23,843	- 1.9878	$/kW
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
Total			**-$ 1,216,236**		

Rate Rider Calculation for RSVA - Power - Global Adjustment

Rate Class (Enter Rate Classes in cells below)	Units	Non-RPP kW / kWh / # of Customers	Balance of RSVA - Power - Global Adjustment	Rate Rider for RSVA - Power - Global Adjustment	
Residential	kWh	14,633,331	$ 37,916	0.0026	$/kWh
General Service < 50 kW	kWh	14,307,441	$ 37,072	0.0026	$/kWh
General Service > 50 to 4999 kW	kW	933,766	$ 926,926	0.9927	$/kW
Large Use	kW	34,026	$ 56,941	1.6734	$/kW
Unmetered Scattered Load (per connection	kWh	382,030	$ 990	0.0026	$/kWh
Sentinel Lighting (per connection)	kW	-	$ -	-	$/kW
Street Lighting (per light)	kW	11,094	$ 10,927	0.9849	$/kW
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
Total		**$ 30,301,689**	**$ 1,070,771**		

Rate Rider Calculation for Accounts 1575 and 1576

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

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Balance of Accounts 1575 and 1576	Rate Rider for Accounts 1575 and 1576	
Residential	kWh	140,900,799	-$ 406,286	- **0.0014**	$/kWh
General Service < 50 kW	kWh	64,179,620	-$ 185,061	- **0.0014**	$/kWh
General Service > 50 to 4999 kW	kW	944,456	-$ 1,043,340	- **0.5523**	$/kW
Large Use	kW	34,360	-$ 63,988	- **0.9311**	$/kW
Unmetered Scattered Load (per connection	kWh	660,967	-$ 1,906	- **0.0014**	$/kWh
Sentinel Lighting (per connection)	kW	356	-$ 433	- **0.6081**	$/kW
Street Lighting (per light)	kW	11,995	-$ 13,147	- **0.5480**	$/kW
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
		-	$ -	-	
Total			**-$ 1,714,161**		

Rate Rider Calculation for Smart Meter Stranded Assets

Please indicate the Rate Rider Recovery Period (in years) 1

Rate Class (Enter Rate Classes in cells below)	Units	kW / kWh / # of Customers	Allocation factor**	Rate Rider for Accounts 1575 and 1576	Monthly Fixed Rate Rider (per customer per month)	
Residential	# of Customers	18,224	84.1%	**197,245.62**	**0.9019**	per customer per month
General service < 50 kW	# of Customers	2,029	15.9%	**37,291.38**	**1.5316**	per customer per month
		-		-	-	
		-		-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
		-	$ -	-	-	
**** Allocation factor based on 2012 Approved Smart Meter**		-		-	-	
Incremental Revenue Requirement Rate Rider (“SMIRR”)		-		-	-	
		-		-	-	
Total			**$ 1**	**234,537.00**		

Proposed Incremental Capital Volumetric Rate Rider effective Jan 1, 2015 to Dec 31, 2015 (1 year)					$ 326,336.00	
Rate Class	2015 Test Year kWh	2015 Test Year kW	Allocatoin based on 2015 TY kWh	Allocated Balance	Volumetric Rate Rider	Unit
Residential	140,900,798	-	23.7%	77,347	$ 0.0005	kWh
GS < 50 kW	64,179,621	-	10.8%	35,231	$ 0.0005	kWh
GS >50 kW to 4,999 kW	361,832,480	946,164	60.9%	198,627	$ 0.2099	kW
Large Use	22,191,326	34,422	3.7%	12,182	$ 0.3539	kW
USL	660,967	-	0.1%	363	$ 0.0005	kWh
Sentinel Lights	150,156	356	0.0%	82	$ 0.2315	kW
Street Lighting	4,559,343	12,017	0.8%	2,503	$ 0.2083	kW
Total	594,474,691	992,959	1	326,336		

In addition to recovery of Group 1 and Group 2 accounts, Festival proposes three additional rate raters to be effective January 1 2015:

- Account 1575 – IFRS Transitional PP & E amounts – Festival is proposing the return of $1,714,161 to customers over a two year period arising from the PP & E accounting changes on the transition to MIFS.
- To recover the balance of $234,537 in Account 1555– Sub-Account – Stranded Meters, over a period of one year, from Jan 1, 2015 to Dec 31, 2015, by means of the customer specific rate riders of $0.90 per month for residential customers and $1.53 per month for GS<50 customers. Full details are contained in E9/T1/S3.
- Festival also has applied for further recovery of $326,336 through a new ICM Rate Rider. As part of the 2013 IRM proceeding, Festival had requested and was approved an ICM Rate Rider to fund the costs of constructing a Transformer Station. As a result of the true up process, Festival is requesting approval for a new ICM rate rider to recover the shortfall, as further explained later in Exhibit 9.

The full analysis of Festival's deferral and variance accounts can be found in Exhibit 9.

I. Summary of Bill Impacts

OEB appendix 2-W has been prepared for each Festival rate class and presents the total bill impacts by level of consumption for customers. The impacts are calculated by comparing existing rates approved in Festival's 2014 IRM (EB-2013-0129) to proposed distribution rates for Festival's 2015 test year including all applicable rate riders and proposed 2015 Retail Transmission Service Rates.

Festival notes that in many instances as demonstrated in appendix 2-W, Festival is actually expecting decreased in total charges on a customer's bill as a result of the repayment of various deferral and variance accounts, reduced transmission connection charges and the removal of smart meter and ICM rate riders. The reductions have been partially offset by the addition of a global adjustment rate rider, a stranded meter rate rider and an updated variable ICM rate rider as described in detail in exhibit 9. Festival also notes that the unmetered scattered load and street lighting rate classes saw a larger negative bill impact as a result of revenue to cost adjustments. The large use rate class has a slight increase in their total bills expected based on the global adjustment rate rider and LRAM rate rider for their class. A summary of bill impacts by rate class is presented in the table below.

2015 COS - Bill Impact for Typical Festival Hydro Customers

Customer Class	2014 Distribution Charge	2015 Proposed Distribution Charge	Dollar Change	% Change	2014 Total Bill	2015 Total Bill	Dollar Change	% Change
Residential, 800 kWh	34.69	31.53	(3.16)	-9.1%	119.69	116.06	(3.63)	-3.0%
GS < 50 kW, 2,000 kWh	70.21	64.01	(6.20)	-8.8%	291.07	283.73	(7.34)	-2.5%
GS < 50 kW, 10,000 kWh	203.53	182.12	(21.41)	-10.5%	1,336.02	1,309.10	(26.92)	-2.0%
GS >50 to 4,999 kW, 100 kW, 51,100 kWh	494.57	511.58	17.01	3.4%	6,546.03	6,543.85	(2.18)	0.0%
GS >50 to 4,999 kW, Interval, 600 kW, 306,600 kWh	1,755.12	1,802.01	46.89	2.7%	40,131.68	40,044.46	(87.22)	-0.2%
Large Use, 5000 kW, 2,555,000 kWh	17,210.55	19,123.95	1,913.40	11.1%	338,731.81	339,547.44	815.63	0.2%
Unmettered Scatterd Load SL, 340 kWh	18.71	9.96	(8.75)	-46.8%	53.43	44.36	(9.07)	-17.0%
Sentinel Lights, 131 kWh, 0.36 kW	6.30	5.96	(0.34)	-5.4%	19.65	19.24	(0.41)	-2.1%
Street Lights, 657 kW, 239,805 kWh	6,965.17	4,951.56	(2,013.61)	-28.9%	37,730.75	35,344.74	(2,386.01)	-6.3%

Festival Hydro

File Number: EB-2014-0073

Date Filed: May 29, 2014

Exhibit 1

Tab 3 of 6

Customer Engagement

Customer Engagement

Festival strives to provide superior service to our customers, and has developed a customer-focused culture. As part of their annual performance review, every employee is evaluated on their "customer responsiveness", with coaching and training opportunities provided to enhance skills when required. Positive comments received from our customers are shared with all employees while negative comments are directed to the appropriate supervisors and senior management team members to ensure adequate follow-up takes place and customer issues are resolved promptly.

Festival has proactively engaged customers on a regular basis by participating in community events to raise awareness about electrical safety, conservation and demand management, and understanding their bills. Direct communication with our customers is done through messages on the outside of billing envelopes, messages on the front of the monthly bills, billing inserts, website interaction, and customer surveys. A toll free number is provided to customers outside of Stratford, while many local customers take advantage of our storefront and meet with us in person.

Electrical Safety

Each year, Festival offers an electrical safety seminar to grade 5 and 6 classes at every school in our service territory, and has recently reached out to home-school groups to ensure our message reaches as many children as possible. The seminar is conducted by a Festival powerline technician using a highly engaging interactive display unit that highlights the hazards associated with various components of the electrical grid. We solicit feedback from the teachers who provide us with helpful comments to refine our program to meet their needs. Each year our school safety program reaches approximately 700 grade 5 and 6 students. The safety demonstration is also conducted at community events such as the LINC Family Festival in Stratford.

Conservation

The Conservation and Demand Management work conducted by Festival includes a significant outreach to our customers. Prior to forming Festival Hydro in 2000, the Stratford PUC actively encouraged demand management via a water heater load control program. Since that time, Festival has consistently encouraged our customers to conserve electrical usage and reduce demand using the various programs available through the final tranche funding and the OPA programs. Festival participates in community Home Shows with a display highlighting the current CDM offerings, as well as answering customer questions about their monthly bills. These Home Shows take place annually in Stratford, attracting primarily residential customers from most of our service area. Festival also attends the OPA In-Store Coupon Events at major retailers in Stratford, St Marys, and Brussels, and attends community events such as the Stratford Family LINC Festival, Communities in Bloom, and Green Week. Our Energy Conservation Officer makes direct contact with our General Service customers regarding CDM and assists them with their OPA applications. Approximately 135 customers are directly contacted by our Energy Conservation Officer several times during the year regarding CDM activities. Each year, we provide a Recognition Breakfast to highlight the General Service customers who have taken part in CDM programs. In 2014, Festival recognized 55 General Service customers with over 100 people in attendance. During the breakfast, we provide a guest speaker to provide the attendees with additional information about conservation and demand management tools and ideas.

Monthly Bills

Most Festival customers receive a physical bill in the mail, and Festival uses this opportunity to communicate additional information via messages on the outside of the envelope, separate inserts, and messages on the bill itself. Many of the messages are coordinated with the OEB, OPA, and other agencies, and include information about retailers, rate changes, conservation and demand management programs, electrical safety, and references to our website.

Website and Phone Contact

The Festival website is used to provide information to our customers regarding their bill, rates, retailers, CDM, renewable energy, general information about Festival, and news related to

Festival. The "Contact Us" section allows customers to communicate with us via telephone, regular mail, or email. A toll free number is provided for those customers who are within our service area but outside the local calling zone. On average, our website has 400 visits per month; we receive approximately 33 email inquiries per month, and an average of 1475 phone calls per month. In addition, our Customer Service staff proactively contact customers who are behind in their payments to make them aware of alternative arrangements and other resources they can access.

Customer Surveys

Festival has conducted two formal surveys of our customers to obtain feedback on our performance. The first survey took place in 2005 and the purpose was to gather information from our larger commercial and industrial customers regarding system reliability. The results of this survey allowed Festival to focus reliability improvements in the area of most concern to customers, which was the frequency of momentary outages. Festival made improvements to the tree trimming program (working with staff and contractors to increase the clearance to tree branches), increasing the frequency of infrared inspections (to identify hot spots prior to failure), and begin a re-insulation program on main feeders in St Marys and Stratford to prevent animal contacts. The second survey took place in 2013 and was targeted at all customer classes to gather information regarding where the customers felt Festival should focus improvement efforts regarding system improvements and how we interact with them. The residential and smaller commercial customers were offered an on-line or paper survey option, while the larger commercial and industrial customers were contacted directly for a formal interview. The results of this survey indicated that our customers valued service reliability and price, they wanted Festival to focus on system improvements that decrease the frequency and duration of outages, and they do not want Festival to make investments in web-based outage maps or participate in social media if it means an increase to their monthly bills. Using the results of this survey, Festival's investments in capital and maintenance during the next five years will be focused on reliability improvements. The survey also provided insight regarding the customers' usage of TOU data, with many customers unaware that this option exists. Festival plans to update the website and investigate cost effective ways of educating our customers in the usage of the TOU data. Festival plans to issue another survey in 2014 that focuses on Customer Service to determine where there may be opportunities to improve our interaction with our customers.

Results of the surveys are attached.

Attachment 1 of 1

2005 & 2013 Survey Results

Festival Hydro Reliability Survey – 2005
RESULTS

The survey was sent to 82 commercial and industrial customers. A total of 43 responses were received. The results are shown as a percentage of respondents.

1. Over the past five years, would you say that the frequency of momentary outages (less than one minute) has:

   47% Increased,
   16% Decreased,
   37% Remained about the same.

2. Over the past five years, would you say that the frequency of sustained outages (greater than one minute) has:

   37% Increased,
   14% Decreased,
   49% Remained about the same.

3. Over the past five years, would you say that the duration of sustained outages (greater than one minute) has:

   26% Increased,
   23% Decreased,
   51% Remained about the same.

4. Thinking about the specific processes that take place in your business, which of the following has the greatest impact to you. Select only one.

   5% Momentary outages (less than one minute),
   30% Sustained outages (greater than one minute),
   65% The impact is the same regardless of the duration.

5. Please indicate what you perceive as the average number of momentary outages (less than one minute) that affect your business per year:

   40% Greater than 10,
   35% Between 5 and 9,
   21% Between 2 and 4,
   4% Few, if any.

6. Please indicate what you perceive as the average number of sustained outages (greater than one minute) that affect your business per year:

   9% Greater than 10,
   26% Between 5 and 9,
   49% Between 2 and 4,
   16% Few, if any.

7. Based on your expectations of power system reliability, would you say that the number of momentary outages (less than one minute) per year is:

   37% Higher than average for Ontario,
   10% Lower than average for Ontario,
   53% About average for Ontario.

8. Based on your expectations of power system reliability, would you say that the number of sustained outages (greater than one minute) per year is:

   21% Higher than average for Ontario,
   11% Lower than average for Ontario,
   68% About average for Ontario.

9. Thinking about the specific processes that take place in your business, what is the impact of a momentary outage (less than one minute)? Check all that apply.

   51% Product must be scrapped or re-worked.
   77% Processes must be manually re-started.
   51% Data is lost and must be re-entered.
   67% Workers must stop production until lights are turned back on.
   7% There is minimal impact.
   26% Other

10. Thinking about the specific processes that take place in your business, what is the impact of a sustained outage (greater than one minute)? Check all that apply.

   53% Product must be scrapped or re-worked.
   77% Processes must be manually re-started.
   56% Data is lost and must be re-entered.
   95% Workers must stop production until lights are turned back on.
   2% There is minimal impact.
   23% Other

11. If possible, please quantify the average cost to your business for each momentary outage (less than one minute).

   23% Greater than $5000.
   28% Between $1000 and $4999.
   30% Between $100 and $999.
   19% Less than $99.
   0% Other

12. If possible, please quantify the average cost to your business for each sustained outage (greater than one minute).

23%	Greater than $10,000.
23%	Between $5000 and $9999.
35%	Between $500 and $4999.
19%	Less than $500.
0%	Other

13. Knowing that outages cannot be eliminated, what do you feel would be a reasonable number of momentary outages (less than one minute) per year?

9%	Between 6 and 10.
53%	Between 3 and 5.
33%	Between 0 and 2.
5%	I think it should be possible to eliminate all momentary outages.

14. Knowing that outages cannot be eliminated, what do you feel would be a reasonable number of sustained outages (greater than one minute) per year?

2%	Between 6 and 10.
23%	Between 3 and 5.
65%	Between 0 and 2.
10%	I think it should be possible to eliminate all sustained outages.

15. What investments has your business made in the past 5 years to cope with power interruptions? Check all that apply.

21%	Installed a stand-by generator.
81%	Installed a UPS (uninterruptible power supply) for main computer systems (servers, mainframes, etc).
47%	Installed a UPS with most or all desktop computers.
30%	Installed an industrial UPS for process equipment such as robotics, programmable controllers, etc.
9%	None of the above.
9%	Other (please specify):______________________________

16. If you have made investments to cope with power interruptions, what would be the total dollar value you have invested in the past 5 years?

    12% Greater than $100,000.
    26% Between $10,000 and $99,999.
    43% Between $1000 and $9,999.
    12% Less than $1000.
    7% None.

17. Based on your knowledge of the work that Festival Hydro has been doing over the past five years, which of the following statements do you agree with the most?

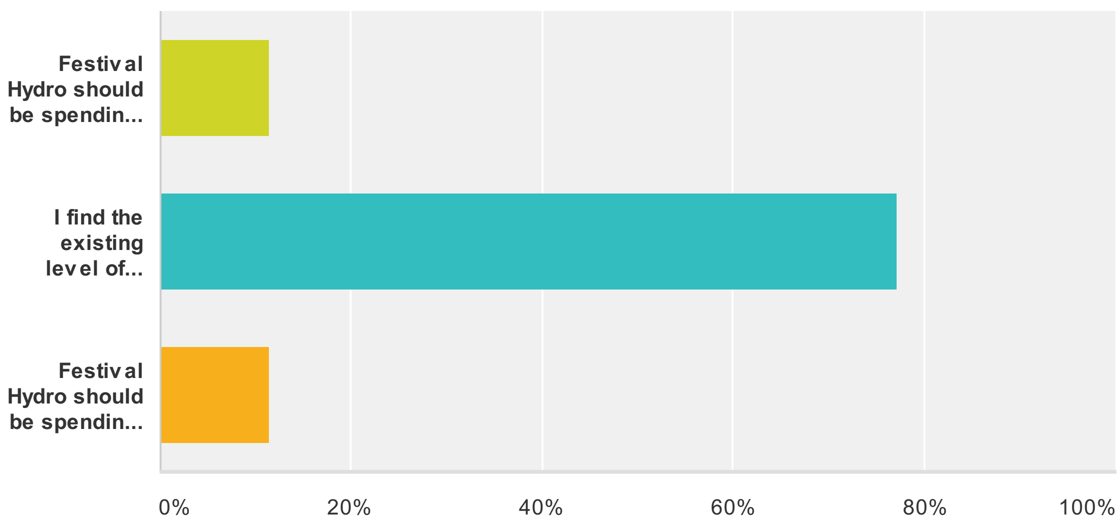
    56% Festival Hydro is taking reasonable steps to maintain or improve the infrastructure to ensure reliable power.
    41% Festival Hydro should be investing more to maintain or improve the infrastructure to ensure reliable power.
    3% The level of power reliability is acceptable the way it is and Festival Hydro should be spending less on infrastructure improvements to reduce the overall cost of electricity.

Other comments regarding reliability that you felt may assist us:

Reliability here is worse than US.
Voltage sags also impact processes.
Outages also cause equipment damage.
Momentary outages are less frequent in Waterloo region.
We have noticed recent improvements.
We support additional investment in infrastructure upgrades.

Q1 We understand that a reliable supply of electricity is important to our customers, and the primary focus of our construction and maintenance work is maintaining or improving the reliability of our system. However, we recognize that customers are also concerned about rising electricity prices. With this in mind, please select a statement that best represents your view.

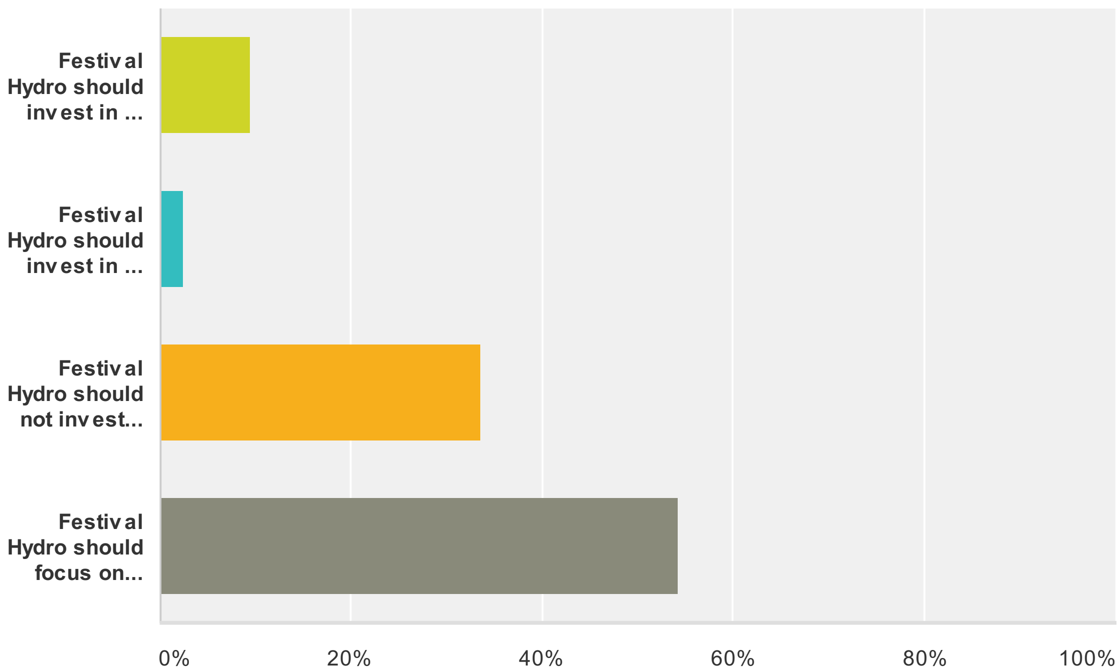
Answered: 470 Skipped: 0



Answer Choices	Responses	
Festival Hydro should be spending more to decrease the frequency and duration of outages and I understand this will increase my monthly hydro bill.	11.49%	54
I find the existing level of reliability is acceptable.	77.02%	362
Festival Hydro should be spending less and I would be willing to tolerate increased outages if it meant a decrease in my monthly hydro bill.	11.49%	54
Total		**470**

Q2 Outages happen and when they do, it is important for our customers to know when the power is coming back on. Today, the only way to find this out is to call our office. Some utilities have developed interactive web sites that showcase outage areas and expected restoration times. For Festival Hydro to develop a similar website would require an increase to monthly hydro bills. With this in mind, please select a statement that best represents your view.

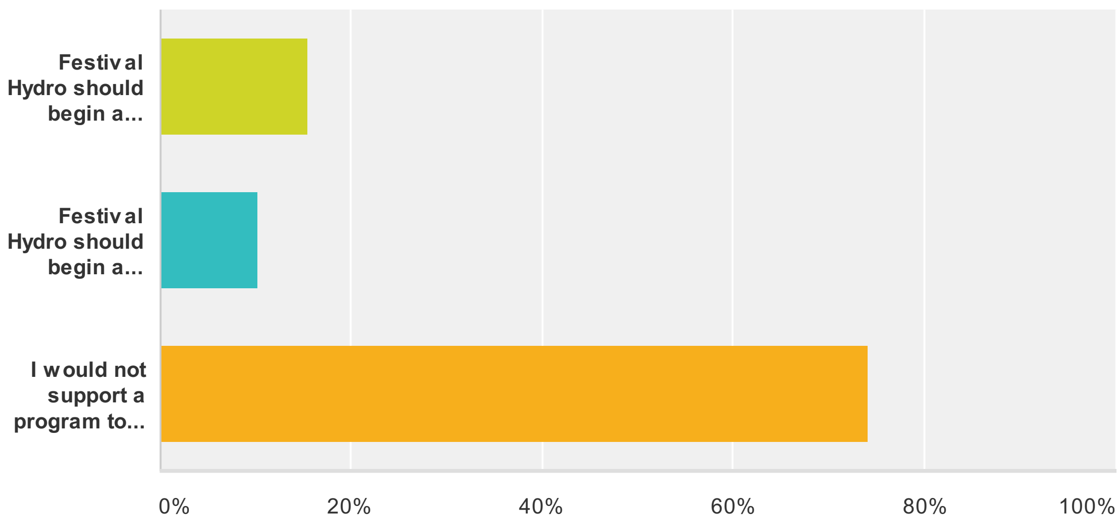
Answered: 470   Skipped: 0



Answer Choices	Responses	
Festival Hydro should invest in a web-based, outage map and increase my monthly hydro bill up $0.50 to have this application available.	**9.57%**	45
Festival Hydro should invest in a web-based, outage map and increase my monthly hydro bill up $1.00 to have this application available.	**2.55%**	12
Festival Hydro should not invest in a web-based, outage map.	**33.62%**	158
Festival Hydro should focus on system improvements that decrease the frequency and duration of outages rather than develop a web-based, outage map.	**54.26%**	255
Total		**470**

Q3 Converting existing overhead power lines to underground is expensive (between 4 times and 10 times the cost) and underground lines need to be replaced much sooner resulting in higher future costs. Aside from an improved appearance, burying hydro lines will decrease the number of outages, but when an outage does occur, it takes longer to repair. With this in mind, please select a statement that best represents your view.

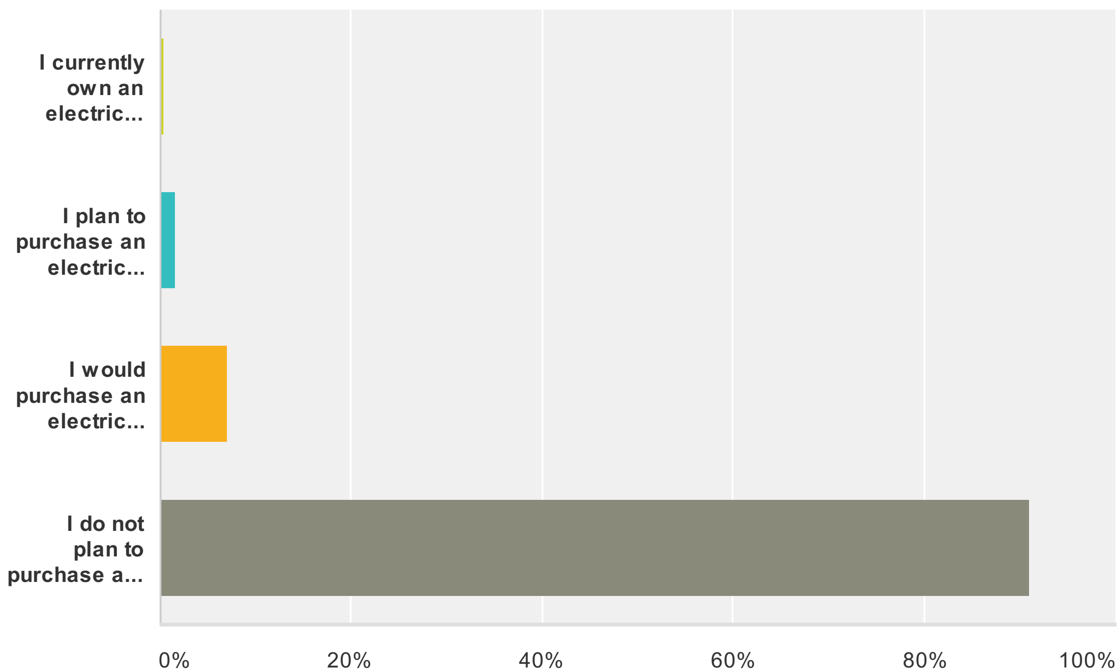
Answered: 456 Skipped: 14



Answer Choices	Responses	
Festival Hydro should begin a program to start burying hydro lines in residential areas and I would consider an increase in my monthly hydro bill of up $1.00 to be reasonable to begin this program.	**15.57%**	71
Festival Hydro should begin a program to start burying hydro lines on major streets and I would consider an increase in my monthly hydro bill of up $1.00 to be reasonable to begin this program.	**10.31%**	47
I would not support a program to start burying hydro lines if it means an increase to my monthly hydro bill.	**74.12%**	338
Total		**456**

Q4 The charging of electric vehicles could add additional strain to the distribution system. Festival Hydro would like to know whether our customers already have or are considering purchasing an electric vehicle (fully electric or plug-in hybrid). Please select a statement that best represents you.

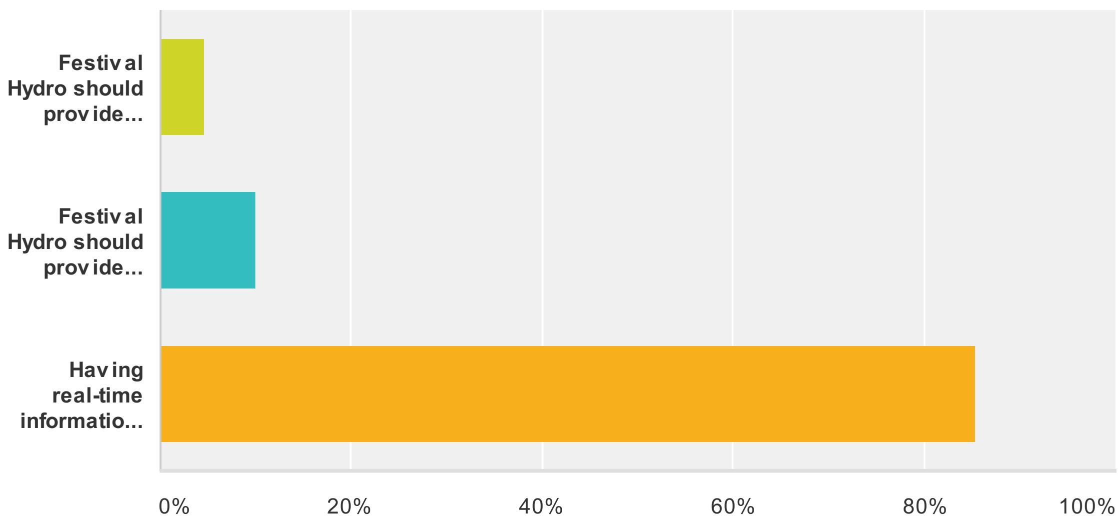
Answered: 456 Skipped: 14



Answer Choices	Responses	
I currently own an electric vehicle.	**0.44%**	2
I plan to purchase an electric vehicle within the next five years.	**1.75%**	8
I would purchase an electric vehicle within the next five years if the price difference decreases to less than $3,000.	**7.02%**	32
I do not plan to purchase an electric vehicle within the next five years.	**90.79%**	414
Total		**456**

Q5 One of the possible enhancements that can be made to the smart meter system is to provide customers with real-time information regarding their electricity usage and current pricing. This could be provided via a website, smart phone application, or in-home display. With this in mind, please select a statement that best represents your view. Festival Hydro should provide real time information about electricity usage and price through a secure website and I would accept an increase in my monthly hydro bill of up $1.00 to have this available to me.

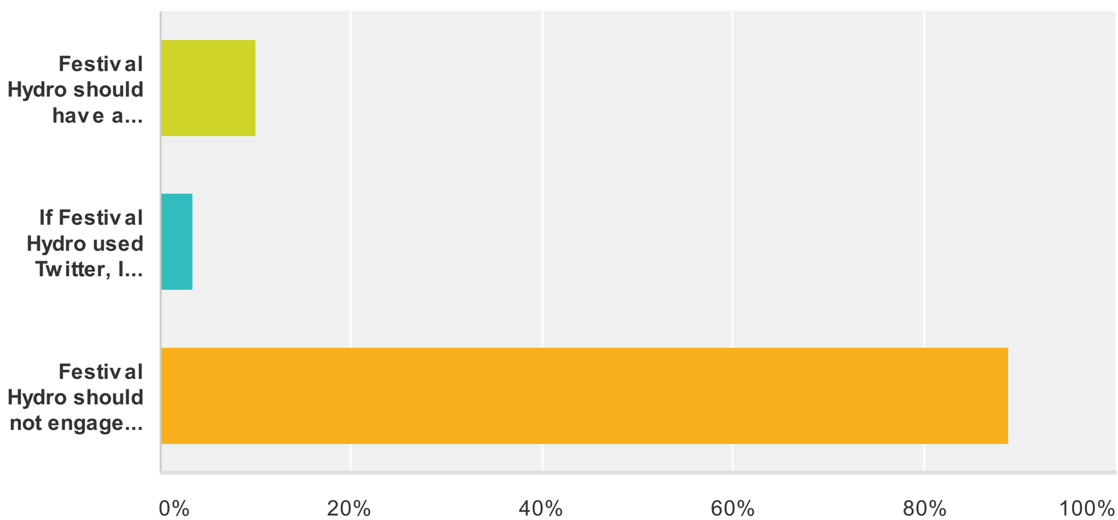
Answered: 456 Skipped: 14



Answer Choices	Responses	
Festival Hydro should provide real-time information about electricity usage and price through a smart phone application and I would accept an increase in my monthly hydro bill of up $1.00 to have this available to me.	**4.61%**	21
Festival Hydro should provide real-time information about electricity usage and price through an in-home display and I would accept an increase in my monthly hydro bill of up $1.00 to have this available to me.	**10.09%**	46
Having real-time information about my electricity usage and price is not worth increasing my monthly hydro bill by $1.00.	**85.31%**	389
Total		**456**

Q6 Some utilities have started using social media – Facebook and Twitter – to connect with their customers, providing them information about outages, electricity pricing, and conservation tips. To be effective with social media would require additional resources, especially for addressing outages outside of normal business hours. Alternatively, Festival Hydro could use existing staff to be involved with social media but this would mean less frequent updates and few, if any, after normal business hours. With this in mind, please select ALL of the following statements that best represent your view.

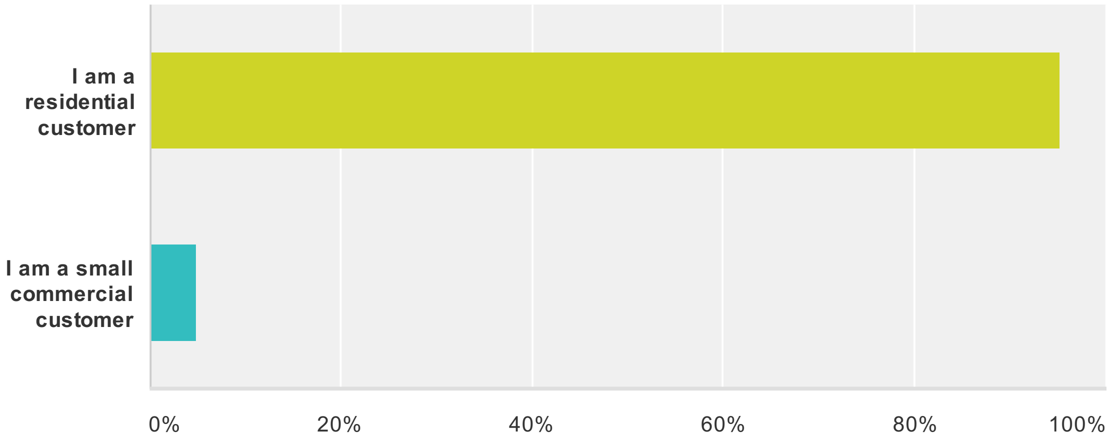
Answered: 454 Skipped: 16



Answer Choices	Responses	
Festival Hydro should have a Facebook page, and I would accept an increase in my monthly hydro bill of up $0.10 to have this available to me.	**10.13%**	46
If Festival Hydro used Twitter, I would follow and accept an increase in my monthly hydro bill of up $0.10 to have this available to me.	**3.52%**	16
Festival Hydro should not engage in social media if it means an increase in my monthly hydro bill.	**88.77%**	403
Total Respondents: 454		

Q7 Please select one of the following:

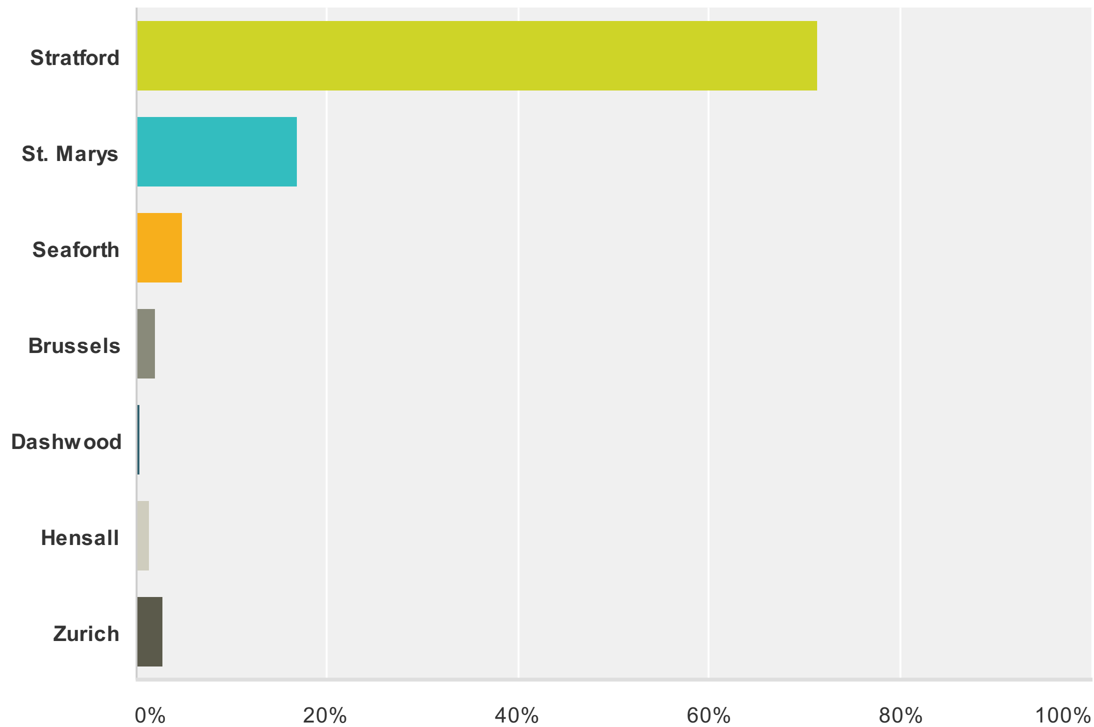
Answered: 445 Skipped: 25



Answer Choices	Responses	
I am a residential customer	**95.06%**	423
I am a small commercial customer	**4.94%**	22
Total		**445**

Q8 Where are you located?

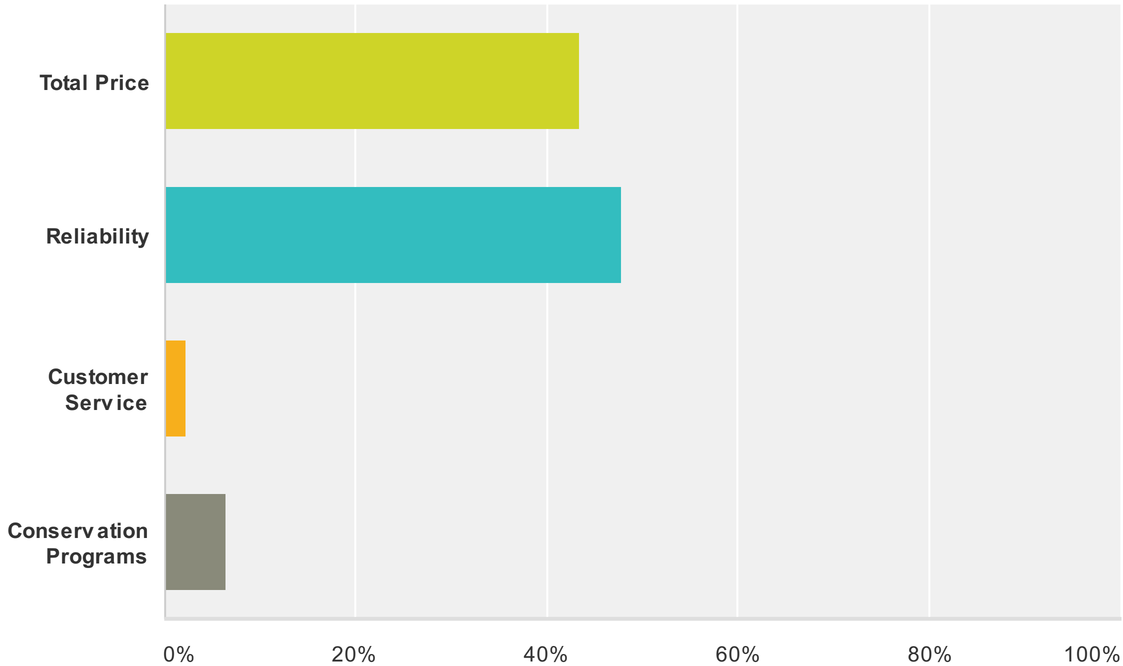
Answered: 447 Skipped: 23



Answer Choices	Responses	
Stratford	**71.14%**	318
St. Marys	**17.00%**	76
Seaforth	**4.92%**	22
Brussels	**2.01%**	9
Dashwood	**0.45%**	2
Hensall	**1.57%**	7
Zurich	**2.91%**	13
Total		**447**

Q9 What is the most important aspect of your electricity supply? (Select one)

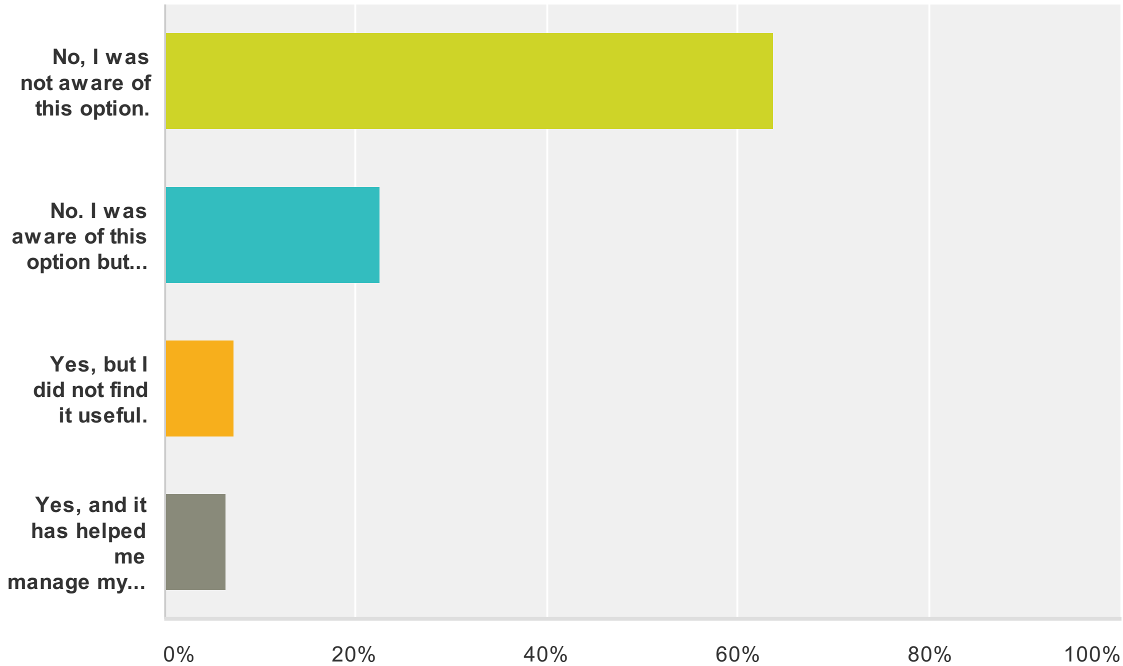
Answered: 447 Skipped: 23



Answer Choices	Responses	
Total Price	**43.40%**	194
Reliability	**47.87%**	214
Customer Service	**2.24%**	10
Conservation Programs	**6.49%**	29
Total		**447**

Q10 Have you accessed your Smart Meter data on-line?

Answered: 443 Skipped: 27



Answer Choices	Responses	
No, I was not aware of this option.	**63.66%**	282
No. I was aware of this option but have not used it.	**22.57%**	100
Yes, but I did not find it useful.	**7.22%**	32
Yes, and it has helped me manage my electricity usage.	**6.55%**	29
Total		**443**

File Number:	EB-2014-0073
Date Filed:	May 29, 2014

Exhibit 1

Tab 4 of 6

Financial Information

Financial Information

Final financial information is included below for F2010, F2011 and F2012. Draft 2013 financial statements are also included and are expected to be finalized after the submission of this application. Final statements will be provided once approved by the Festival Board of Directors prior to April 30th, 2014.

Attachment 1 of 6

Audited Financial Statements

Financial Statements of

FESTIVAL HYDRO INC.

Year ended December 31, 2012

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

We have audited the accompanying financial statements of Festival Hydro Inc., 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Festival 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

April 25, 2013

London, Canada

FESTIVAL HYDRO INC.

Balance Sheet

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Accounts receivable (note 6)	$ 3,432,099	$ 3,140,045
Inventory (note 5)	549,003	124,781
Prepaid expenses and deposits	285,766	318,191
Payments in lieu of income taxes recoverable	-	93,423
Unbilled revenue	6,957,971	6,937,210
Due from Festival Hydro Services Inc. (note 16)	829,784	885,013
	12,054,623	11,498,663
Plant and equipment (note 4)	44,692,509	33,608,438
Future payments in lieu of income taxes (note 11)	2,732,143	2,518,087
Intangibles	535,630	10,000
Goodwill	515,359	515,359
	$ 60,530,264	$ 48,150,547
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	$ 965,369	$ 241,193
Accounts payable and accrued liabilities	7,229,881	6,415,423
Accrued vacation, wages and benefits	352,124	338,135
Demand notes payable (note 8)	15,600,000	15,600,000
Current portion of long-term debt (note 18)	140,932	135,629
Current portion of customer deposits	252,393	319,144
Due to the Corporation of the City of Stratford	670,869	744,669
Payments in lieu of income taxes	74,738	-
	25,286,306	23,794,193
Regulatory liability, net (note 7)	3,821,252	296,967
Post-employment benefits (note 9)	1,458,962	1,346,328
Customer deposits, long-term	660,008	890,419
Long-term debt (note 18)	8,862,409	2,195,085
Shareholder's equity:		
Share capital (note 10)	15,568,388	15,568,388
Retained earnings	4,872,939	4,059,167
	20,441,327	19,627,555
Contingencies (note 17)		
	$ 60,530,264	$ 48,150,547

See accompanying notes to financial statements.

On behalf of the Board:

Frank Mark Director

Tom Clifford Director

FESTIVAL HYDRO INC.

Statement of Earnings and Retained Earnings

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

	2012	2011
Revenue:		
Distribution revenue	$ 11,150,550	$ 9,708,014
Solar generation income	39,833	31,535
Late payment and other customer charges	193,682	241,340
Rentals and interest income	139,686	244,332
Other income	424,579	255,334
	11,948,330	10,480,555
Expenses:		
Operating and maintenance	1,884,296	1,247,933
Billing, data processing and collection	893,997	936,527
Administrative	1,688,783	1,539,703
Amortization of plant and equipment	3,457,023	2,797,880
	7,924,099	6,522,043
Earnings before the undernoted	4,024,231	3,958,512
Interest expense	1,285,666	1,305,015
Earnings before payments in lieu of taxes	2,738,565	2,653,497
Provision for payments in lieu of income taxes (note 11):		
Current	630,000	628,000
Net earnings	2,108,565	2,025,497
Retained earnings, beginning of year	4,059,167	3,328,463
Dividends	(1,294,793)	(1,294,793)
Retained earnings, end of year	$ 4,872,939	$ 4,059,167

See accompanying notes to financial statements.

FESTIVAL HYDRO INC.

Statement of Cash Flows

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

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 2,108,565	$ 2,025,497
Adjustments for:		
Amortization	3,457,023	2,797,880
Deferred changes	-	16,591
Spare parts transfer back to inventory	(66,863)	90,434
Future payments in lieu of income taxes	(214,056)	136,704
Change in non-cash operating working capital (note 15)	273,425	(896,890)
	5,558,094	4,170,216
Financing activities:		
Long-term debt	6,672,627	(128,027)
Advances customer deposits	(297,162)	280,317
Post-employment benefits	112,634	3,502
Dividends	(1,294,793)	(1,294,793)
	5,193,306	(1,139,001)
Investing activities:		
Proceeds from disposal of capital assets	(1,000)	15,019
Purchase of plant and equipment	(10,984,432)	(3,514,803)
Regulatory liability, net	3,524,285	(851,701)
Intangibles	(525,630)	(10,000)
Transfer of smart meters to capital	(3,488,799)	-
	(11,475,576)	(4,361,485)
Decrease in cash	(724,176)	(1,330,270)
Cash (bank indebedness), beginning of year	(241,193)	1,089,077
Bank indebtedness, end of year	$ (965,369)	$ (241,193)
Supplemental cash flow information:		
Taxes paid	$ 626,488	$ 635,000
Interest paid	1,327,049	1,243,328

See accompanying notes to financial statements.

Festival Hydro Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act (the "EA") 1998 on July 11, 2000. The Corporation of the City of Stratford (the "City") passed a bylaw pursuant to Section 145 of the Electricity Act 1998 transferring certain assets and liabilities used in connection with the sales of electricity and electrical distribution systems from the Stratford Public Utility Commission - Electric Department (the "Corporation"). In exchange for these assets the City received a promissory note and 10,001 common shares. This business is regulated by the Ontario Energy Board ("OEB").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook") and reflect the significant accounting policies as summarized below:

(a) Financial effects of distribution rate regulation:

(i) Rate regulation:

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring distribution companies fulfill obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods through the rate-making process. In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulatory environment.

(ii) Settlement variances:

The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges. Other than the variances for cost of imported power, the nature of the settlement variances is such that their balances shall change each reporting period-end date.

1. Significant accounting policies (continued):

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

(iii) Rate setting:

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

The Company's last cost of service EDR application was filed for 2010 and approved on April 1, 2010, with rates effective May 1, 2010. Such decision provided for a $9,610,278 service distribution revenue requirement and a rate base of $24,076,547 (60%) debt and $16,051,031(40%) equity, respectively. Such amounts do not include provision for the investment of the Company in the Smart Meter Initiative or the transformer station, further elaborated below.

The Company filed a 2011 IRM application on October 29, 2010 to adjust its base rates effective May 1, 2011. Accordingly, the Company’s base rate was approved to increase by 0.38% effective May 1, 2011, as a result of an annual change in the GDP IPI FDD of 1.30% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Distribution Corporation.

The Company's 2012 IRM application was approved by the OEB on March 22, 2012 allowing the Company to adjust its base rates effective May 1, 2012. The Company's base rate has been approved to increase by 1.08% effective May 1, 2012, as a result of an annual change in the GDP IPA FDD of 2.00%, net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Company.

1. Significant accounting policies (continued):

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

(iii) Rate setting (continued):

The Company's 2013 IRM application has been approved by the OEB allowing the Company to adjust its base rates effective May 1, 2013. On March 21, 2013, the Board notified distribution companies that the Board had approved an annual change in the GDP IPA FDD of 1.60%. As such, the Company's adjustment to rates will be 0.68% effective May 1, 2013, as a result of the GDP IPA FFD of 1.60%, net of a productivity factor of 0.72% and a Stretch Factor of 0.20% determined by the relative efficiency of the Company.

As part of the Company's 2013 IRM application, the OEB also approved an Incremental Capital Rate Rider to assist on the recovery of costs associated with building a new transformer station in 2013. The transformer station is scheduled to be energized in mid 2013. The incremental capital rate rider, as approved, is effective May 1, 2013 and will be in effect until the date of the Company's next cost of service rate order.

The Company filed a letter with the OEB on January 29, 2013 requesting that the Company be granted permission to delay its next cost of service application until January 1, 2015. The reason for requesting the delay is so that the Company's rate year will coincide with its fiscal year. The Company is awaiting a decision from the OEB.

1. Significant accounting policies (continued):

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

(iv) Smart Meter Initiative:

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

In support of this initiative, the Company completed its deployment of Smart Meters by early 2011, with approximately 19,200 Smart Meters deployed. Time of use pricing for regulated price plan ("RPP") customers commenced with the first full month's consumption for May, 2012.

On October 29, 2010, the Company submitted an application to the OEB for the consideration and approval of a Utility Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. The application provided for a new rate adder of $1.52 per metered customer per month, to begin May 1, 2011. The Company's 2011 IRM application was approved by the OEB on April 21, 2011. In the 2012 IRM rate application, the Company applied for an extension of the $1.52 smart meter rate adder but was denied.

With smart meter deployment substantially completed, 90% of the spending audited, and Time of Use pricing scheduled for the first full month's bill in May 2012, the OEB directed the Company to file its Smart Meter Variance account Disposition. On May 29, 2012, the Company submitted to the OEB its Smart Meter Cost Recovery Stand-Alone Application. The application sought disposition of its smart meter variance account with projected costs through to and including December 31, 2012. The Company requested and was approved new smart meter rate riders as determined in accordance with G-2011-0001 Guideline, Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011, to be effective November 1, 2012.

As directed in the OEB smart meter rate order dated September 20, 2012, the Company disposed of all amounts in its smart meter variance accounts as at November 1, 2012, in accordance with accounting procedures provided in the OEBs Accounting Procedures (APH) Manual.

1. Significant accounting policies (continued):

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

(iv) Smart Meter Initiative (continued):

The smart meter disposition entries processed as of November 1, 2012 had the following impact on the Company's balance sheet and earnings in 2012:

Balance Sheet:		
Plant and equipment		
Smart meters	$	3,488,799
Computer hardware and software		205,778
Accumulated depreciation		(655,336)
Smart meter variance account		(3,285,371)
Net balance sheet impact	$	(246,130)

Statement of Earnings:		
Distribution revenue	$	1,077,282
Depreciation expense		655,336
Operating and maintenance expense		546,293
Variance account carrying charges reversal		121,783
Net loss impact	$	(246,130)

There is no balance remaining in the smart meter variance account as at December 31, 2012.

1. Significant accounting policies (continued):

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

(v) Green Energy and Green Economy Act:

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

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and permits them to provide district heating services in their communities through co generation. LDC's also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's gained 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.

On December 21, 2012, the Ministry of Energy issued a directive to the OPA under subsection 25.32 (4.1) of the Electricity Act to extend the funding time period for OPA-contracted province wide CDM initiatives under the Green Energy Act 2009 (Ontario) framework to December 31, 2015. Details of the extended funding period are unknown at this time.

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

On September 16, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company’s license states that "the license shall meet its 2014 annual peak demand savings of 6.230 MW and its 2011-2014 Net cumulative energy savings target of 29.250 GWh over a four year period beginning January 1, 2011". LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Company commenced a number of new CDM initiatives during 2011 and 2012 in order to meet the four year period targets set out by the OEB and is actively working toward meeting its 2014 targets.

1. Significant accounting policies (continued):

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

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

Effective January 1 2011, the Company entered into an agreement with the Ontario Power Authority ("OPA") for funding totaling $1,220,132 to deliver CDM programs extending from January 1, 2011 to December 31, 2014. As at December 31, 2012, the Company had received $794,713 from the OPA and incurred CDM expenditures of $599,639. Amounts received not spent at December 31, 2012 totaling $195,074 are presented under current liabilities as accrued liabilities.

Upon the expiration of the OPA agreement the Company is required to repay to the OPA any excess funds received for program administration less any cost efficiency incentives. Based on the Company's budgeted CDM expenditures for 2013 and 2014, the Company expects the amount owing to the OPA at the end of the agreement will be immaterial.

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31, for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Spare transformers and meters:

Spare transformers and meters are classified as capital assets in accordance with guidance in the AP Handbook.

1. Significant accounting policies (continued):

(d) Inventory:

Inventory consists primarily of consumable materials related to the maintenance of the electricity distribution infrastructure. The Company classifies major construction related components of it's to plant and equipment. Once capitalized, these items are not depreciated until put into service. Inventory is carried at the lower of cost and market, with cost determined on an average cost basis.

(e) Plant and equipment:

Plant and equipment assets are recorded at cost and are amortized on a straight-line basis at varying rates estimated to write-off the cost of each asset over its useful life. The assets and rates are as follows:

Asset	Rate
Distribution lines, overhead	4%
Transformers	4%
Services	4%
Meters	4%
Buildings	2%
Transportation equipment	12.5 or 20%
Distribution lines, underground	4%
Computer equipment	20%
Smart meters	6.6%
Distribution equipment	10%
Other equipment	10%
Solar generation	5%
Transformer station - CWIP	0%

Maintenance and repair items are expensed as incurred. Additions, renewals or betterments are capitalized. Any normal gain or loss on sale or retirement of buildings or equipment is included in the statement of earnings and retained earnings in the year of disposal.

The cost of plant and equipment represents the original cost, consisting of direct materials, labour, contracted services and overhead directly attributable to the capital project. It may also include an allowance for funds during construction for larger projects spanning over a period of twelve months, as prescribed in the OEB's Accounting Procedures Handbook.

1. Significant accounting policies (continued):

(e) Plant and equipment (continued):

Capital contributions received are used to finance additions to plant and equipment of the Company. According to OEB prescribed accounting principles, capital contributions received are treated as a credit to plant and equipment, and is depreciated as a credit to deprecation expenses at a rate equivalent to the rate used for depreciation of the related plant and equipment.

Construction Work in Progress ("CWIP") relates to assets not currently in use and therefore is not depreciated.

(f) Post-employment benefits:

Post-employment benefits provided by the Company include medical and life insurance benefits. These plans provide benefits to certain employees when they no longer provide active service. Future benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains and losses are expensed as incurred.

1. Significant accounting policies (continued):

(g) Payments-in-lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company was required, under the Electricity Act, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as through it had a "fresh start" at the time of its change in tax status.

(h) Contributed capital:

Prior to January 1, 2000, contractor's capital contributions toward the construction or acquisition of plant and equipment by the Company were referred to as miscellaneous paid-in capital and disclosed as a permanent component of utility equity.

Effective May 1, 2000, the Company prospectively adopted the change in accounting policy for contributions received in aid of construction (contributed capital), as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Contributed capital contributions are required contributions received from outside sources, used to finance additions to plant and equipment. Contributed capital contributions received are treated as a contra account included in the determination of plant and equipment. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related plant and equipment.

1. Significant accounting policies (continued):

(i) Other long-term liabilities:

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(j) Intangible:

Intangible assets are initially recorded at cost. Amortization is provided on a straight-line basis over the estimated useful lives.

Intangible assets include contribution payments made to Hydro One Networks Inc. for dedicated infrastructure pursuant to an agreement in order to receive connections to transmission facilities. Contributions for work in progress relate to assets not currently available for use and therefore are not amortized.

(k) Goodwill:

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. The carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. No goodwill was impaired during the year.

(l) Related party transactions:

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

(m) Financial assets and liabilities:

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

1. Significant accounting policies (continued):

(m) Financial assets and liabilities (continued):

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Payments in lieu of corporate income taxes recoverable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from Festival Hydro Services Inc.	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued vacation, wages and benefits	Other liabilities
Demand notes payable	Other liabilities
Due to Festival Hydro Services Inc.	Other liabilities
Due to the Corporation of the City of Stratford	Other liabilities
Payments in lieu of corporate income taxes payable	Other liabilities

(n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Future accounting changes:

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

The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and 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 AcSB has provided deferrals which allow rate regulated entities to defer the adoption of IFRS until January 1, 2015. The Company has elected to implement IFRS commencing on January 1, 2015. The impact of the adoption to IFRS on the Company's financial position and results of operations is not yet fully determined.

The OEB has required as an interim step to transition, that LDC's revise amortization periods and the burden capitalization to reflect the standards under IFRS. These changes are treated as changes in estimates under Canadian GAAP. As such the Company will implement these changes effective January 1, 2013 and as these are changes in estimates, any impact will be recorded prospectively.

3. Financial effects of distribution rate regulation:

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

(a) Regulatory decisions to adjust distribution rates:

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

3. Financial effects of distribution rate regulation (continued):

(b) Regulatory direction and practice:

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

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provision for future uncertainty, are more fully described in note 7 to the financial statements.

4. Plant and equipment:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Distribution lines, underground	$ 23,985,801	$ 15,665,891	$ 8,319,910	$ 8,446,594
Distribution lines, overhead	26,307,380	11,961,048	14,346,332	13,740,333
Transformers	15,344,243	9,487,462	5,856,781	6,065,869
Services	5,213,841	3,020,113	2,193,728	2,166,457
Meters	7,521,030	3,176,768	4,344,262	1,404,684
Buildings	3,490,055	1,215,616	2,274,439	2,284,013
Transportation equipment	3,056,370	2,072,729	983,641	918,029
Distribution equipment	1,745,896	1,446,935	298,961	339,384
Computer equipment	2,177,119	1,795,482	381,637	234,883
Office equipment	881,151	726,991	154,160	164,134
Other equipment	741,058	629,759	111,299	139,935
Solar generation	294,689	22,102	272,587	287,322
Contributions, capital	(4,747,715)	(1,299,718)	(3,447,997)	(3,288,630)
Major spare parts inventory	489,209	-	489,209	422,346
Transformer station - CWIP	8,113,560	-	8,113,560	283,085
	$ 94,613,687	$ 49,921,178	$ 44,692,509	$ 33,608,438

5. Inventory:

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

The amount of inventory consumed by the Company and recognized as an expense during 2012 was $77,038 (2011 - $80,798).

6. Accounts receivable:

	2012	2011
Energy, water and sewage	$ 2,763,611	$ 2,639,953
Sundry	794,399	625,874
	3,558,010	3,265,827
Less: allowance for doubtful accounts	(125,911)	(125,782)
	$ 3,432,099	$ 3,140,045

Included in accounts receivable is approximately $468,843 (2011 - $473,583) of customer receivables for water consumption and sewage removal that the Company bills and collects on behalf of the Corporation of the City of Stratford. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption and sewage removal that is determined to be uncollectible is charged to the Corporation of the City of Stratford. At year end, there is nothing (2011 - nil) included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption and sewage removal.

7. Regulatory liability, net:

Regulatory assets and liabilities arise as a result of the rate-setting process. The Company has recorded the following assets and liabilities:

	2012	2011
Assets:		
Other regulatory assets	$ 47,447	$ 83,930
Post-market opening retail settlement variances:		
Special purpose charge variance	-	7,210
Cost of power variance	1,144,175	1,293,674
Deferred payments in lieu of corporate income taxes	-	72,932
2010 rate application costs	51,262	47,696
Low voltage charges	36,159	(15,052)
Post-market opening transmission network and connection charges	524,368	272,078
IFRS conversion costs	102,282	50,031
	1,905,693	1,812,499
Liabilities:		
PILs and HST variance account	(48,339)	(57,175)
Retail settlement variance accounts	(50,862)	(44,632)
Wholesale market charges	(2,100,481)	(1,305,671)
Future regulatory taxes payable	(2,732,143)	(2,518,087)
	(4,931,825)	(3,925,565)
	(3,026,132)	(2,113,066)
Recoveries:		
2010 disposition variance	(841,992)	(1,367,842)
Smart meter costs variance account	-	3,138,463
Recovery of regulatory assets	46,872	45,478
	(795,120)	1,816,099
	$ (3,821,252)	$ (296,967)

7. Regulatory liability, net (continued):

Post-market opening retail settlement variances - represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission and network charges, and the amounts billed to customers by the Company based on the OEB approved wholesale market rates, transmission network and transmission connection rates;

(b) variances between the amounts charged by the IESO to allow for purchases of electricity and the amounts billed to customers by the Company based on OEB approved rates;

(c) deferred payments in lieu of income taxes - represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution service charges and the actual amount of these charges to customers that relates to the recovery of PILs;

(d) low voltage (sub-transmission) charges-variance between the amounts charged by Hydro One for Low Voltage charges and the amounts billed to customers by the Company based on OEB approved rates;

(e) Smart Meter costs variance account-variance between the amounts spent on Smart Meter implementation and the amounts billed to customers by the Company based on OEB approved rates. This account balance was disposed of effective November 1, 2012 ; and

(f) as part of the 2010 rate application, the Company claimed for disposal $2.1 million in regulatory liability balances. The amount is being paid back to customers over a four year period starting May 1, 2010. The balances approved for disposition by the OEB were placed into a new account called 2010 disposition variance. The amount repaid in 2012 totaled $540,872. The remaining balance at December 31, 2012 totals $841,992.

(g) the OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain Local Distribution Companies (“LDCs”). On June 24, 2011 the OEB issued its decision for these LDCs and provided guidelines for remaining LDCs for the calculation and disposition accumulated in the PILs regulatory variance accounts. As part of the Company's 2012 rate application, the Company applied for and was approved $271,992 to be recovered through rates for the period May 1, 2012 to April 30, 2013.

8. Demand notes payable:

	2012	2011
Demand notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand	$ 15,600,000	$ 15,600,000

Interest paid on the demand notes for the year ended December 31, 2012 was $1,131,000 (2011 - $1,131,000).

9. Post-employment benefits:

The Company has a number of unfunded benefit plans providing post-retirement benefits (other than pension) to eligible retirees. Festival pays certain medical, dental and life insurance for retirees up to the age of sixty-five, and life insurance for beyond age sixty-five for existing employees and retirees. This results in a liability on the balance sheet at year end as follows:

	2012	2011
Post-employment benefits	$ 1,458,962	$ 1,346,328

Other information about the Company's defined benefit plans is as follows:

	2012	2011
Post-employment benefits:		
Balance, beginning of year	$ 1,346,328	$ 1,342,826
Service cost	30,098	24,898
Interest cost	57,195	60,195
Actuarial loss	86,683	(16,331)
Benefits paid	(61,342)	(65,260)
Post-employment benefits, end of year	$ 1,458,962	$ 1,346,328

9. Post-employment benefits (continued):

The accrued benefit obligation for post-employment benefits is based on an actuarial valuation for accounting purposes as at December 31, 2011. The actuarial valuation was based on assumptions about future events. The economic assumptions used in the valuation is the Company's best estimates of expected rates of:

	2012	2011
Wage and salary escalation	3.10%	3.10%
Annual increase in health care costs	7.60%	8.00%
Annual increase in dental care costs	5.00%	5.00%
Discount rate on accrued benefit obligations	3.75%	4.30%

10. Share capital:

	2012	2011
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 common shares	9,468,388	9,468,388
	$ 15,568,388	$ 15,568,388

Dividends paid on the 6,100 Class A special shares during 2012 totaled $305,000 (2011 - $305,000). Dividends paid on the 6,995 (2011 - $6,995) common shares during 2012 totaled $989,793 (2011 - $989,793).

11. Payment in lieu of income taxes:

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

	2012	2011
Basic rate applied to income before PILs 2012 - 26.5% (2011 - 28.25%)	$ 726,000	$ 756,000
Tax effect of non-deductible expenses	1,000	1,000
Tax effect of other temporary differences	(5,000)	(32,000)
Other items	(92,000)	(97,000)
Tax provision	$ 630,000	$ 628,000

Future income tax assets of $2,732,143 (2011 - $2,518,087) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets and intangible assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

12. Pension agreements:

Effective February 1, 1989, the Company. commenced participation in the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, for all active employees at the date as well as for all new employees. As of December 31, 2012, there were forty six active employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on their length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Company's books.

Contributions for the year by the Company were $337,194 (2011 - $283,513). Contributions were set at a rate of 8.3% for employee earnings below the year's maximum pensionable earnings and 12.8% thereafter, effective the first full pay of January, 2012.

13. Public liability insurance:

The Company is a member of the Municipal Electrical Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2012, no assessments have been made.

14. Financial instruments:

(a) Credit risk:

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

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

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company has entered into interest rate swaps, as described in note 20, to reduce its exposure to fluctuations in interest expense on certain of its debt instruments.

15. Change in non-cash operating working capital:

		2012		2011
Cash increase (decrease):				
Accounts receivable	$	(292,054)	$	(373,538)
Inventory		(424,222)		(29,801)
Prepaid expenses		32,425		(109,033)
Payment in lieu of income taxes		168,161		(7,000)
Unbilled revenue		(20,761)		(542,773)
Accounts payable and accrued liabilities		814,458		764,490
Accrued vacation, wages and benefits		13,989		(87,932)
Due to the Corporation of the City of Stratford		(73,800)		103,399
Due from Festival Hydro Services Inc.		55,229		(614,702)
	$	273,425	$	(896,890)

16. Due from Festival Hydro Services Inc. ("FHSI"):

The Company performs all of the administrative functions for FHSI. Most expenses and revenue are paid and received through the Company according to a service level agreement dated September 1, 2007.

The Company charges interest on the balance owing from FHSI at an interest rate equivalent to the rate paid by FHSI on its fixed term loan with the Royal Bank. When FHSI is in a deposit position with the Company, interest is paid at the equivalent of Royal Bank prime less 1.85%. Net interest received by the Company for the year was $40,464 (2011 - $33,221). There are no terms of repayment on the balance owing.

The Company and FHSI are wholly owned by the Corporation of the City of Stratford.

17. Contingencies:

(a) Prudential support:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of $3,095,139 (2011 - $3,095,139) which renews automatically on an annual basis.

(b) Connection and cost recovery agreement - St. Mary's Transformer Station:

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement ("CCRA") in September, 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment of the Transformer Station.

The CCRA is trued-up every five years. Any excess revenues will reduce the term of the agreement. The Company anticipates load growth will continue to exceed the target amounts prescribed in the CCRA and expect no financial contribution will be required under the agreement.

(c) Connection and cost recovery agreement - Stratford Transformer Station ("Festival Hydro MTS1"):

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment.

The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date.

18. Long-term debt:

	2012	2011
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4%, with payments of $100,585 due semi-annually, maturing June 15, 2025	$ 1,918,421	$ 2,031,437
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98%, with payments of $13,733 due semi-annually maturing October 2025	276,664	292,640
Royal Bank non-revolving term loan, bearing interest at RBP and BA's at the acceptance fee plus 1.00%, maturing May 31, 2013	6,801,986	-
Accrued interest to December 31	6,270	6,637
	9,003,341	2,330,714
Less: current portion	140,932	135,629
Long-term debt	$ 8,862,409	$ 2,195,085

The Company approved financing from OIPC of up to $2,500,000 for its smart meter project. Amounts initially drawn were classified as advances with no specified repayment terms. The advances have been converted to two fifteen year debentures with fixed repayment terms and fixed interest rates.

The Company incurred interest expense in respect of the advances of $99,277 (2011 - $104,628).

The Company has entered into an agreement with the Royal Bank to refinance the non-revolving term loan maturing May 31, 2013. The agreement enables the Company to refinance the term loan using facility (iv) in note 20. As the Company has the intent and ability to refinance the term loan, the outstanding balance as at December 31, 2012 has been presented as long-term.

19. Related party transactions:

During the year, and within the normal course of operations, the Company provided water and sewer billing and collection services to the Corporation of the City of Stratford. Revenue earned by the Company was $420,015 (2011 - $410,721). The Company also provided street light maintenance and capital services for the City of Stratford for which it earned revenues of $225,829 (2011 - $203,586).

During the year, the Company collected and remitted funds to the shareholder $3,715,613 (2011 - $3,416,613) for water services and $5,644,549 (2011 - $5,317,574) for sewage services.

The Company also leases space to the Corporation of the City of Stratford for which it earned revenue in the year of $33,858 (2011 - $30,420). The Company leases space to FHSI for which it earned revenue in the year of $29,684 (2011 - $1,622).

During the year, the Company provided labour services, trucking services, materials, management services, billing and collecting services, joint pole attachment approval, and electricity for WiFi equipment on Company poles to FHSI. Revenue earned by the Company for these services was $208,889 (2011 - $228,685).

During the year, the Company continued three fibre service agreements with FHSI. Expenses paid by the Company relating to these three contracts totaled $127,000 (2011 - $125,500). The Company also purchased advertising on the Walled Garden from FHSI in 2012 for $6,000 (2011 - nil).

20. Credit facility arrangement:

The Company has entered into a new credit facility agreement (the "agreement") with the Royal Bank effective June 29, 2012 to meet its short-term and long-term financing needs. The agreement allows for the following types of credit facilities:

(i) $10,000,000 revolving term facility by way of either RBP based loans, overdrafts or bankers acceptance; and

(ii) $3,600,000 revolving term facility by way of a letter of guarantee; and

(iii) $14,000,000 non-revolving term facility by way of RBP based loan or bankers acceptance; and

(iv) $14,000,000 revolving term facility by way of either RBP based loans or bankers acceptance, repayable in full on the last day of a five or ten year term from drawdown as selected by the Company.

20. Credit facility arrangement (continued):

The credit facilities are secured by a general security agreement.

As at December 31, 2012, there were no borrowings under facility (i). The Company did however, make use of its letter of guarantee under facility (ii) to furnish the IESO with prudential support of $3,095,139 (2011 - $3,095,139).

The borrowing under facility (iii) was undertaken to finance the construction of the transformer station in the south west section of the City of Stratford. The loan is to be repaid by the earlier of the date of the advance under facility (iv) or May 31, 2013. As at December 31, 2012, $6,801,986 was advanced under this facility. The terms and conditions of the agreement indicate that the aggregate of facility (iii) and facility (iv) shall not exceed $14,000,000 at any time. The proceeds of borrowing under facility (iv) shall be utilized to repay in full all borrowing under facility (iii) and facility (iii) is immediately then cancelled.

The Company also maintains a VISA Business credit facility to a maximum amount of $30,000.

During the year, the Company utilized the overdraft facility and incurred interest expense in respect of this lending arrangement of $10,467 (2011 - $3,798).

Interest rate swap

The Company has entered into an interest rate swap agreement on a notional principal of $14,000,000 which will become effective May 31, 2013, maturing May 31, 2038. The swap is a receive variable pay fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates on the bankers acceptances under facility (iv) to an effective fixed interest rate of 2.93% plus stamping fee of 0.42%. The stamping fee is subject to change every 10 years.

The Company has not yet determined whether this swap will meet the standard to apply hedge accounting. If the standard is not met, the interest rate swap contract will be marked to market each year end with the gain or loss recorded in the statement of earnings.

21. Comparative figures:

Certain of the 2011 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

Financial Statements of

FESTIVAL HYDRO INC.

Year ended December 31, 2011

KPMG LLP
Chartered Accountants
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

We have audited the accompanying financial statements of Festival Hydro Inc., 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Festival 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

April 26, 2012

London, Canada

FESTIVAL HYDRO INC.

Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	$ -	$ 1,089,077
Accounts receivables (note 6)	3,140,045	2,766,507
Inventory (note 5)	124,781	94,980
Payments in lieu of corporate income taxes recoverable	93,423	86,423
Prepaid expenses and deposits	318,191	209,158
Unbilled revenue	6,937,210	6,394,437
Due from Festival Hydro Services Inc. (note 16)	885,013	270,311
	11,498,663	10,910,893
Property, plant and equipment (note 4)	33,608,438	32,996,967
Prepaid pension costs	-	16,591
Future payments in lieu of income taxes (note 11)	2,518,087	2,654,791
Intangibles	10,000	-
Goodwill	515,359	515,359
	$ 48,150,547	$ 47,094,601
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	$ 241,193	$ -
Accounts payable and accrued liabilities	6,311,559	5,650,933
Accrued vacation, wages and benefits	338,135	426,067
Demand notes payable (note 8)	15,600,000	15,600,000
Current portion of long-term debt (note 20)	135,629	126,907
Current portion of customer deposits	319,144	258,601
Due to the Corporation of the City of Stratford	744,669	641,270
	23,690,329	22,703,778
Regulatory liability, net (note 7)	400,831	1,148,668
Post-employment benefits (note 9)	1,346,328	1,342,826
Customer deposits, long-term	890,419	670,645
Long-term debt (note 20)	2,195,085	2,331,833
Shareholder's equity:		
Share capital (note 10)	15,568,388	15,568,388
Retained earnings	4,059,167	3,328,463
	19,627,555	18,896,851
Commitments (note 17)		
Contingency (note 18 and 21)		
	$ 48,150,547	$ 47,094,601

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director ____________________ Director

FESTIVAL HYDRO INC.

Statement of Earnings and Retained Earnings

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

	2011	2010
Revenue:		
Distribution revenue	$ 9,708,014	$ 9,185,645
Solar generation income	31,535	-
Late payment and other customer charges	241,340	217,174
Rentals and interest income	244,332	193,920
Other income	255,334	445,322
	10,480,555	10,042,061
Expenses:		
Operating and maintenance	1,247,933	1,221,399
Billing, data processing and collection	936,527	866,998
Administrative	1,539,703	1,575,204
Amortization of property, plant and equipment	2,797,880	2,814,635
Amortization of intangibles	-	15,658
	6,522,043	6,493,894
Earnings before the undernoted	3,958,512	3,548,167
Interest expense	1,305,015	1,218,158
Earnings before payments in lieu of taxes	2,653,497	2,330,009
Provision for payments in lieu of income taxes (note 11):		
Current	628,000	723,000
Net earnings	2,025,497	1,607,009
Retained earnings, beginning of year	3,328,463	2,925,591
Dividends	(1,294,793)	(1,204,137)
Retained earnings, end of year	$ 4,059,167	$ 3,328,463

See accompanying notes to financial statements.

FESTIVAL HYDRO INC.
Statement of Cash Flows

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

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 2,025,497	$ 1,607,009
Adjustments for:		
Amortization	2,797,880	2,830,293
Deferred changes	16,591	-
Spare parts transfer back to inventory	90,434	-
Future payments in lieu of income taxes	136,704	-
Change in non-cash operating working capital (note 15)	(1,000,754)	481,951
	4,066,352	4,919,253
Financing activities:		
Long-term debt	(128,027)	2,447,639
Advances customer deposits	280,317	13,330
Post-employment benefits	3,502	107,828
Dividends	(1,294,793)	(1,204,137)
	(1,139,001)	1,364,660
Investing activities:		
Prepaid pension costs	-	16,591
Proceeds from disposal of capital assets	15,019	-
Purchase of property, plant and equipment	(3,514,803)	(3,631,706)
Regulatory liability, net	(747,837)	(3,300,228)
Intangibles	(10,000)	-
	(4,257,621)	(6,915,343)
Decrease in cash	(1,330,270)	(631,430)
Cash, beginning of year	1,089,077	1,720,507
Cash (bank indebtedness), end of year	$ (241,193)	$ 1,089,077
Supplemental cash flow information:		
Taxes paid	$ 635,000	$ 849,731
Interest paid	1,243,328	1,185,248

See accompanying notes to financial statements.

Festival Hydro Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act (the "EA") 1998 on July 11, 2000. The Corporation of the City of Stratford (the "City") passed a bylaw pursuant to Section 145 of the Electricity Act 1998 transferring certain assets and liabilities used in connection with the sales of electricity and electrical distribution systems from the Stratford Public Utility Commission - Electric Department (the "Corporation"). In exchange for these assets the City received a promissory note and 10,001 common shares. This business is regulated by the Ontario Energy Board ("OEB").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook") and reflect the significant accounting policies as summarized below:

(a) Financial effects of distribution rate regulation:

(i) Rate regulation:

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring distribution companies fulfill obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods through the rate-making process. In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulatory environment.

(ii) Settlement variances:

The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges. Other than the variances for cost of imported power, the nature of the settlement variances is such that their balances shall change each reporting period-end date.

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1. Significant accounting policies (continued):

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

(iii) Rate setting:

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

The Company's last cost of service EDR application was filed for 2010 and approved on April 1, 2010, with rates effective May 1. 2010. Such decision provided for a $9,610,278 service distribution revenue requirement and a rate base of $24,076,547 (60%) debt and $16,051,031(40%) equity, respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Company filed a 2011 IRM application on October 29, 2010 to adjust its base rates effective May 1, 2011. Accordingly, the Company’s base rate was approved to increase by 0.38% effective May 1, 2011, as a result of an annual change in the GDP IPI FDD of 1.30% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Distribution Corporation.

The Company's 2012 IRM application was approved by the OEB on March 22, 2012 allowing the Company to adjust its base rates effective May 1, 2012. The Company's base rate has been approved to increase by 1.08% effective May 1, 2012, as a result of an annual change in the GDP IPA FDD of 2.00%, net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Company.

1. Significant accounting policies (continued):

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

(iii) Rate setting (continued):

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

(a) acknowledge and incorporate a utility spread off of Canada long bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 550 bps);

(b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowings;

(c) reduce MARE volatility from annual changes in the Canada long bond and by reducing the annual adjustment factor to .050;

(d) reflect a more realistic and fair base risk premium for local distribution companies.

The method of transition to the new MARE was through the 2010 Cost of Service Application which was approved by the OEB with a effective date of May 1, 2010.

(iv) Smart Meter Initiative:

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

In support of this initiative, the Company completed its deployment of Smart Meters by early 2011, with approximately 19,200 Smart Meters deployed. Testing with the provincial Meter Data Management Repository ("MDMR") commenced in 2011 and was completed in March, 2012. Time of use pricing on customer bills is scheduled to commence effective with the first full month's consumption for May, 2012.

1. Significant accounting policies (continued):

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

(iv) Smart Meter Initiative (continued):

On October 29, 2010, The Company submitted an application to the OEB for the consideration and approval of a Utility Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. The application provided for a new rate adder of $1.52 per metered customer per month, to begin May 1, 2011. The Company's 2011 IRM application was approved by the OEB on April 21, 2011. In the 2012 IRM rate application, the Company applied for an extension of the $1.52 smart meter rate adder but was denied. The Company plans to file a smart meter disposition application in May, 2012.

(v) Green Energy and Green Economy Act:

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

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and permits them to provide district heating services in their communities through co generation. LDC's also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's gained 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.

1. Significant accounting policies (continued):

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

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

On September 16, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company's license states that "the license shall meet its 2014 annual peak demand savings of 6.230 MW and its 2011-2014 Net cumulative energy savings target of 29.250 GWh over a four year period beginning January 1, 2011". LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Company commenced a number of new CDM initiatives during 2011 in order to meet the four year period targets set out by the OEB and is actively working toward meeting its 2014 targets.

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31, for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Spare transformers and meters:

Spare transformers and meters are classified as capital assets in accordance with guidance in the AP Handbook.

(d) Inventory:

Inventory is measured at the lower of cost and net realizable value and any items considered to be major components of plant and equipment are recorded in property, plant and equipment.

1. Significant accounting policies (continued):

(e) Intangible:

Intangible assets are initially recognized and recorded at cost. Intangible assets are amortized over their useful lives.

(f) Property, plant and equipment:

Property, plant and equipment assets are recorded at cost and are amortized on a straight-line basis at varying rates estimated to write-off the cost of each asset over its useful life. The assets and rates are as follows:

Asset	Rate
Distribution lines, overhead	4%
Transformers	4%
Services	4%
Meters	4%
Buildings	2%
Transportation equipment	12.5 or 20%
Distribution lines, underground	4%
Computer equipment	20%
Smart meters	7%
Distribution equipment	10%
Other equipment	10%
Solar generation	5%

Maintenance and repair items are expensed as incurred. Additions, renewals or betterments are capitalized. Any normal gain or loss on sale or retirement of buildings or equipment is included in the statement of earnings and retained earnings in the year of disposal.

1. Significant accounting policies (continued):

(g) Post-employment benefits:

Post-employment benefits provided by the Company include medical and life insurance benefits. These plans provide benefits to certain employees when they no longer provide active service. Future benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains and losses are expensed as incurred.

(h) Payments-in-lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company was required, under the Electricity Act, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as through it had a "fresh start" at the time of its change in tax status.

1. Significant accounting policies (continued):

(i) Contributed capital:

Prior to January 1, 2000, contractor's capital contributions toward the construction or acquisition of property, plant and equipment by the Company were referred to as miscellaneous paid-in capital and disclosed as a permanent component of utility equity.

Effective May 1, 2000, the Company prospectively adopted the change in accounting policy for contributions received in aid of construction (contributed capital), as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Contributed capital contributions are required contributions received from outside sources, used to finance additions to property, plant and equipment. Contributed capital contributions received are treated as a contra account included in the determination of property, plant and equipment. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related property, plant and equipment.

(j) Other long-term liabilities:

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(k) Goodwill:

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. The carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. No goodwill was impaired during the year.

(l) Related party transactions:

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

1. Significant accounting policies (continued):

(m) Financial assets and liabilities:

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

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Payments in lieu of corporate income taxes recoverable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from Festival Hydro Services Inc.	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued vacation, wages and benefits	Other liabilities
Demand notes payable	Other liabilities
Due to Festival Hydro Services Inc.	Other liabilities
Due to the Corporation of the City of Stratford	Other liabilities
Payments in lieu of corporate income taxes payable	Other liabilities

(n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Future accounting changes:

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

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

In October 2010, the AcSB approved the incorporation of a one year deferral of adoption of Part 1 of the CICA Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook now 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 2, 2011 to disclose that fact.

In March 2012, the AcSB extended the deferral of adoption of Part 1 of the CICA Handbook for qualifying entities with activities subject to rate regulation for an additional year to January 1, 2013. The Company had decided to implement IFRS commencing January 1, 2012 and is now assessing whether the extended deferral option will be taken.

3. Financial effects of distribution rate regulation:

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

(a) Regulatory decisions to adjust distribution rates:

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

3. Financial effects of distribution rate regulation (continued):

(b) Regulatory direction and practice:

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

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provision for future uncertainty, are more fully described in note 7 to the financial statements.

4. Property, plant and equipment:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Distribution lines, underground	$ 23,355,182	$ 14,908,588	$ 8,446,594	$ 8,551,121
Distribution lines, overhead	24,766,302	11,025,969	13,740,333	13,060,077
Transformers	15,390,945	9,041,991	6,348,954	6,254,988
Services	5,012,424	2,845,967	2,166,457	2,203,809
Meters	3,886,441	2,481,757	1,404,684	1,380,947
Buildings	3,449,401	1,165,388	2,284,013	2,271,416
Transportation equipment	2,833,996	1,915,967	918,029	1,094,289
Distribution equipment	1,745,896	1,406,512	339,384	379,807
Computer equipment	1,850,653	1,615,770	234,883	268,483
Office equipment	858,300	694,166	164,134	170,721
Other equipment	738,513	598,578	139,935	159,801
Contributions, capital	(4,405,061)	(1,116,431)	(3,288,630)	(3,356,223)
Major spare parts inventory	422,346	-	422,346	512,780
Solar generation	294,689	7,367	287,322	44,951
	$ 80,200,027	$ 46,591,589	$ 33,608,438	$ 32,996,967

5. Inventory:

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

The amount of inventories consumed by the Company and recognized as an expense during 2011 was $80,798 (2010 - $187,385).

6. Accounts receivable:

	2011	2010
Energy, water and sewage	$ 2,639,953	$ 2,600,005
Sundry	625,874	298,795
	3,265,827	2,898,800
Less allowance for doubtful accounts	(125,782)	(132,293)
	$ 3,140,045	$ 2,766,507

Included in accounts receivable is approximately $473,583 (2010 - $437,205) of customer receivables for water consumption and sewage removal that the Company bills and collects on behalf of the Corporation of the City of Stratford. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption and sewage removal that is determined to be uncollectible is charged to the Corporation of the City of Stratford. At year-end, there is nothing (2010 - nil) included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption and sewage removal.

7. Regulatory liability, net:

Regulatory assets and liabilities arise as a result of the rate-setting process. The Company has recorded the following assets and liabilities:

	2011	2010
Assets:		
Other regulatory assets	$ 83,930	$ 134,874
Post-market opening retail settlement variances:		
Special purpose charge variance	7,210	114,016
Cost of power variance	1,293,674	861,738
Deferred payments in lieu of corporate income taxes	72,932	73,720
2010 Rate Application costs	47,696	67,252
Low voltage charges	(15,052)	(58,130)
IFRS Conversion costs	50,031	48,718
	1,540,421	1,242,188
Liabilities:		
Post-market opening transmission network and connection charges	272,078	(96,630)
PILs variance account	(57,175)	(45,900)
Retail settlement variance accounts	(44,632)	(41,245)
Wholesale market charges	(1,305,671)	(704,163)
Future regulatory taxes payable	(2,518,087)	(2,654,791)
	(3,653,487)	(3,542,729)
2010 disposition variance	(1,367,842)	(1,881,243)
Smart meter costs variance account	3,138,463	2,989,032
Recovery of regulatory assets	45,478	44,084
Board approved CDM variance account	(103,864)	-
	1,712,235	1,151,873
	$ (400,831)	$ (1,148,668)

7. Regulatory liability, net (continued):

Post-market opening retail settlement variances - represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission and network charges, and the amounts billed to customers by the Company based on the OEB approved wholesale market rates, transmission network and transmission connection rates;

(b) variances between the amounts charged by the IESO to allow for purchases of electricity and the amounts billed to customers by the Company based on OEB approved rates;

(c) deferred payments in lieu of income taxes - represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution service charges and the actual amount of these charges to customers that relates to the recovery of PILs;

(d) low voltage charges-variance between the amounts charged by Hydro One for Low Voltage charges and the amounts billed to customers by the Company based on OEB approved rates;

(e) Smart Meter costs variance account-variance between the amounts spent on Smart Meter implementation and the amounts billed to customers by the Company based on OEB approved rates; and

(f) As part of the 2010 rate application, the Company claimed for disposal $2.1 million in regulatory liability balances. The amount is being paid back to customers over a four year period starting May 1, 2010. The balances approved for disposition by the OEB were placed into a new account called 2010 disposition variance.

8. Demand notes payable:

	2011	2010
Demand notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand	$ 15,600,000	$ 15,600,000

Interest paid on the demand notes for the year ended December 31, 2011 was $1,131,000 (2010 - $1,131,000).

9. Post-employment benefits:

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

	2011	2010
Post employment benefits	$ 1,346,328	$ 1,342,826

Other information about the Company's defined benefit plans is as follows:

	2011	2010
Post employment benefits:		
Balance, beginning of year	$ 1,342,826	$ 1,234,998
Service cost	24,898	27,178
Interest cost	60,195	67,709
Actuarial loss	(16,331)	75,139
Benefits paid	(65,260)	(62,198)
Post employment benefits, end of year	$ 1,346,328	$ 1,342,826

An adjustment was made to set up a deferred charge of $117,000 as at December 31, 2001 to reflect additional past service costs arising from the September 7, 2001 amalgamation which were discovered during the 2002 actuarial valuation. This amount was reduced by charges to operations over a ten year period. At December 31, 2011, the remaining deferred charge is nil (2010 - $16,591).

9. Post-employment benefits (continued):

The accrued benefit obligation for post-employment benefits is based on an actuarial valuation for accounting purposes as at December 31, 2011. The actuarial valuation was based on assumptions about future events. The economic assumptions used in the valuation is the Company's best estimates of expected rates of:

	2011	2010
Wage and salary escalation	3.1%	3.1%
Annual increase in health care costs	8.0%	8.0%
Annual increase in dental care costs	5.0%	5.0%
Discount rate on accrued benefit obligations	4.3%	5.0%

10. Share capital:

	2011	2010
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 common shares	9,468,388	9,468,388
	$ 15,568,388	$ 15,568,388

Dividends paid on the 6,100 Class A special shares during 2011 totaled $305,000 (2010 - $305,000). Dividends paid on the 6,995 (2010 - 6,995) common shares during 2011 totaled $989,793 (2010 - $899,137).

11. Payment in lieu of income taxes:

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

	2011	2010
Basic rate applied to income before PILs 2011 - 28.25% (2010 - 31.0%)	$ 756,000	$ 723,000
Tax effect of non-deductible expenses	1,000	16,000
Tax effect of other temporary differences	(32,000)	-
Other items	(97,000)	(16,000)
Tax provision	$ 628,000	$ 723,000

Future income tax assets of $2,518,087 (2010 - $2,654,791) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets and intangible assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

12. Pension agreements:

Effective February 1, 1989, the Festival Hydro Inc. commenced participation in the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, for all active employees at the date as well as for all new employees. As of December 31, 2011, there were forty-five active employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on their length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Company's books.

Contributions for the year by the Company were $283,513 (2010 - $229,566). Contributions were set at a rate of 7.4% for employee earnings below the year's maximum pensionable earnings and 10.7% thereafter, effective the first full pay of January, 2011.

13. Public liability insurance:

The Company is a member of the Municipal Electrical Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2011, no assessments have been made.

14. Financial instruments:

(a) Credit risk:

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

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

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risks that arise from the interest rate on its long term debt. Changes in interest rates could cause unanticipated fluctuations in the Company's results.

15. Change in non-cash operating working capital:

	2011	2010
Cash increase (decrease):		
Accounts receivable	$ (373,538)	$ (384,678)
Inventory	(29,801)	148,825
Prepaid expenses	(109,033)	798,197
Payment in lieu of income taxes	(7,000)	(109,730)
Unbilled revenue	(542,773)	30,189
Accounts payable and accrued liabilities	660,626	52,617
Accrued vacation, wages and benefits	(87,932)	42,105
Due to the Corporation of the City of Stratford	103,399	112,812
Due from Festival Hydro Services Inc.	(614,702)	(208,386)
	$ (1,000,754)	$ 481,951

16. Due from Festival Hydro Services Inc. ("FHSI"):

The Company performs all of the administrative functions for FHSI. Most expenses and revenue are paid and received through the Company according to a service level agreement dated September 1, 2002.

The Company charges interest on the balance owing from FHSI at an interest rate equivalent to the rate paid by FHSI on its fixed term loan with the Royal Bank. When FHSI is in a deposit position with the Company, interest is paid at the equivalent of Royal Bank prime less 1.85%. Net interest received by the Company for the year was $33,221 (2010 - $8,068). There are no terms of repayment on the balance owing.

The Company and FHSI are wholly owned by the Corporation of the City of Stratford.

17. Commitments:

(a) Prudential support:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of $3,095,139 (2010 - $3,095,139) which renews automatically on an annual basis.

(b) Connection and cost recovery agreement:

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement ("CCRA") in September, 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment of the Transformer Station.

The CCRA is trued-up every five years. Any excess revenues will reduce the term of the agreement. The Company anticipates load growth will continue to exceed the target amounts prescribed in the CCRA and expect no financial contribution will be required under the agreement.

18. Contingency:

Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of $500,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Company 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 Company's share of the settlement amount was $87,055, paid on June 7, 2011 to Ogilvy Renault LLP in Trust.

Pursuant to OEB Decision EB-2010-0295 dated February 22, 2011, the Company received approval for the future recovery from customers of all costs related to the settlement. Recovery through rates commenced May 1, 2011 for a one year period.

19. Related party transactions:

During the year, and within the normal course of operations, the Company provided water and sewer billing and collection services to the Corporation of the City of Stratford. Revenue earned by the Company was $410,721 (2010 - $409,014).

During the year, the Company collected and remitted funds to the shareholder $3,416,613 (2010 - $3,316,052) for water services and $5,317,574 (2010 - $5,117,401) for sewage services.

The Company also leases space to the Corporation of the City of Stratford for which it earned revenue in the year of $30,420 (2010 - $30,420). The Company leases space to Festival Hydro Services Inc. for which it earned revenue in the year of $1,622 (2010 - $1,622)

During the year, the Company provided labour services, truck services, material, management services and billing and collection services to Festival Hydro Services Inc. Revenue earned by the Company was $154,851 (2010 - $191,427).

19. Related party transactions (continued):

During the year, the Company continued in two service agreements with FHSI. Expenses paid by the Company relating to these two contracts totaled $124,000 (2010 - $25,400).

In 2011, the Company entered into one fibre agreement with FHSI with total expenses from this contract of $1,500 (2010 - nil). In addition the Company received consulting services from FHSI for $7,379 in the year.

20. Infrastructure Ontario loan:

	2011	2010
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4%, with payments of $100,585 due semi-annually	$ 2,031,437	$ 2,139,639
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98%, with payments of $13,733 due semi-annually maturing October 2025.	292,640	308,000
Accrued interest to December 31	6,637	11,101
	2,330,714	2,458,740
Less current portion	135,629	126,907
Long-term debt	$ 2,195,085	$ 2,331,833

The Company has approved financing from OIPC of up to $2,500,000 for its smart meter project. Amounts initially drawn were classified as advances with no specified repayment terms. The advances have been converted to 2 fifteen year debentures with fixed repayment terms and fixed interest rates.

The Company incurred interest expense in respect of the advances of $104,628 (2010 - $62,271).

21. Credit facility arrangement:

The Company has a credit facility agreement (the "agreement") with the Royal Bank to meet its short-term financing needs. The agreement allows for two types of credit facilities:

(i) $10,000,000 revolving term facility by way of either RBP based loans, overdrafts or bankers acceptance; and

(ii) $3,250,000 revolving term facility by way of a letter of guarantee.

This credit facility is secured by a general security agreement.

During the year, the Company utilized the overdraft facility and incurred interest expense in respect of this lending arrangement of $3,798 (2010 - $409). The Company also made us of its letter of guarantee to furnish the IESO with prudential support of $3,095,139 (2010 - $3,095,139).

Financial Statements of

FESTIVAL HYDRO INC.

Year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

We have audited the accompanying financial statements ofFestival 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Festival 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

April 28, 2011

London, Canada

FESTIVAL HYDRO INC.

Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	$ 1,089,077	$ 1,720,507
Accounts receivables (note 6)	2,766,507	2,381,829
Inventory (note 5)	94,980	243,805
Payments in lieu of corporate income taxes recoverable	86,423	-
Prepaid expenses and deposits	209,158	1,007,355
Unbilled revenue	6,394,437	6,424,626
Due from Festival Hydro Services Inc. (note 16)	270,311	61,924
	10,910,893	11,840,046
Property, plant and equipment (note 4)	32,996,967	32,179,897
Prepaid pension costs	16,591	33,182
Future payments in lieu of income taxes (note 11)	2,654,791	2,585,975
Organization costs, net of accumulated amortization of $300,598 (2009 - $284,940)	-	15,658
Goodwill	515,359	515,359
	$ 47,094,601	$ 47,170,117
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,650,933	$ 5,598,316
Accrued vacation, wages and benefits	435,116	393,011
Payments in lieu of corporate income taxes payable	-	23,307
Demand notes payable (note 8)	15,600,000	15,600,000
Current portion of long-term debt (note 21)	115,806	-
Current portion of customer deposits	258,601	316,887
Due to the Corporation of the City of Stratford	643,322	530,510
	22,703,778	22,462,031
Regulatory liability, net (note 7)	1,148,668	4,380,080
Post-employment benefits (note 9)	1,342,826	1,234,998
Customer deposits, long-term	670,645	599,029
Long-term debt (note 21)	2,331,833	-
Shareholder's equity:		
Share capital (note 10)	15,568,388	15,568,388
Retained earnings	3,328,463	2,925,591
	18,896,851	18,493,979
Commitments (note 17)		
Contingency (note 18)		
	$ 47,094,601	$ 47,170,117

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director _______________ Director

FESTIVAL HYDRO INC.

Statement of Earnings and Retained Earnings

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

	2010	2009
Revenue:		
Distribution revenue	$ 9,185,645	$ 9,118,828
Late payment and other customer charges	217,174	227,139
Rentals and interest income	193,920	193,465
Other income	445,322	315,379
	10,042,061	9,854,811
Expenses:		
Operating and maintenance	1,221,399	1,199,698
Billing, data processing and collection	866,998	797,415
Administrative	1,575,204	1,416,803
Amortization of property, plant and equipment	2,814,635	2,756,586
Amortization of organization costs	15,658	30,061
	6,493,894	6,200,563
Earnings before the undernoted	3,548,167	3,654,248
Interest expense	1,218,158	1,189,619
Earnings before payments in lieu of taxes	2,330,009	2,464,629
Provision for payments in lieu of income taxes (note 11):		
Current	723,000	988,000
Net earnings	1,607,009	1,476,629
Retained earnings, beginning of year	2,925,591	4,700,845
Regulatory liability adjustment (note 2)	-	(2,083,000)
Dividends	(1,204,137)	(1,168,883)
Retained earnings, end of year	$ 3,328,463	$ 2,925,591

See accompanying notes to financial statements.

FESTIVAL HYDRO INC.

Statement of Cash Flows

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

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 1,607,009	$ 1,476,629
Adjustments for:		
Amortization	2,830,293	2,786,647
Change in non-cash operating working capital (note 15)	481,951	(1,617,117)
	4,919,253	2,646,159
Financing activities:		
Long-term debt	2,447,639	-
Advances customer deposits	13,330	18,896
Post-employment benefits	107,828	(51,631)
Dividends	(1,204,137)	(1,168,883)
	1,364,660	(1,201,618)
Investing activities:		
Prepaid pension costs	16,591	16,591
Purchase of property, plant and equipment	(3,631,706)	(3,595,782)
Regulatory liability, net	(3,300,228)	(401,509)
	(6,915,343)	(3,980,700)
Decrease in cash	(631,430)	(2,536,159)
Cash, beginning of year	1,720,507	4,256,666
Cash, end of year	$ 1,089,077	$ 1,720,507
Supplemental cash flow information:		
Taxes paid	$ 849,731	$ 1,070,937
Interest paid	1,185,248	1,162,384

See accompanying notes to financial statements.

Festival Hydro Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act (the "EA") 1998 on July 11, 2000. The Corporation of the City of Stratford (the "City") passed a bylaw pursuant to Section 145 of the Electricity Act 1998 transferring certain assets and liabilities used in connection with the sales of electricity and electrical distribution systems from the Stratford Public Utility Commission - Electric Department (the "Corporation"). In exchange for these assets the City received a promissory note and 10,001 common shares. This business is regulated by the Ontario Energy Board ("OEB").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook") and reflect the significant accounting policies as summarized below:

(a) Financial effects of distribution rate regulation:

(i) Rate regulation:

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring distribution companies fulfill obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods through the rate-making process. In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulatory environment.

(ii) Settlement variances:

The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges. Other than the variances for cost of imported power, the nature of the settlement variances is such that their balances shall change each reporting period-end date.

1. Significant accounting policies (continued):

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

(iii) Rate setting:

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

The Company's last cost of service EDR application was filed for 2010 and approved on April 1, 2010, with rates effective May 1. 2010. Such decision provided for a $9,610,278 service distribution revenue requirement and a rate base of $24,076,547 (60%) debt and $16,051,031(40%) equity, respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Company filed a 2011 IRM application on October 29, 2010 to adjust its base rates effective May 1, 2011. Accordingly, the Company’s base rate has been approved to increase by 0.38% effective May 1, 2011, as a result of an annual change in the GDP IPI FDD of 1.30% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Distribution Corporation. The Company’s 2011 IRM application was approved by the OEB on April 21, 2011.

1. Significant accounting policies (continued):

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

(iii) Rate setting (continued):

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

(a) acknowledge and incorporate a utility spread off of Canada long bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 550 bps);

(b) to include a 50 bps transaction cost component within the ERP to reflect estimated transaction costs related to utility borrowings;

(c) reduce MARE volatility from annual changes in the Canada long bond and by reducing the annual adjustment factor to .050;

(d) reflect a more realistic and fair base risk premium for local distribution companies.

The method of transition to the new MARE is through a Cost of Service Application which was filed by and approved by the OEB with a effective date of May 1, 2010.

(iv) Smart Meter Initiative:

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

In support of this initiative, the Company completed its deployment of Smart Meters throughout 2009, 2010 and early 2011, with approximately 19,200 Smart Meters deployed by the end of 2010. Testing with the provincial Meter Data Management Repository ("MDMR") will commence in 2011.

1. Significant accounting policies (continued):

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

(iv) Smart Meter Initiative (continued):

On October 29, 2010, The Company submitted an application to the OEB for the consideration and approval of a Utility Specific smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. The application provided for a new rate adder of $1.52 per metered customer per month, to begin May 1, 2011. The Company's 2011 IRM application was approved by the OEB on April 21, 2011.

(v) Green Energy and Green Economy Act:

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

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

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

On September 16, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company’s license states that "the license shall meet its 2014 annual peak demand savings of 6.230 MW and its 2011-2014 Net cumulative energy savings target of 29.250 GWh over a four year period beginning January 1, 2011". LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Company has filed its CDM Strategy with the OEB.

1. Significant accounting policies (continued):

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31, for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Spare transformers and meters:

Spare transformers and meters are classified as capital assets in accordance with guidance in the AP Handbook.

(d) Inventory:

Inventory is measured at the lower of cost and net realizable value and any items considered to be major components of property, plant and equipment are recorded in property, plant and equipment.

(e) Organization costs:

Costs incurred for the amalgamation of the corporations, 1438188 Ontario Inc., 1438189 Ontario Inc., 1438190 Ontario Inc., 1438191 Ontario Inc., 1438192 Ontario Inc., 1438193 Ontario Inc. and Festival Hydro Inc., are being amortized over ten years on a straight-line basis.

1. Significant accounting policies (continued):

(f) Property, plant and equipment:

Property, plant and equipment assets are recorded at cost and are amortized on a straight-line basis at varying rates estimated to write-off the cost of each asset over its useful life. The assets and rates are as follows.

Asset	Rate
Distribution lines, overhead	4%
Transformers	4%
Services	4%
Meters	4%
Buildings	2%
Transportation equipment	12.5 or 20%
Distribution lines, underground	4%
Computer equipment	20%
Smart meters	7%
Distribution equipment	10%
Other equipment	10%
Major spare parts inventory	0%

Maintenance and repair items are expensed as incurred. Additions, renewals or betterments are capitalized. Any normal gain or loss on sale or retirement of buildings or equipment is included in the statement of earnings and retained earnings in the year of disposal.

(g) Post-employment benefits:

Post-employment benefits provided by the Company include medical and life insurance benefits. These plans provide benefits to certain employees when they no longer provide active service. Future benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains and losses are expensed as incurred.

1. Significant accounting policies (continued):

(h) Payments-in-lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the EA, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as through it had a "fresh start" at the time of its change in tax status.

(i) Contributed capital:

Prior to January 1, 2000, contractor's capital contributions toward the construction or acquisition of property, plant and equipment by the Company were referred to as miscellaneous paid-in capital and disclosed as a permanent component of utility equity.

Effective May 1, 2000, the Company prospectively adopted the change in accounting policy for contributions received in aid of construction (contributed capital), as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". Contributed capital contributions are required contributions received from outside sources, used to finance additions to property, plant and equipment. Contributed capital contributions received are treated as a contra account included in the determination of property, plant and equipment. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related property, plant and equipment.

1. Significant accounting policies (continued):

(j) Other long-term liabilities:

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(k) Goodwill:

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. The carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. No goodwill was impaired during the year.

(l) Related party transactions:

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

(m) Financial assets and liabilities:

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

1. Significant accounting policies (continued):

(m) Financial assets and liabilities (continued):

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Payments in lieu of corporate income taxes recoverable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from Festival Hydro Services Inc.	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued vacation, wages and benefits	Other liabilities
Demand notes payable	Other liabilities
Due to Festival Hydro Services Inc.	Other liabilities
Due to the Corporation of the City of Stratford	Other liabilities
Payments in lieu of corporate income taxes payable	Other liabilities

(n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policies:

Effective January 1, 2009, the Company adopted the amended sections of CICA Handbook Section 1100, "*Generally Accepted Accounting Principles"*, CICA Handbook Section 3465, "*Income Taxes and Accounting"* Guideline 19 - *"Disclosures by Entities Subject to Rate Regulation."*

(a) The amendment to CICA Handbook Section 1100 removed the exemption pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with the Canadian GAAP hierarchy guidance framework outlined in CICA Handbook Section 1100, the Company has determined that its assets and liabilities arising from rate regulation qualify for recognition under Canadian GAAP and this recognition is consistent with U.S., Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS71"). The Company concluded the assets and liabilities from rate regulation were consistent with the primary sources of Canadian GAAP. There was no change in the Company's opening retained earnings as at January 1, 2009 or the Company's results from operations for the year ended December 31, 2009 as a result of the adoption of this section.

(b) The amendment to CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. The regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized. This change has been applied on a retroactive basis without restatement of prior periods. As a result of this change, opening retained earnings decreased by $2,083,000 at January 1, 2009.

3. Financial effects of distribution rate regulation:

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

(a) Regulatory decisions to adjust distribution rates:

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

3. Financial effects of distribution rate regulation (continued):

(b) Regulatory direction and practice:

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

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provision for future uncertainty, are more fully described in note 7 to the financial statements.

4. Property, plant and equipment:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Distribution lines, underground	$ 22,697,961	$ 14,146,840	$ 8,551,121	$ 8,723,402
Distribution lines, overhead	23,198,263	10,138,186	13,060,077	12,576,592
Transformers	14,783,058	8,528,070	6,254,988	6,359,227
Services	4,877,443	2,673,634	2,203,809	2,242,019
Meters	3,739,615	2,358,668	1,380,947	1,283,850
Buildings	3,399,259	1,127,843	2,271,416	1,469,971
Transportation equipment	2,892,967	1,798,678	1,094,289	1,024,566
Distribution equipment	1,745,896	1,366,089	379,807	420,230
Computer equipment	1,789,097	1,520,614	268,483	275,340
Office equipment	831,956	661,235	170,721	188,299
Other equipment	725,929	566,128	159,801	189,811
Contributions, capital	(4,298,581)	(942,358)	(3,356,223)	(3,044,636)
Major spare parts inventory	512,780	-	512,780	471,226
Solar generation	44,951	-	44,951	-
	$ 76,940,594	$ 43,943,627	$ 32,996,967	$ 32,179,897

5. Inventory:

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

The amount of inventories consumed by the Company and recognized as an expense during 2010 was $187,385 (2009 - $137,958).

6. Accounts receivable:

	2010	2009
Energy, water and sewage	$ 2,600,005	$ 2,433,155
Sundry	298,795	69,336
	2,898,800	2,502,491
Less allowance for doubtful accounts	(132,293)	(120,662)
	$ 2,766,507	$ 2,381,829

Included in accounts receivable is approximately $437,205 (2009 - $412,407) of customer receivables for water consumption and sewage removal that the Company bills and collects on behalf of the Corporation of the City of Stratford. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption and sewage removal that is determined to be uncollectible is charged to the Corporation of the City of Stratford. At year-end, there is nothing (2009 - nil) included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption and sewage removal.

7. Regulatory liability, net:

Regulatory assets and liabilities arise as a result of the rate-setting process. The Company has recorded the following assets and liabilities:

	2010	2009
Assets:		
Other regulatory assets	$ 134,874	$ -
Post-market opening retail settlement variances:		
Special purpose charge variance	114,016	-
Cost of power variance	861,738	1,792,095
Deferred payments in lieu of corporate income taxes	73,720	74,147
OMERS and OEB variance accounts	-	373,724
2010 Rate Application costs	67,252	29,234
Low voltage charges	(58,130)	69,244
IFRS Conversion costs	48,718	34,109
	1,242,188	2,372,553
Liabilities:		
Post-market opening transmission network and connection charges	(96,630)	(2,256,311)
PILs variance account	(45,900)	-
Retail settlement variance accounts	(41,245)	(53,770)
Wholesale market charges	(704,163)	(1,558,031)
Future regulatory taxes payable	(2,654,791)	(2,585,975)
	(3,542,729)	(6,454,087)
2010 disposition variance	(1,881,243)	-
Smart meter costs variance account	2,989,032	(341,874)
Recovery of regulatory assets	44,084	43,328
	1,151,873	(298,546)
	$ (1,148,668)	$ (4,380,080)

7. Regulatory liability, net (continued):

Post-market opening retail settlement variances - represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission and network charges, and the amounts billed to customers by the Company based on the OEB approved wholesale market rates, transmission network and transmission connection rates;

(b) variances between the amounts charged by the IESO to allow for purchases of electricity and the amounts billed to customers by the Company based on OEB approved rates;

(c) deferred payments in lieu of income taxes - represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution service charges and the actual amount of these charges to customers that relates to the recovery of PILs;

(d) low voltage charges-variance between the amounts charged by Hydro One for Low Voltage charges and the amounts billed to customers by the Company based on OEB approved rates;

(e) Smart Meter costs variance account-variance between the amounts spent on Smart Meter implementation and the amounts billed to customers by the Company based on OEB approved rates; and

(f) As part of the 2010 rate application, the Company claimed for disposal $2.1 million in regulatory liability balances. The amount is being paid back to customers over a four year period starting May 1, 2010. The balances approved for disposition by the OEB were placed into a new account called 2010 Disposition variance.

8. Demand notes payable:

	2010	2009
Demand notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand	$ 15,600,000	$ 15,600,000

Interest paid on the demand notes for the year ended December 31, 2010 was $1,131,000 (2009 - $1,131,000).

9. Post-employment benefits:

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

	2010	2009
Post employment benefits	$ 1,342,826	$ 1,234,998

Other information about the Company's defined benefit plans is as follows:

	2010	2009
Post employment benefits:		
Balance, beginning of year	$ 1,234,998	$ 1,286,629
Service cost	27,178	19,930
Interest cost	67,709	70,805
Actuarial loss	75,139	(73,529)
Benefits paid	(62,198)	(68,837)
Post employment benefits, end of year	$ 1,342,826	$ 1,234,998

An adjustment was made to set up a deferred charge of $117,000 as at December 31, 2001 to reflect additional past service costs arising from the September 7, 2001 amalgamation which were discovered during the 2002 actuarial valuation. This amount is being reduced by charges to operations over a ten year period. At December 31, 2010, the remaining deferred charge is $16,591.

9. Post-employment benefits (continued):

The accrued benefit obligation for post-employment benefits are based on an actuarial valuation for accounting purposes as at December 31, 2010. The actuarial valuation was based on assumptions about future events. The economic assumptions used in the valuation is the Company's best estimates of expected rates of:

	2010	2009
Wage and salary escalation	3.1%	3.1%
Insurance and health care cost escalation reduced by 1% per year until ultimate rate of 5%	8.0%	8.0%
Insurance and dental care cost escalation	5.0%	5.0%
Discount rate on accrued benefit obligations	5.0%	5.5%

10. Share capital:

	2010	2009
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 common shares	9,468,388	9,468,388
	$ 15,568,388	$ 15,568,388

Dividends paid on the 6,100 Class A special shares during 2010 totaled $305,000 (2009 - $305,000). Dividends paid on the 6,995 (2009 - 6,995) common shares during 2010 totaled $899,137 (2009 - $863,883).

11. Payment in lieu of income taxes:

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

	2010	2009
Basic rate applied to income before PILs 2010 - 31.0% (2009 - 33.0%)	$ 723,000	$ 813,000
Tax effect of non-deductible expenses	16,000	1,000
Other items	(16,000)	174,000
Tax provision	$ 723,000	$ 988,000

Future income tax assets of $2,654,791 (2009 - $2,585,975) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets and intangible assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

12. Pension agreements:

Effective February 1, 1989, the Festival Hydro Inc. commenced participation in the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, for all active employees at the date as well as for all new employees. As of December 31, 2010, there were forty-four active employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on their length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Company's books.

Contributions for the year by the Company were $229,566 (2009 - $211,261). Contributions were set at a rate of 6.3% for employee earnings below the year's maximum pensionable earnings and 9.5% thereafter, effective the first full pay of January, 2009.

13. Public liability insurance:

The Company is a member of the Municipal Electrical Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2010, no assessments have been made.

14. Financial instruments:

(a) Credit risk:

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

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

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risks that arise from the interest rate on its long term debt. Changes in interest rates could cause unanticipated fluctuations in the Company's results.

15. Change in non-cash operating working capital:

	2010	2009
Cash increase (decrease):		
Accounts receivable	$ (384,678)	$ (171,280)
Inventory	148,825	(138,275)
Prepaid expenses	798,197	(858,007)
Payment in lieu of income taxes	(109,730)	236,916
Unbilled revenue	30,189	(463,729)
Accounts payable and accrued liabilities	52,617	131,986
Accrued vacation, wages and benefits	42,105	39,730
Due to the Corporation of the City of Stratford	112,812	(171,367)
Due to Festival Hydro Services Inc.	(208,386)	(223,091)
	$ 481,951	$ (1,617,117)

16. Due from Festival Hydro Services Inc.:

The Company performs all of the administrative functions for Festival Hydro Services Inc. Most expenses and revenue are paid and received through the Company according to a service level agreement dated September 1, 2002.

The Company charges interest on the balance owing from Festival Hydro Services Inc. at an interest rate equivalent to the Royal Bank's prime lending rate. When Festival Hydro Services Inc. is in a deposit position with the Company, interest is paid at the equivalent of Royal Bank prime less 1.85%. Net interest received by the Company for the year was $8,068 (2009 - $568). There are no terms of repayment on the balance owing.

The Company and Festival Hydro Services Inc. are wholly owned by the Corporation of the City of Stratford.

17. Commitments:

(a) Prudential support:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of $3,095,139 (2009 - $3,095,409) which renews automatically on an annual basis.

(b) Connection and cost recovery agreement:

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement ("CCRA") in September, 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment of the Transformer Station.

The CCRA is trued-up every five years. Any excess revenues will reduce the term of the agreement. The Company anticipates load growth will continue to exceed the target amounts prescribed in the CCRA and expect no financial contribution will be required under the agreement.

18. Contingency:

Pursuant to its order dated July 22, 2010 (the “Order”), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of $500,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities (“MEU”) in Ontario, of which the Company 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 Company’s share of the settlement amount is $87,491, payable on June 30, 2011 to the Winter Warmth Fund, and has been accrued at year end.

Pursuant to OEB Decision EB-2010-0295 dated February 22, 2011, the Company has received approval for the future recovery from customers of all costs related to the settlement.

19. Related party transactions:

During the year, and within the normal course of operations, the Company provided water and sewer billing and collection services to the Corporation of the City of Stratford. Revenue earned by the Company was $409,014 (2009 - $411,498).

The Company also leases space to the Corporation of the City of Stratford for which it earned revenue in the year of $30,420 (2009 - $30,420). The company leases space to Festival Hydro Services Inc. for which it earned revenue in the year of $1,622. (2009 - nil)

During the year, the Company provided labour services, truck services, material, management services and billing and collection services to Festival Hydro Services Inc. Revenue earned by the Company was $191,427 (2009 - $75,119).

19. Related party transactions (continued):

During the year, the Company entered into two service agreements with Festival Hydro Services Inc. Expenses paid by the Company relating to these two contracts totaled $25,400 (2009 - nil)

During the year, the Company collected and remitted funds to the shareholder $3,316,052 (2009 - 3,076,996) for water services and $5,117,401 (2009 - $4,633,575) for sewage services.

20. 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 Company has decided to implement IFRS commencing on January 1, 2012.

21. Infrastructure Ontario loan:

		2010		2009
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4%, with payments of $100,585 due semi-annually	$	2,139,639	$	-
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98%, with payments of $13,733 due semi-annually maturing October 2025.		308,000		-
		2,447,639		-
Less current portion		115,806		-
Long-term debt	$	2,331,833	$	-

The Company has approved financing from OIPC of up to $2,500,000 for its smart meter project. Amounts initially drawn are classified as advances with no specified repayment terms. The advances will be converted to a ten year debenture upon completion of the smart meter project. The debentures will have fixed repayment terms and a fixed interest rate.

The Company incurred interest expense in respect of the advances of $62,271 (2009 - nil).

Attachment 2 of 6

RRR Financial Reconciliation

Trial Balance Mapped to Financial Statement Groupings
Festival Hydro Inc.
December 31, 2012

USOA Account	B/S Section	B/S Line Grouping	GL Account Description	Current Year	Financial Statements	ADJ
	Current liablities	Bank Indebtedness	ADJUSTMENT from 2225	(966,429)		(966,429)
1010	Current liablities	Bank Indebtedness	Cash advances and Working Funds	1,060	(965,369)	
1100	Current Assets	Accounts receivable	Customer Accounts Receivable-elec	2,294,768		
1102	Current Assets	Accounts receivable	Accounts Receivable - Sewage	468,843		
1104	Current Assets	Accounts receivable	Accounts Receivable - Recoverable Work	483,503		
1110	Current Assets	Accounts receivable	Other Accounts Receivable - MECO Officer	158,585		
1130	Current Assets	Accounts receivable	Accumulated Provision for Uncollectible Accounts- Credit	(125,911)		
1140	Current Assets	Accounts receivable	Interest and Dividends Receivable	1,018		
			ADJUSTMENT TO RECLASS TO PAYABLES	151,293	3,432,099	151,293
1120	Current Assets	Unbilled Revenue	Accrued Utility Revenues	6,957,971	6,957,971	
1180	Current assets	Prepaid expenses and deposits	Prepayments	285,766	285,766	
1200	Current Assets	Due to Festival Hydro Services Inc.	Accounts Receivable and Associated Companies	829,784	829,784	
1330	Current Assets	Inventory	Plant Materials and Operating Supplies	549,003	549,003	
1508	Liabilities	Regultory liability, net	Other Regulatory Assets	104,520		
1518	Liabilities	Regultory liability, net	RCVA Retail	(49,763)		
1525	Liabilities	Regultory liability, net	Miscellaneous Deferred Debits	51,262		
1548	Liabilities	Regultory liability, net	RCVA STR	(1,099)		
1550	Liabilities	Regultory liability, net	Low Voltage Variance Acct	36,159		
1580	Liabilities	Regultory liability, net	RSVA Wholesale Market	(2,100,481)		
1584	Liabilities	Regultory liability, net	RSVA Network	156,248		
1586	Liabilities	Regultory liability, net	RSVA Connection	368,119		
1588	Liabilities	Regultory liability, net	RSVA Power	1,144,175		
1590	Liabilities	Regultory liability, net	Recoveryof Reg Assets	46,872		
1595	Liabilities	Regultory liability, net	2010 variance disposition account	(841,992)		
1592	Liabilities	Regultory liability, net	PILS and Tax Variance	(48,339)		
2405	Liabilities	Regultory liability, net	Other Regulatory liabilities - Hydro One	45,209		
			ADJUSTMENT - FUTURE TAX ASSET RECLASS	(2,732,143)		(2,732,143)
			ADJUSTMENT - ROUNDING	1	(3,821,252)	1
1610	Assets	Intangibles	Miscellaneous Intangible Plant	535,630	535,630	
1805	Assets	Property, Plant & Equipment	Land	1,239,823		
1808	Assets	Property, Plant & Equipment	Buildings and Fixtures	1,679,202		
1405	Assets	Property, Plant & Equipment	Long Term Investments in Non-Associated Companies	2		
1820	Assets	Property, Plant & Equipment	Distribution Station Equipment - Normally Primary below 50 kV	1,745,896		
1830	Assets	Property, Plant & Equipment	Poles, Towers and Fixtures	12,352,237		
1835	Assets	Property, Plant & Equipment	Overhead Conductors and Devices	13,955,142		
1840	Assets	Property, Plant & Equipment	Undergound Conduit	6,938,248		
1845	Assets	Property, Plant & Equipment	Underground Conductors and Devices	17,047,554		
1850	Assets	Property, Plant & Equipment	Line Transformers	15,344,243		
1855	Assets	Property, Plant & Equipment	Services	5,213,840		
1860	Assets	Property, Plant & Equipment	Meters	7,521,031		
1905	Assets	Property, Plant & Equipment	Land	17,041		
1908	Assets	Property, Plant & Equipment	Buildings and Fixtures	532,191		
1910	Assets	Property, Plant & Equipment	Leasehold Improvements	21,798		
1915	Assets	Property, Plant & Equipment	Office Furniture and Equipment	381,569		
1920	Assets	Property, Plant & Equipment	Computer Equipment - Hardware	1,099,947		
1925	Assets	Property, Plant & Equipment	Computer Software	723,669		
1930	Assets	Property, Plant & Equipment	Transportation Equipment	3,056,369		
1935	Assets	Property, Plant & Equipment	Stores Equipment	36,199		
1940	Assets	Property, Plant & Equipment	Tools, Shop and Garage Equipment	805,781		
1945	Assets	Property, Plant & Equipment	Measurement and Testing Equipment	39,170		
1955	Assets	Property, Plant & Equipment	Communication Equipment	106,528		
1960	Assets	Property, Plant & Equipment	Miscellaneous Equipment	7,842		
1970	Assets	Property, Plant & Equipment	Load Management Controls - Customer Premises	117,417		
1975	Assets	Property, Plant & Equipment	Load Management Controls - Utility Premises	127,702		
1980	Assets	Property, Plant & Equipment	System Supervisory Equipment	353,504		
1990	Assets	Property, Plant & Equipment	Other Tangible Property - used for spare parts	489,209		
1995	Assets	Property, Plant & Equipment	Contributions and Grant - Credit	(4,747,715)		
2055	Assets	Property, Plant & Equipment	TS Additions	8,113,559		
2075	Assets	Property, Plant & Equipment	Non-Utility Property Owned or Under Capital Leases	294,688		
2180	Assets	Property, Plant & Equipment	Accumulated Depreciation - Non-Utility Property Owned	(22,102)		
2105	Assets	Property, Plant & Equipment	Accumulated Amortization of Electric Utility Plant - Property, Plant, and Equipment	(49,899,077)	44,692,509	
2060	Assets	Goodwill	Electric Plant Acquisition Adjustment	543,560		
21400	Assets	Goodwill	Accumulated Acquisition Adjustment	(28,201)	515,359	
2205	Current liabilities	Accounts payable and accrued liabilities	Accounts Payable	(6,690,671)		
2208	Current liabilities	Accounts payable and accrued liabilities	Customer Credit Balances	(798,458)		
2290	Current liabilities	Accounts payable and accrued liabilities	Commodity Taxes-GST	89,634		
2220	Current liabilities	Accounts payable and accrued liabilities	Miscellaneous Current and Accrued Liabilities	(18,170)		
			ADJUSTMENT - RECLASS FROM AR	(151,293)		(151,293)
			ADJUSTMENT - RECLASS TO ACCRUALS	339,079		339,079
			ADJUSTMENT - ROUNDING	(2)	(7,229,881)	(2)
2292	Current liabilities	Accrued vacation, wages and benefits	Payroll Deductions / Expenses Payable	(13,045)		
			ADJUSTMENT - RECLASS FROM AP	(339,079)	(352,124)	(339,079)
2210	Current Liabilities	Current portion of customer deposits	Current Portion of Customer Deposits	(368,383)		
			ADJUSTMENT - LONG TERM PORTION OF CUSTOMER DEPOSITS	115,991	(252,392)	115,991
2240	Current Liabilities	Due to the Corporation of the City of Stratford	Accounts Payable to Associated Companies	(670,870)	(670,870)	
2242	Current Liabilities	Demand notes payable	Notes Payable to Associated Companies	(15,600,000)	(15,600,000)	
2260	Current Liabilities	Current portion of long-term debt	Current Portion of Long Term Debt	(134,662)		
2268	Current Liabilities	Current portion of long-term debt	Accrued Interest on Long Term Debt	(6,270)	(140,932)	
2294	Current Assets	PIL of corporate income taxes recoverable	Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	(74,738)	(74,738)	
2306	Liabilities	Post-employment benefits	Employee Future Benefits	(1,458,962)	(1,458,962)	
2335	Liabilities	Customer deposits - long term	Long Term Customer Deposits	(544,017)		
			ADJUSTMENT - LONG TERM PORTION OF CUSTOMER DEPOSITS	(115,991)	(660,008)	(115,991)
2350	Assets	Future PIL of income taxes	Future Income Taxes - Non-Current	2,732,143	2,732,143	
2225	Liabilities	Long term debt	RBC Loan	(7,768,415)		
			ADJUSTMENTS - TO BANK INDEBTEDNESS	966,429		966,429
2505	Liabilities	Long term debt	Debebtures Outstanding - Long Term Portion	(2,060,423)	(8,862,409)	
3005	Shareholder's Equity	Share capital	Common Shares Issued	(9,468,388)		
3008	Shareholder's Equity	Share capital	Preference Shares Issued	(6,100,000)	(15,568,388)	
3045	Shareholder's Equity	Retained Earnings	Unappropriated Retained Earnings	(5,233,191)		
3075	Shareholder's Equity	Retained Earnings	Non utility retained earnings	(49,270)		
			Net income	(2,108,565)		
			ADJUSTMENT - FUTURE TAX ASSET PRIOR YEAR	2,518,087	(4,872,939)	2,518,087
INCOME STATEMENT ACCOUNTS						
4006	Not disclosed	N/A	Residental Energy Sales	(10,506,620)		
4020	Not disclosed	N/A	Energy Sales to Large Users	(2,339,450)		

4025	Not disclosed	N/A	Street Lighting Energy Sales	(244,338)		
4030	Not disclosed	N/A	Sentinel Lighting Energy Sales	(14,067)		
4035	Not disclosed	N/A	General Energy Sales<50	(30,185,131)		
4050	Not disclosed	N/A	COP Revenue Adjustment	260,844		
4055	Not disclosed	N/A	Energy Sales for Resale	(2,575,123)		
4062	Not disclosed	N/A	Billed WMS	(3,124,195)		
4066	Not disclosed	N/A	Billed Network	(3,865,331)		
4068	Not disclosed	N/A	Billed Connection	(2,913,009)		
4075	Not disclosed	N/A	Customer Billed LV Charges	(160,574)		
4705	Not disclosed	N/A	Power Purchased	45,603,885		
4708	Not disclosed	N/A	Wholesale Market Charges	3,124,195		
4714	Not disclosed	N/A	Transmisson Network	3,865,331		
4716	Not disclosed	N/A	Transmission Connection	2,913,009		
4750	Not disclosed	N/A	Hydro One LV Charges	160,574	-	
4080	Revenue	Distribution revenue	Distribution Service Revenue - >50	(11,069,109)		
4082	Revenue	Distribution revenue	Retailer Service Costs	(29,060)		
4084	Revenue	Distribution revenue	Retailer STR Costs	(290)		
4081	Revenue	Distribution revenue	SSS Admin Charge	(52,091)	(11,150,550)	
			ADJUSTMENT - SOLAR GENERATION INCOME	(39,833)	(39,833)	(39,833)
4225	Revenue	Other revenues	Other Electric Revenues	(102,152)		
4235	Revenue	Other revenues	Miscellaneous Services Revenues	(98,988)		
			ADJUSTMENT - OTHER INCOME RECLASS	7,458	(193,682)	7,458
4210	Revenue	Other revenues	Office Space Rental	(178,806)		
4405	Revenue	Other revenues	Interest and Dividend Income	(8,143)		
			ADJUSTMENT - OTHER INCOME RECLASS	47,263	(139,686)	47,263
4355	Revenue	Other revenues	Gain on Disposition of Utility and Other Property	(1,000)		
4220	Revenue	Other revenues	Late Payment Charges	(13,763)		
4375	Revenue	Other revenues	Revenues from Non-Utility Operations	(978,793)		
4380	Revenue	Other revenues	Expenses of Non-Utility Operations	633,240		
4390	Revenue	Other revenues	Miscellaneous Non-Operating Income	(79,644)		
			ADJUSTMENT - LATE PYMT & OTHER CUSTOMER CHARGES RECLASS	(7,458)		(7,458)
			ADJUSTMENT - ROUNDING	(1)		(1)
			ADJUSTMENT - SOLAR DEPRECIATION EXPENSE	(14,732)		(14,732)
			ADJUSTMENT - NON UTILITY EXPENSE - ENVIRONMENT MONITORING	45,002		45,002
			ADJUSTMENT - LATE PYMT & OTHER CUSTOMER CHARGES RECLASS	(47,263)		(47,263)
			ADJUSTMENT - SOLAR GENERATION INCOME	39,833	(424,579)	39,833
5010	Expenses	Operating and maintenance	Load Dispatching	57,971		
5012	Expenses	Operating and maintenance	Station Buildings and Fixtures Expenses	20,007		
5015	Expenses	Operating and maintenance	Transformer Station Equipment - Operation Supplies and Expenses	7,427		
5016	Expenses	Operating and maintenance	Distribution Station Equipment - Operation Labour	146		
5020	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Labour	15,284		
5025	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	31,123		
5035	Expenses	Operating and maintenance	Overhead Distribution Transformers - Operation	14,526		
5040	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Labour	16,887		
5045	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Supplies and Expenses	271		
5055	Expenses	Operating and maintenance	Underground Distribution Transformers - Operation	9,382		
5065	Expenses	Operating and maintenance	Meter Expense	314,218		
5070	Expenses	Operating and maintenance	Customer Premises - Operation Labour	161,280		
5075	Expenses	Operating and maintenance	Customer Premises - Materials and Expenses	2,997		
5085	Expenses	Operating and maintenance	Miscellaneous Distribution Expense	3,311		
5095	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Rental Paid	5,808		
5110	Expenses	Operating and maintenance	Mtce of Substations	6,140		
5120	Expenses	Operating and maintenance	Maintenance of Poles, Towers and Fixtures	27,210		
5125	Expenses	Operating and maintenance	Maintenance of Overhead Conductors and Devices	150,112		
5130	Expenses	Operating and maintenance	Maintenance of Overhead Services	374,965		
5135	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Right of Way	134,145		
5145	Expenses	Operating and maintenance	Maintenance of Underground Conduit	29,762		
5150	Expenses	Operating and maintenance	Maintenance of Underground Conductors and Devices	131,768		
5155	Expenses	Operating and maintenance	Maintenance of Underground Services	67,959		
5160	Expenses	Operating and maintenance	Maintenance of Lines Transformers	23,325		
5175	Expenses	Operating and maintenance	Mtce of Meters	596,214		
			ADJUSTMENT - ALLOCATEDD DEPRECIATION TRUCKS	(317,942)	1,884,296	(317,942)
5305	Expenses	Billing, data processing and collection	Supervision- Interfund Collect	25,410		
5310	Expenses	Billing, data processing and collection	Meter Reading Expense-Interfund	81,234		
5315	Expenses	Billing, data processing and collection	Customer Billing Interfund	408,195		
5320	Expenses	Billing, data processing and collection	Collecting Interfund	192,847		
5330	Expenses	Billing, data processing and collection	Collection Charges	(47,964)		
5335	Expenses	Billing, data processing and collection	Bad Debt Expense	57,800		
5340	Expenses	Billing, data processing and collection	Miscellaneous Customer Accounts Interfund	176,474		
			ADJUSTMENT - ROUNDING	1	893,997	1
5410	Expenses	Administrative	Community Relations - Sundry	390		
5415	Expenses	Administrative	Energy Conservation	201		
5420	Expenses	Administrative	Community Safety Program	11,340		
5605	Expenses	Administrative	Executive Salaries and Expenses	580,799		
56150	Expenses	Administrative	General Administrative Salaries Interfuind	323,804		
56200	Expenses	Administrative	Office Supplies and Expenses Interfund	115,207		
5630	Expenses	Administrative	Outside Services Employed	97,188		
5635	Expenses	Administrative	Property Insurance	28,898		
5640	Expenses	Administrative	Injuries and Damages	36,537		
5645	Expenses	Administrative	Employee Pensions and Benefits	178,042		
5655	Expenses	Administrative	Regulatory Expenses	80,603		
5665	Expenses	Administrative	Miscellaneous General Expenses	31,631		
56750	Expenses	Administrative	Admin Building	125,361		
5680	Expenses	Administrative	Electrical Safety Authority Fees	9,628		
6105	Expenses	Administrative	Taxes Other Than Income Taxes	12,107		
6205	Expenses	Administrative	Donations	65,531		
6215	Expenses	Administrative	Penalities	36,515		
			ADJUSTMENT - ROUNDING	3		3
			ADJUSTMENT FROM OTHER REVENUE	(45,002)	1,688,783	(45,002)
5705	Expenses	Amortization and intangibles	Amortization Expense - Property, Plant, and Equipment	3,124,349		
			ADJUSTMENT - SOLAR DEPRECIATION EXPENSE	14,732		14,732
			ADJUSTMENT - ALLOCATED DEPRECIATION TRUCKS AND SOLAR	317,942	3,457,023	317,942
6005	Earnings before undernoted	Interest expense	Interest on Long Term Debt	99,277		
6030	Earnings before undernoted	Interest expense	Interest on Debt to Associated Companies	1,131,000		
6040	Earnings before undernoted	Interest expense	Allowance for Borrowed Funds Used During Construction	(45,310)		
6035	Earnings before undernoted	Interest expense	Other Interest Expense	100,699	1,285,666	
6110	Provision for PIL of income taxes	Current	Income Taxes	630,000	630,000	
6115				(214,056)		
			ADJUSTMENT TO RETAINED EARNINGS	214,056	-	214,056
				(2,108,565)	(2,108,565)	2

Trial Balance Mapped to Financial Statement Groupings
Festival Hydro Inc.
December 31, 2011

USOA Account	B/S Section	B/S Line Grouping	GL Account Description	Current Year	Financial Statements	ADJ
1005	Current liaiblities	Bank Indebtedness	Cash	(242,253)		
1010	Current liaiblities	Bank Indebtedness	Cash advances and Working Funds	1,060	(241,193)	
1100	Current Assets	Accounts receivable	Customer Accounts Receivable-elec	2,166,370		
1102	Current Assets	Accounts receivable	Accounts Receivable - Sewage	473,583		
1104	Current Assets	Accounts receivable	Accounts Receivable - Recoverable Work	701,784		
1110	Current Assets	Accounts receivable	Other Accounts Receivable - MECO Officer	9,038		
1130	Current Assets	Accounts receivable	Accumulated Provision for Uncollectible Accounts- Credit	(125,782)		
1140	Current Assets	Accounts receivable	Interest and Dividends Receivable	790		
			ADJUSTMENT TO RECLASS TO PAYABLES	(85,738)	3,140,045	(85,738)
1120	Current Assets	Unbilled Revenue	Accrued Utility Revenues	6,937,210	6,937,210	
1180	Current assets	Prepaid expenses and deposits	Prepayments	318,708		
			ADJUSTMENT WITH AR ASSOCIATED CO	(517)	318,191	(517)
1200	Current Assets	Due to Festival Hydro Services Inc.	Accounts Receivable and Associated Companies	884,496		
			ADJUSTMENT WITH PREPAYMENTS	517	885,013	517
1330	Current Assets	Inventory	Plant Materials and Operating Supplies	124,781	124,781	
1405			Long Term Investments in Non-Associated Companies	2		
			ADJSTUMENT WITH RETAINED EARNINGS	(2)	-	(2)
1508	Liabilities	Regultory liability, net	Other Regulatory Assets	(2,465,850)		
1518	Liabilities	Regultory liability, net	RCVA Retail	(43,835)		
1521	Liabilities	Regultory liability, net	special purchase charge variance	7,210		
1525	Liabilities	Regultory liability, net	Miscellaneous Deferred Debits	84,211		
1548	Liabilities	Regultory liability, net	RCVA STR	(797)		
1550	Liabilities	Regultory liability, net	Low Voltage Variance Acct	(15,052)		
1555	Liabilities	Regultory liability, net	Smart Meters	2,713,799		
1556	Liabilities	Regultory liability, net	Smart meter O&M Variance Account	424,664		
1562	Liabilities	Regultory liability, net	Defferred Payments in Lieu of Taxes	19,350		
1563	Liabilities	Regultory liability, net	Defferred PIL Taxes Offset	53,582		
1567	Liabilities	Regultory liability, net	Board Approved CDM Variance Acct	(103,864)		
1580	Liabilities	Regultory liability, net	RSVA Wholesale Market	(1,305,671)		
1584	Liabilities	Regultory liability, net	RSVA Network	(60,803)		
1586	Liabilities	Regultory liability, net	RSVA Connection	332,881		
1588	Liabilities	Regultory liability, net	RSVA Power	1,293,675		
1590	Liabilities	Regultory liability, net	Recoveryof Reg Assets	45,478		
1595	Liabilities	Regultory liability, net	2010 variance disposition account	(1,367,842)		
1592	Liabilities	Regultory liability, net	PILS and Tax Variance	(57,175)		
2405	Liabilities	Regultory liability, net	Other Regulatory liabilities - Hydro One	45,209	(400,831)	
1610	Assets	Intangibles	Miscellaneous Intangible Plant	10,000	10,000	
1805	Assets	Property, Plant & Equipment	Land	1,239,634		
1808	Assets	Property, Plant & Equipment	Buildings and Fixtures	1,679,202		
1815	Assets	Property, Plant & Equipment	Transformer Station Equipment - Normally Primary above 50 kV	283,085		
1820	Assets	Property, Plant & Equipment	Distribution Station Equipment - Normally Primary below 50 kV	1,745,896		
1830	Assets	Property, Plant & Equipment	Poles, Towers and Fixtures	11,487,595		
1835	Assets	Property, Plant & Equipment	Overhead Conductors and Devices	13,278,707		
1840	Assets	Property, Plant & Equipment	Undergound Conduit	6,879,652		
1845	Assets	Property, Plant & Equipment	Underground Conductors and Devices	16,475,531		
1850	Assets	Property, Plant & Equipment	Line Transformers	15,107,860		
1855	Assets	Property, Plant & Equipment	Services	5,012,423		
1860	Assets	Property, Plant & Equipment	Meters	3,886,441		
1905	Assets	Property, Plant & Equipment	Land	17,041		
1908	Assets	Property, Plant & Equipment	Buildings and Fixtures	491,727		
1910	Assets	Property, Plant & Equipment	Leasehold Improvements	21,798		
1915	Assets	Property, Plant & Equipment	Office Furniture and Equipment	379,024		
1920	Assets	Property, Plant & Equipment	Computer Equipment - Hardware	974,195		
1925	Assets	Property, Plant & Equipment	Computer Software	553,792		
1930	Assets	Property, Plant & Equipment	Transportation Equipment	2,833,995		
1935	Assets	Property, Plant & Equipment	Stores Equipment	36,199		
1940	Assets	Property, Plant & Equipment	Tools, Shop and Garage Equipment	782,930		
1945	Assets	Property, Plant & Equipment	Measurement and Testing Equipment	39,170		
1955	Assets	Property, Plant & Equipment	Communication Equipment	106,528		
1960	Assets	Property, Plant & Equipment	Miscellaneous Equipment	7,842		
1970	Assets	Property, Plant & Equipment	Load Management Controls - Customer Premises	117,417		
1975	Assets	Property, Plant & Equipment	Load Management Controls - Utility Premises	127,702		
1980	Assets	Property, Plant & Equipment	System Supervisory Equipment	322,664		
1990	Assets	Property, Plant & Equipment	Other Tangible Property - used for spare parts	422,346		
1995	Assets	Property, Plant & Equipment	Contributions and Grant - Credit	(4,405,061)		
2075	Assets	Property, Plant & Equipment	Non-Utility Property Owned or Under Capital Leases	294,688		
2180	Assets	Property, Plant & Equipment	Non utility accum depn (Solar Panels)	(7,367)		
2105	Assets	Property, Plant & Equipment	Accumulated Amortization of Electric Utility Plant - Property, Plant, and Equipment	(46,584,221)	33,608,438	
2060	Assets	Goodwill	Electric Plant Acquisition Adjustment	543,560		
21400	Assets	Goodwill	Accumulated Acquisition Adjustment	(28,201)	515,359	
2205	Current liabilities	Accounts payable and accrued liabilities	Accounts Payable	(5,966,931)		
2208	Current liabilities	Accounts payable and accrued liabilities	Customer Credit Balances	(514,448)		
2290	Current liabilities	Accounts payable and accrued liabilities	Commodity Taxes-GST	(172,559)		
2220	Current liabilities	Accounts payable and accrued liabilities	Miscellaneous Current and Accrued Liabilities	(85,739)		
			ADJUSTMENT FROM AR	85,739		85,739
			ADJUSTMENT WITH ACCRUALS	337,579		337,579
			ADJUSTMENT WITH TAX PAYABLE	4,800	(6,311,559)	4,800
2292	Current liabilities	Accrued vacation, wages and benefits	Payroll Deductions / Expenses Payable	(556)		
			ADJUSTMENT WITH ACCOUNTS PAYABLE	(337,579)	(338,135)	(337,579)
2210	Current Liabilities	Current portion of customer deposits	Current Portion of Customer Deposits	(319,144)	(319,144)	
2240	Current Liabilities	Due to the Corporation of the City of Stratford	Accounts Payable to Associated Companies	(744,669)	(744,669)	
2242	Current Liabilities	Demand notes payable	Notes Payable to Associated Companies	(15,600,000)	(15,600,000)	
2260	Current Liabilities	Current portion of long-term debt	Current Portion of Long Term Debt	(128,992)		
2268	Current Liabilities	Current portion of long-term debt	Accrued Interest on Long Term Debt	(6,636)	(135,629)	
2294	Current Assets	PIL of corporate income taxes recoverable	Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	98,223		
			ADJUSTMENT	(4,800)	93,423	(4,800)
2306	Liabilities	Post-employment benefits	Employee Future Benefits	(1,346,328)	(1,346,328)	
2335	Liabilities	Customer deposits - long term	Long Term Customer Deposits	(890,419)	(890,419)	
2350	Assets	Future PIL of income taxes	Future Income Taxes - Non-Current	2,518,087	2,518,087	
2505	Liabilities	Long term debt	Debebtures Outstanding - Long Term Portion	(2,195,085)	(2,195,085)	
3005	Shareholder's Equity	Share capital	Common Shares Issued	(9,468,388)		
3008	Shareholder's Equity	Share capital	Preference Shares Issued	(6,100,000)	(15,568,388)	
3045	Shareholder's Equity	Retained Earnings	Unappropriated Retained Earnings	(2,009,500)		
3075	Shareholder's Equity	Retained Earnings	Non utility retained earnings	(24,170)		
			Net income	(2,025,497)		
			ADJUSTMENT	2	(4,059,165)	2
INCOME STATEMENT ACCOUNTS						
4006	Not disclosed	N/A	Residental Energy Sales	(12,091,974)		

4020	Not disclosed	N/A	Energy Sales to Large Users	(2,185,530)		
4025	Not disclosed	N/A	Street Lighting Energy Sales	(164,652)		
4030	Not disclosed	N/A	Sentinel Lighting Energy Sales	(18,036)		
4035	Not disclosed	N/A	General Energy Sales<50	(23,724,862)		
4050	Not disclosed	N/A	COP Revenue Adjustment	(972,452)		
4055	Not disclosed	N/A	Energy Sales for Resale	(3,708,968)		
4062	Not disclosed	N/A	Billed WMS	(3,300,948)		
4066	Not disclosed	N/A	Billed Network	(3,492,900)		
4068	Not disclosed	N/A	Billed Connection	(2,822,668)		
4070	Not disclosed	N/A	Customer Billed LV Charges	(152,110)		
4705	Not disclosed	N/A	Power Purchased	42,866,475		
4708	Not disclosed	N/A	Wholesale Market Charges	3,300,948		
4714	Not disclosed	N/A	Transmisson Network	3,492,900		
4716	Not disclosed	N/A	Transmission Connection	2,822,668		
4750	Not disclosed	N/A	Hydro One LV Charges	152,554		
			ADJUSTMENT TO DISTRIBUTION REVENUE	(444)	(0)	(444)
4080	Revenue	Distribution revenue	Distribution Service Revenue - >50	(9,676,319)		
4082	Revenue	Distribution revenue	Retailer Service Costs	(31,811)		
4084	Revenue	Distribution revenue	Retailer STR Costs	(329)		
			ADJUSTMENT FROM OTHER REVENUE	444	(9,708,014)	444
4210	Revenue	Other revenues	Office Space Rental	(166,217)		
4405	Revenue	Other revenues	Interest and Dividend Income	(116,081)		
4220	Revenue	Other revenues	Late Payment Charges	(139,370)		
4235	Revenue	Other revenues	Miscellaneous Services Revenues	(106,877)		
4355	Revenue	Other revenues	Gain on Disposition of Utility and Other Property	(10,607)		
4375	Revenue	Other revenues	Revenues from Non-Utility Operations	(710,643)		
4380	Revenue	Other revenues	Expenses of Non-Utility Operations	569,063		
4390	Revenue	Other revenues	Miscellaneous Non-Operating Income	(114,755)		
4220	Revenue	Other revenues	Other Electric Revenues	(6,059)		
			ADJUSTMENT TO ADMIN EXPENSES	36,368		36,368
			ADJUSTMENT FOR SOLAR ALLOCATED DEPRECIATION	(7,364)	(772,541)	(7,364)
5010	Expenses	Operating and maintenance	Load Dispatching	40,692		
5012	Expenses	Operating and maintenance	Station Buildings and Fixtures Expenses	21,906		
5015	Expenses	Operating and maintenance	Transformer Station Equipment - Operation Supplies and Expenses	7,854		
5016	Expenses	Operating and maintenance	Distribution Station Equipment - Operation Labour	263		
5020	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Labour	21,523		
5025	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	31,009		
5035	Expenses	Operating and maintenance	Overhead Distribution Transformers - Operation	9,901		
5040	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Labour	11,141		
5045	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Supplies and Expenses	285		
5055	Expenses	Operating and maintenance	Underground Distribution Transformers - Operation	26,301		
5065	Expenses	Operating and maintenance	Meter Expense	293,310		
5070	Expenses	Operating and maintenance	Customer Premises - Operation Labour	139,062		
5075	Expenses	Operating and maintenance	Customer Premises - Materials and Expenses	2,717		
5085	Expenses	Operating and maintenance	Miscellaneous Distribution Expense	3,438		
5095	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Rental Paid	7,521		
5110	Expenses	Operating and maintenance	Mtce of Substations	17,749		
5114	Expenses	Operating and maintenance	Maintenance of Distribution Station Equipment	21		
5120	Expenses	Operating and maintenance	Maintenance of Poles, Towers and Fixtures	7,596		
5125	Expenses	Operating and maintenance	Maintenance of Overhead Conductors and Devices	130,191		
5130	Expenses	Operating and maintenance	Maintenance of Overhead Services	315,027		
5135	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Right of Way	162,284		
5145	Expenses	Operating and maintenance	Maintenance of Underground Conduit	21,177		
5150	Expenses	Operating and maintenance	Maintenance of Underground Conductors and Devices	84,615		
5155	Expenses	Operating and maintenance	Maintenance of Underground Services	109,511		
5160	Expenses	Operating and maintenance	Maintenance of Lines Transformers	22,760		
5175	Expenses	Operating and maintenance	Mtce of Meters	51,968		
			ADJUSTMENT - ALLOCATEDD DEPRECIATION TRUCKS	(291,887)	1,247,933	(291,887)
53050	Expenses	Billing, data processing and collection	Supervision- Interfund Collect	26,628		
53100	Expenses	Billing, data processing and collection	Meter Reading Expense-Interfund	106,716		
53150	Expenses	Billing, data processing and collection	Customer Billing Interfund	436,185		
53200	Expenses	Billing, data processing and collection	Collecting Interfund	195,855		
5330	Expenses	Billing, data processing and collection	Collection Charges	(57,812)		
5335	Expenses	Billing, data processing and collection	Bad Debt Expense	55,000		
5340	Expenses	Billing, data processing and collection	Miscellaneous Customer Accounts Interfund	173,955	936,527	
5410	Expenses	Administrative	Community Relations - Sundry	490		
5415	Expenses	Administrative	Energy Conservation	3,914		
5420	Expenses	Administrative	Community Safety Program	10,828		
5605	Expenses	Administrative	Executive Salaries and Expenses	594,893		
56150	Expenses	Administrative	General Administrative Salaries Interfuind	333,383		
56200	Expenses	Administrative	Office Supplies and Expenses Interfund	115,449		
5630	Expenses	Administrative	Outside Services Employed	84,860		
5635	Expenses	Administrative	Property Insurance	27,906		
5640	Expenses	Administrative	Injuries and Damages	48,246		
5645	Expenses	Administrative	Employee Pensions and Benefits	(1,326)		
5655	Expenses	Administrative	Regulatory Expenses	96,606		
5665	Expenses	Administrative	Miscellaneous General Expenses	31,309		
56750	Expenses	Administrative	Admin Building	134,832		
5680	Expenses	Administrative	Electrical Safety Authority Fees	9,494		
6105	Expenses	Administrative	Taxes Other Than Income Taxes	23,904		
6205	Expenses	Administrative	Donations	61,284		
			ADJUSTMENT FROM OTHER REVENUE	(36,368)	1,539,703	(36,368)
5705	Expenses	Amortization and intangibles	Amortization Expense - Property, Plant, and Equipment	2,498,627		
			ADJUSTMENT - ALLOCATED DEPRECIATION TRUCKS AND SOLAR	299,253	2,797,880	299,253
6005	Earnings before undernoted	Interest expense	Interest on Long Term Debt	104,627		
6030	Earnings before undernoted	Interest expense	Interest on Debt to Associated Companies	1,131,329		
6035	Earnings before undernoted	Interest expense	Other Interest Expense	69,059	1,305,015	
6110	Provision for PIL of income taxes	Current	Income Taxes	628,000	628,000	
				4	4	3

Trial Balance By Account
Festival Hydro Inc.
December 31, 2011

USOA Account	B/S Section	B/S Line Grouping	GL Account Description	Current Year
1005	Current liaiblities	Bank Indebtedness	Cash	(242,253)
1010	Current liaiblities	Bank Indebtedness	Cash advances and Working Funds	1,060
1100	Current Assets	Accounts receivable	Customer Accounts Receivable-elec	2,166,370
1102	Current Assets	Accounts receivable	Accounts Receivable - Sewage	473,583
1104	Current Assets	Accounts receivable	Accounts Receivable - Recoverable Work	701,784
1110	Current Assets	Accounts receivable	Other Accounts Receivable - MECO Officer	9,038
1120	Current Assets	Unbilled Revenue	Accrued Utility Revenues	6,937,210
1130	Current Assets	Accounts receivable	Accumulated Provision for Uncollectible Accounts- Credit	(125,782)
1140	Current Assets	Accounts receivable	Interest and Dividends Receivable	790
1180	Current assets	Prepaid expenses and deposits	Prepayments	318,708
1200	Current Assets	Due to Festival Hydro Services Inc.	Accounts Receivable and Associated Companies	884,496
1330	Current Assets	Inventory	Plant Materials and Operating Supplies	124,781
1405			Long Term Investments in Non-Associated Companies	2
1508	Liabilities	Regultory liability, net	Other Regulatory Assets	(2,465,850)
1518	Liabilities	Regultory liability, net	RCVA Retail	(43,835)
1521	Liabilities	Regultory liability, net	special purchase charge variance	7,210
1525	Liabilities	Regultory liability, net	Miscellaneous Deferred Debits	84,211
1548	Liabilities	Regultory liability, net	RCVA STR	(797)
1550	Liabilities	Regultory liability, net	Low Voltage Variance Acct	(15,052)
1555	Liabilities	Regultory liability, net	Smart Meters	2,713,799
1556	Liabilities	Regultory liability, net	Smart meter O&M Variance Account	424,664
1562	Liabilities	Regultory liability, net	Defferred Payments in Lieu of Taxes	19,350
1563	Liabilities	Regultory liability, net	Defferred PIL Taxes Offset	53,582
1567	Liabilities	Regultory liability, net	Board Approved CDM Variance Acct	(103,864)
1580	Liabilities	Regultory liability, net	RSVA Wholesale Market	(1,305,671)
1584	Liabilities	Regultory liability, net	RSVA Network	(60,803)
1586	Liabilities	Regultory liability, net	RSVA Connection	332,881
1588	Liabilities	Regultory liability, net	RSVA Power	1,293,675
1590	Liabilities	Regultory liability, net	Recoveryof Reg Assets	45,478
1592	Liabilities	Regultory liability, net	PILS and Tax Variance	(57,175)
1595	Liabilities	Regultory liability, net	2010 variance disposition account	(1,367,842)
1610	Assets	Intangibles	Miscellaneous Intangible Plant	10,000
1805	Assets	Property, Plant & Equipment	Land	1,239,634
1808	Assets	Property, Plant & Equipment	Buildings and Fixtures	1,679,202
1815	Assets	Property, Plant & Equipment	Transformer Station Equipment - Normally Primary above 50 kV	283,085
1820	Assets	Property, Plant & Equipment	Distribution Station Equipment - Normally Primary below 50 kV	1,745,896
1830	Assets	Property, Plant & Equipment	Poles, Towers and Fixtures	11,487,595
1835	Assets	Property, Plant & Equipment	Overhead Conductors and Devices	13,278,707
1840	Assets	Property, Plant & Equipment	Undergound Conduit	6,879,652
1845	Assets	Property, Plant & Equipment	Underground Conductors and Devices	16,475,531
1850	Assets	Property, Plant & Equipment	Line Transformers	15,107,860
1855	Assets	Property, Plant & Equipment	Services	5,012,423
1860	Assets	Property, Plant & Equipment	Meters	3,886,441
1905	Assets	Property, Plant & Equipment	Land	17,041
1908	Assets	Property, Plant & Equipment	Buildings and Fixtures	491,727
1910	Assets	Property, Plant & Equipment	Leasehold Improvements	21,798
1915	Assets	Property, Plant & Equipment	Office Furniture and Equipment	379,024
1920	Assets	Property, Plant & Equipment	Computer Equipment - Hardware	974,195
1925	Assets	Property, Plant & Equipment	Computer Software	553,792
1930	Assets	Property, Plant & Equipment	Transportation Equipment	2,833,995
1935	Assets	Property, Plant & Equipment	Stores Equipment	36,199
1940	Assets	Property, Plant & Equipment	Tools, Shop and Garage Equipment	782,930
1945	Assets	Property, Plant & Equipment	Measurement and Testing Equipment	39,170
1955	Assets	Property, Plant & Equipment	Communication Equipment	106,528
1960	Assets	Property, Plant & Equipment	Miscellaneous Equipment	7,842
1970	Assets	Property, Plant & Equipment	Load Management Controls - Customer Premises	117,417
1975	Assets	Property, Plant & Equipment	Load Management Controls - Utility Premises	127,702
1980	Assets	Property, Plant & Equipment	System Supervisory Equipment	322,664
1990	Assets	Property, Plant & Equipment	Other Tangible Property - used for spare parts	422,346
1995	Assets	Property, Plant & Equipment	Contributions and Grant - Credit	(4,405,061)
2060	Assets	Goodwill	Electric Plant Acquisition Adjustment	543,560
2075	Assets	Property, Plant & Equipment	Non-Utility Property Owned or Under Capital Leases	294,688
2105	Assets	Property, Plant & Equipment	Accumulated Amortization of Electric Utility Plant - Property, Plant, and Equipment	(46,584,221)
2180	Assets	Property, Plant & Equipment	Non utility accum depn (Solar Panels)	(7,367)
2205	Current liabilities	Accounts payable and accrued liabilities	Accounts Payable	(5,966,931)
2208	Current liabilities	Accounts payable and accrued liabilities	Customer Credit Balances	(514,448)
2210	Current Liabilities	Current portion of customer deposits	Current Portion of Customer Deposits	(319,144)
2220	Current liabilities	Accounts payable and accrued liabilities	Miscellaneous Current and Accrued Liabilities	(85,739)
2240	Current Liabilities	Due to the Corporation of the City of Stratford	Accounts Payable to Associated Companies	(744,669)
2242	Current Liabilities	Demand notes payable	Notes Payable to Associated Companies	(15,600,000)
2260	Current Liabilities	Current portion of long-term debt	Current Portion of Long Term Debt	(128,992)
2268	Current Liabilities	Current portion of long-term debt	Accrued Interest on Long Term Debt	(6,636)
2290	Current liabilities	Accounts payable and accrued liabilities	Commodity Taxes-GST	(172,559)
2292	Current liabilities	Accrued vacation, wages and benefits	Payroll Deductions / Expenses Payable	(556)
2294	Current Assets	PIL of corporate income taxes recoverable	Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	98,223
2306	Liabilities	Post-employment benefits	Employee Future Benefits	(1,346,328)
2335	Liabilities	Customer deposits - long term	Long Term Customer Deposits	(890,419)
2350	Assets	Future PIL of income taxes	Future Income Taxes - Non-Current	2,518,087
2405	Liabilities	Regultory liability, net	Other Regulatory liabilities - Hydro One	45,209
2505	Liabilities	Long term debt	Debebtures Outstanding - Long Term Portion	(2,195,085)
3005	Shareholder's Equity	Share capital	Common Shares Issued	(9,468,388)
3008	Shareholder's Equity	Share capital	Preference Shares Issued	(6,100,000)
3045	Shareholder's Equity	Retained Earnings	Unappropriated Retained Earnings	(2,009,500)
3075	Shareholder's Equity	Retained Earnings	Non utility retained earnings	(24,170)
4006	Not disclosed	N/A	Residental Energy Sales	(12,091,974)

4020	Not disclosed	N/A	Energy Sales to Large Users	(2,185,530)
4025	Not disclosed	N/A	Street Lighting Energy Sales	(164,652)
4030	Not disclosed	N/A	Sentinel Lighting Energy Sales	(18,036)
4035	Not disclosed	N/A	General Energy Sales<50	(23,724,862)
4050	Not disclosed	N/A	COP Revenue Adjustment	(972,452)
4055	Not disclosed	N/A	Energy Sales for Resale	(3,708,968)
4062	Not disclosed	N/A	Billed WMS	(3,300,948)
4066	Not disclosed	N/A	Billed Network	(3,492,900)
4068	Not disclosed	N/A	Billed Connection	(2,822,668)
4070	Not disclosed	N/A	Customer Billed LV Charges	(152,110)
4080	Revenue	Distribution revenue	Distribution Service Revenue - >50	(9,676,319)
4082	Revenue	Distribution revenue	Retailer Service Costs	(31,811)
4084	Revenue	Distribution revenue	Retailer STR Costs	(329)
4210	Revenue	Other revenues	Office Space Rental	(166,217)
4220	Revenue	Other revenues	Late Payment Charges	(139,370)
4220	Revenue	Other revenues	Other Electric Revenues	(6,059)
4235	Revenue	Other revenues	Miscellaneous Services Revenues	(106,877)
4355	Revenue	Other revenues	Gain on Disposition of Utility and Other Property	(10,607)
4375	Revenue	Other revenues	Revenues from Non-Utility Operations	(710,643)
4380	Revenue	Other revenues	Expenses of Non-Utility Operations	569,063
4390	Revenue	Other revenues	Miscellaneous Non-Operating Income	(114,755)
4405	Revenue	Other revenues	Interest and Dividend Income	(116,081)
4705	Not disclosed	N/A	Power Purchased	42,866,475
4708	Not disclosed	N/A	Wholesale Market Charges	3,300,948
4714	Not disclosed	N/A	Transmisson Network	3,492,900
4716	Not disclosed	N/A	Transmission Connection	2,822,668
4750	Not disclosed	N/A	Hydro One LV Charges	152,554
5010	Expenses	Operating and maintenance	Load Dispatching	40,692
5012	Expenses	Operating and maintenance	Station Buildings and Fixtures Expenses	21,906
5015	Expenses	Operating and maintenance	Transformer Station Equipment - Operation Supplies and Expenses	7,854
5016	Expenses	Operating and maintenance	Distribution Station Equipment - Operation Labour	263
5020	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Labour	21,523
5025	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	31,009
5035	Expenses	Operating and maintenance	Overhead Distribution Transformers - Operation	9,901
5040	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Labour	11,141
5045	Expenses	Operating and maintenance	Underground Distribution Lines and Feeders - Operation Supplies and Expenses	285
5055	Expenses	Operating and maintenance	Underground Distribution Transformers - Operation	26,301
5065	Expenses	Operating and maintenance	Meter Expense	293,310
5070	Expenses	Operating and maintenance	Customer Premises - Operation Labour	139,062
5075	Expenses	Operating and maintenance	Customer Premises - Materials and Expenses	2,717
5085	Expenses	Operating and maintenance	Miscellaneous Distribution Expense	3,438
5095	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Rental Paid	7,521
5110	Expenses	Operating and maintenance	Mtce of Substations	17,749
5114	Expenses	Operating and maintenance	Maintenance of Distribution Station Equipment	21
5120	Expenses	Operating and maintenance	Maintenance of Poles, Towers and Fixtures	7,596
5125	Expenses	Operating and maintenance	Maintenance of Overhead Conductors and Devices	130,191
5130	Expenses	Operating and maintenance	Maintenance of Overhead Services	315,027
5135	Expenses	Operating and maintenance	Overhead Distribution Lines and Feeders - Right of Way	162,284
5145	Expenses	Operating and maintenance	Maintenance of Underground Conduit	21,177
5150	Expenses	Operating and maintenance	Maintenance of Underground Conductors and Devices	84,615
5155	Expenses	Operating and maintenance	Maintenance of Underground Services	109,511
5160	Expenses	Operating and maintenance	Maintenance of Lines Transformers	22,760
5175	Expenses	Operating and maintenance	Mtce of Meters	51,968
5330	Expenses	Billing, data processing and collection	Collection Charges	(57,812)
5335	Expenses	Billing, data processing and collection	Bad Debt Expense	55,000
5340	Expenses	Billing, data processing and collection	Miscellaneous Customer Accounts Interfund	173,955
5410	Expenses	Administrative	Community Relations - Sundry	490
5415	Expenses	Administrative	Energy Conservation	3,914
5420	Expenses	Administrative	Community Safety Program	10,828
5605	Expenses	Administrative	Executive Salaries and Expenses	594,893
5630	Expenses	Administrative	Outside Services Employed	84,860
5635	Expenses	Administrative	Property Insurance	27,906
5640	Expenses	Administrative	Injuries and Damages	48,246
5645	Expenses	Administrative	Employee Pensions and Benefits	(1,326)
5655	Expenses	Administrative	Regulatory Expenses	96,606
5665	Expenses	Administrative	Miscellaneous General Expenses	31,309
5680	Expenses	Administrative	Electrical Safety Authority Fees	9,494
5705	Expenses	Amortization and intangibles	Amortization Expense - Property, Plant, and Equipment	2,498,627
6005	Earnings before undernoted	Interest expense	Interest on Long Term Debt	104,627
6030	Earnings before undernoted	Interest expense	Interest on Debt to Associated Companies	1,131,329
6035	Earnings before undernoted	Interest expense	Other Interest Expense	69,059
6105	Expenses	Administrative	Taxes Other Than Income Taxes	23,904
6110	Provision for PIL of income taxes	Current	Income Taxes	628,000
6205	Expenses	Administrative	Donations	61,284
21400	Assets	Goodwill	Accumulated Acquisition Adjustment	(28,201)
53050	Expenses	Billing, data processing and collection	Supervision- Interfund Collect	26,628
53100	Expenses	Billing, data processing and collection	Meter Reading Expense-Interfund	106,716
53150	Expenses	Billing, data processing and collection	Customer Billing Interfund	436,185
53200	Expenses	Billing, data processing and collection	Collecting Interfund	195,855
56150	Expenses	Administrative	General Administrative Salaries Interfuind	333,383
56200	Expenses	Administrative	Office Supplies and Expenses Interfund	115,449
56750	Expenses	Administrative	Admin Building	134,832
				(0)

FESTIVAL HYDRO INC
DECEMBER 31, 2010
RRR Reporting for 2.1.13

Dec 31/10 USOA Totals		Accounts	Reconciled to Audited Financial Stmts	
1,088,016.92	1005	Cash		
1,060.00	1010	Cash advances and Working Funds		
-	1020	Interest Specials Deposits		
-	1030	Dividend Special Deposits		
-	1040	Other Special Deposits		
-	1060	Term Deposits		
-	1070	Current Investments		
2,162,798.74	1100	Customer Accounts Receivable-elec		
-	1101	Customer Accounts Receivable-Water		
429,715.03	1102	Accounts Receivable - Sewage		
475,767.58	1104	Accounts Receivable - Recoverable Work		
-	1105	Accounts Receivable - Merchandise, Jobbing etc.		
-	1107	Retailer A+R		
-	1108	Accounts Receivable - Unbilled Rec		
-				
25,451.63	1110	Other Accounts Receivable		
-	1113	Other Accounts Receivable - Clearing		
-	1114	Other Accounts Receivable		
-				
-	1115	Other A/R -GST		
-	1116	Acc Receivable - GST Refund		
-				
6,394,436.72	1120	Accrued Utility Revenues		
-	1125	Other Accounts Receivable - Due from (to) FHSI		
(132,293.29)	1130	Accumulated Provision for Uncollectible Accounts- Credit		
-	9750	Water General & Resid. Service Rev		
-	9916	Portable Water Meter		
-	1139	IMO Rebate Receivable		
2,117.51	1140	Interest and Dividends Receivable		
-	1160	OPA- Refrigerator Round Up		
-	1161	OPA - Summer 10/10		
-	1162	OPA - Business incentive Program		
-	1163	OPA - PeakSaver Program		
-			Audited F/S	
-				
-	1150	Rents Receivable	1,089,077.00	Cash
-	1170	Notes Receivable	2,766,507.00	Accs Rec
209,157.68	1180	Prepayments	209,158.00	Prepaids
-	1181	Prepayments - Taxes	6,394,437.00	Unbillled Revenue
-	1182	Prepayments - Misc	270,311.00	Due form Assoc Co
-	1190	Miscellaneous Current and Accrued Assets	10,729,490.00	
270,310.87	1200	Accounts Receivable from Associated Companies	197,049.39	Reclassification to A/P
10,926,539.39	**TOTAL CURRENT ASSETS PER E 2.1.7.**		**10,926,539.39**	0
-	INVENTORY			
3,752.28	1305	Fuel Stock (was negative - missed accrual on 2 bills)		
91,228.14	1330	Plant Materials and Operating Supplies		
-	1331	Plant Materials and Operating Supplies		
-	1332	Plant Materials and Operating Supplies		
-	1340	Merchandise - Truck Inventory		
-	1350	Other Materials and Supplies		
94,980.42	**TOTAL INVENTORY PER E 2.1.7.**		**94,980.00**	Inventory
2.00	1405	Long Term Investments in Non-Associated Companies		
-	1408	Long Term Receivable - Street Lighting Transfer		
-	1410	Other Special or Collateral Funds		
-	1415	Sinking Funds		
-	1425	Unamortized Debt Expense		
-	1445	Unamortized Discount on Long-Term Debt - Debit		
-	1455	Unamortized Deferred Foreign Currency Translation Gains and Losses		
-	1460	Other Non-Current Assets - See Acct 2315		
-	1465	O.M.E.R.S. Past Service Costs		
16,590.91	1470	Past Service Costs - Employee Future Benefits		
-	1475	Past Service Costs - Other Pension Plans		

FESTIVAL HYDRO INC							
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-	1480	Portfolio Investments - Associated Companies					
-	1485	Investment in Associated Companies - Significant Influence					
-	1490	Investment in Subsidiary Companies					
16,592.91	**OTHER ASSETS and DEFERRED CHARGES per 2.1.7**				**16,591.00**	Prepaid Pension	
-							
-	1138	Accumulated Provision for Uncollectible Interest					
-	1507	OMERS Variance acct					
(2,603,898.56)	1508	Other Regulatory Assets					
-	1509	OEB Variance Acct					
-	1510	Preliminary Survey and Investigation Charges					
-	1511	IFRS variance account					
-	1512	Regulatory liability re: Future tax asset					
-							
-							
-	1515	Emission Allowance Inventory					
-	1516	Emission Allowances Withheld					
(39,720.87)	1518	RCVA Retail					
-	1520	Power Purchase Variance Account					
114,015.71	1521	Special Purpose Charge					
154,742.86	1525	Miscellaneous Deferred Debits					
-	1526	Interest on NON-RSVA Accts					
-	1530	Deferred Losses from Disposition of Utility Plant					
-	1540	Unamortized Loss on Reacquired Debt					
(1,523.57)	1548	RCVA STR					
(58,130.34)	1550	Low Voltage Variance Acct					
-	1553	Smart meter stranded assets					
-	1554	Smart Meter Recovery Offset					
2,757,437.48	1555	Smart meters					
231,557.92	1556	Smart Meter O& M					
	1560						
20,137.69	1562	Deferred Payments in Lieu of Taxes					
53,582.05	1563	Deferred PIL Taxes Offset					
-	1564	CDM Contra Acct					
-	1565	C & DM Expenditures					
-	1566	CDM Load Control Capital					
-	1567	CDM Load Control Expense Var Acct					
-	1568	CDM Voltage Conversions					
-	1570	Qualifying Transition Costs					
-	1571	Pre-market Opening Energy Variances					
-	1572	Extraordinary Event Losses					
-	1573	Premarket Opening Loss Adjustment Factor					
-	1574	Deferred Rate Impact Amounts					
-	1575	CDM Compact Bulbs					
-	1576	CDM LED Lights					
-	1577	CDM Residential Awareness					
-	1578	CDM Gen Service Awareness					
-	1579	Misc Deferred Debits					
(704,163.40)	1580	RSVA Wholesale Market					
-	1582	RSVA Wholesale One Time					
(293,524.85)	1584	RSVA Network					
196,895.13	1586	RSVA Connection					
861,738.44	1588	RSVA Power					
44,084.16	1590	Recovery of Reg Assets					
(45,900.36)	1592	PILS and Tax variance			(1,148,668.00)	Regulatory Liabilities	
(1,881,242.61)	1595	Variance disposition account			(45,209.00)	From Other Reg Liabilities	
-	1589	Commodity Rebate Costs			(36.00)	Adjustment	
(1,193,913.12)	**OTHER ASSETS and DEFERRED CHARGES per 2.1.7**				**(1,193,913.00)**		
		A. Intangible Plant					
-	1606	Organization					
-	16060	Organization CWIP					
-	1608	Franchisees and Consents					
-	1610	Miscellaneous Intangible Plant					
-		**B. Generation Plant**					
-		**C. Transmission Plant**					
-		**D. Distribution Plant**					
1,217,818.68	1805	Land					

FESTIVAL HYDRO INC		
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-	1806	Land Rights
1,696,505.90	1808	Buildings and Fixtures
-	1809	Building-Other
-	18090	Leasehold Improvements
957.48	1815	Transformer Station Equipment - Normally Primary above 50 kV
-		
1,745,895.87	1820	Distribution Station Equipment - Normally Primary below 50 kV
-	18200	CWIP distn Stn Equipment
-	1825	Storage Battery Equipment
11,206,373.12	1830	Poles, Towers and Fixtures
-	18300	Poles, Towers and Fixtures CWIP
-	18305	
-		
-		
-		
12,492,205.11	1835	Overhead Conductors and Devices
-	18350	Overhead Conductors and Devices CWIP
6,785,643.66	1840	Underground Conduit
-	18400	Underground Conduit CWIP
15,924,782.20	1845	Underground Conductors and Devices
-	18450	Underground Conductors and Devices CWIP
-		
14,782,100.67	1850	Line Transformers
-	18500	Line Transformers CWIP
4,877,442.23	1855	Services
-	18550	Services CWIP
3,739,615.27	1860	Meters
-	18600	Meters CWIP
-	1865	Other Installations on Customer's Premises
-	1870	Leased Property on Customer Premises
-		
-	18800	Smart Meter CWIP
-	1905	Land
-	19050	Land CWIP
-	1906	Land Rights
463,137.41	1908	Buildings and Fixtures
-	19080	Buildings and Fixtures CWIP
21,798.12	1910	Leasehold Improvements
366,438.75	1915	Office Furniture and Equipment
-	19150	Office Furniture and Equipment CWIP
955,810.49	1920	Computer Equipment - Hardware
-	19200	Computer Equipment - Hardware CWIP
517,203.83	1925	Computer Software
-	19250	Computer Software CWIP
2,892,966.58	1930	Transportation Equipment
-	19300	Transportation Equipment CWIP
-		
36,199.29	1935	Stores Equipment
756,585.73	1940	Tools, Shop and Garage Equipment
-	19400	Tools, Shop and Garage Equipment CWIP
39,169.78	1945	Measurement and Testing Equipment
-	19450	Measurement and Testing Equipment CWIP
-	1950	Power Operated Equipment
106,527.86	1955	Communication Equipment
-	19550	Communication Equipment CWIP
7,842.42	1960	Miscellaneous Equipment
-	1965	Water Heater Rental Units
117,417.08	1970	Load Management Controls - Customer Premises
-	19700	Load Mgmt Controls - Customer Premises-CWIP
127,702.18	1975	Load Management Controls - Utility Premises
316,082.07	1980	System Supervisory Equipment
-	19800	System Supervisory Equipment CWIP
-	1985	Sentinel Lighting Rental Units
-	1990	Other Tangible Property
(4,298,581.19)	1995	Contributions and Grant - Credit

FESTIVAL HYDRO INC				
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-	19950	Contributions and Grant - Credit CWIP		
-	19960	CDM Asset Contra		
-	**OTHER CAPITAL ASSETS**			
-	2005	Property Under Capital Leases		
-	2010	Electric Plant Purchased or Sold		
-	2020	Experimental Electric Plant Unclassified		
-	2030	Electric Plant and Equipment Leased to Others		
-	2040	Electric Plant Held for Future Use		
-	2050	Completed Construction Not Classified - Electric		
-	2055	Construction Work in Progress - Electric		
543,560.09	2060	Electric Plant Acquisition Adjustment		
-	2065	Other Electric Plant Adjustment		
-	2070	Other Utility Plant	76,940,594.00	Note 4 to Fin Stmts
44,950.80	2075	Non-Utility Property Owned or Under Capital Leases	543,560.00	Goodwill $515,359-grossed up
77,484,151.48	**OTHER CAPITAL ASSETS PER 2.1.7**		77,484,154.00	
-				
-	**ACCUMULATED AMORTIZATION**			
-	2105	Accumulated Amortization of Electric Utility Plant - Property, Plant, and Equipment		
(43,943,624.48)	2105	Accum.Amort-El utility PL-Prpty		
-	21008	Buildings & Fixtures - Substations		
-	21009	Buildings - Other		
-	21010	Buildings - Other		
-	21020	Distr.Stn.Equip.Normal Prim<50KV		
-	21030	Poles,Towers & Fixtures		
-	21035	O/H Conductors & Devices		
-	21040	Underground Conduit		
-	21045	Underground Conductors & Devices		
-	21050	Line Transformers		
-	21055	Services		
-	21060	Meters		
-	21061	Meters		
(28,200.65)	2140	Accumulated Amortization of Electric Plant Acquisition Adjustment		
-	21400	Accumulated Acquisition Adjustment		
-	2160	Accumulated Amortization of Other Utility Plant		
-	2180	Accumulated Amortization of Non-Utility Property		
-	22008	Land & Bldg Fixtures		
-	22010	Leasehold Improvements		
-	22015	Office Furniture & Equipment		
-	22020	Computer Equipment - hardware		
-	22025	Computer Software		
-	22030	Transportation Equipment		
-	22035	Stores Equipment		
-	22040	Tools,Shop & Garage Equipment		
-	22045	Measurement and Testing Equipment		
-	22055	Communication Equipment		
-	22060	Miscellaneous Equipment		
-			(43,943,627.00)	Note 4 to Fin Stmts
-	22075	Load Control Eqpt	(28,201.00)	Goodwill-accum depn therein
-	22080	Accum Amort - system Supervisory Eqpt	(43,971,828.00)	
-	22095	Contribution and Grants - Credit	3.00	Rounding
(43,971,825.13)	**ACCUMULATED AMORTIZATION per 2.1.7**		(43,971,825.00)	
-	**CURRENT LIABILITIES**			
(5,992,306.16)	2205	Accounts Payable		
-	2206	Due to the IMO	32,996,967.00	Prop, Plant & Eqpt on Fin stmts
(234,459.29)	2208	Customer Credit Balances	515,359.00	Goodwill on Fin Stmts
(258,600.62)	2210	Current Portion of Customer Deposits	33,512,326.00	Net on Fin Stmts
-	2211	Consumer Deposit - Current Installment		
-	2212	Deposit Interest Liability		
-	2213	Cont Capital Liability		
-	2214	Cont Capital Liability - Jennann Sub		
-	2215	Dividends Declared		
(382,585.45)	2220	Miscellaneous Current and Accrued Liabilities		
-	2222	PILs - Income taxes payable		
-	2230	A/P- Sewage Liability		
-	2225	Notes and Loans Payable		
-	2231	A/P - Streetlighting Liability		

FESTIVAL HYDRO INC				
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	2240	Accounts Payable to Associated Companies		
(15,600,000.00)	2242	Notes Payable to Associated Companies		
(0.04)	2250	Debt Retirement Charges		
-	2252	Transmission Charges Payable		
-	2254	Electrical Safety Authority Fees Payable		
-	2256	Independent Market Operator Fees and Penalities Payable		
(115,806.37)	2260	Current Portion of Long Term Debt		
-	2262	Ontario Hydro Debt - Current Portion		
-	2264	Pensions and Employee Benefits - Current Portion		
(11,101.92)	2268	Accrued Interest on Long Term Debt		
-	2270	Matured Long Term Debt		
-	2272	Matured Interest on Long Term Debt		
-	2285	Obligations Under Capital Leases - Current		
(185,876.32)	2290	Commodity Taxes-GST		
-	2291	Commodity Taxes-RST		
(120,094.41)	2292	Payroll Deductions / Expenses Payable		
-	22925	Accrued Vacation Pay		
-	0	Other Accrued Payroll Deductions		
-	22928	Payroll Ded. - United Way		
86,423.18	2294	Accrual for Taxes, "Payments in Lieu" of Taxes, Etc.	86,423.00	PILs Recoverable
-	2296	Future Income Taxes - Current		
-	22921/4/8/9	Payroll Deductions		
(22,814,407.40)	**CURRENT LIABILITIES PER 2.1.7**		(5,650,933.00)	Accs Pay
-	**NON-CURRENT LIABILITIES**		(435,116.00)	Accrued wages
-	2305	Accumulated Provision for Injuries and Damages	(15,600,000.00)	Demand Note
(1,342,826.00)	2306	Employee Future Benefits	(115,806.00)	Current Portion L.T. Debt
-	2308	Other Pensions - Past Service Liability	(258,601.00)	Current Portion Deposits
-	2310	Vested Sick Leave Liability	(643,322.00)	Due to City of Stratford
-	2315	Accumulated Provision for Rate Refunds	(22,703,778.00)	
-	2320	Other Miscellaneous Non-Current Liabilities	86,423.00	Less: PILs recoverable
-	2325	Obligations Under Capital Leases - Non-Current	(197,049.39)	Reclassification from A/R
-	2330	Development Charge Fund	(3.00)	Rounding
(670,645.04)	2335	Long Term Customer Deposits	(22,814,407.39)	
-	2340	Collateral Funds Liability		
-	2345	Unamortized Premium on Long Term Debt	(1,342,826.00)	Post employment benefits
-	2348	O.M.E.R.S. - Past Service Liability - Long Term Portion	(670,645.00)	Customer deposits, long term
2,654,791.00	2350	Future Income Taxes - Non-Current	2,654,791.00	Future payment in lieu of tax
641,319.96	**NON-CURRENT LIABILITIESPER 2.1.7**		641,320.00	
-	**OTHER LIABILITIES and DEFERRED CREDITS**			
45,209.00	2405	Other Regulatory liabilities - Hydro One		
-	2410	Deferred Gains from Disposition of Utility Plant		
-	2415	Unamortized Gain on Reacquired Debt		
-	2425	Other Deferred Credits		
-	2435	Accrued Rate-Payer Benefit		
-	**LONG TERM DEBT**			
(2,331,833.03)	2505	Debentures Outstanding - Long Term Portion		
-	2510	Debentures Advances		
-	2515	Reacquired Bonds		
-	2520	Other Long Term Debt		
-	2525	Term Bank Loans - Long Term Portion		
-	2530	Ontario Hydro Debt Outstanding - Long Term Portion	(2,331,833.00)	Long term Debt
-	2550	Advances from Associated Companies	45,209.00	Acct # 2405 in Reg Liabilties
(2,286,624.03)	**OTHER LIABILITIES and DEFERRED CREDITS PER 2.1.7**		(2,286,624.00)	
-	**SHAREHOLDER'S EQUITY**			
(9,468,388.00)	3005	Common Shares Issued		
(6,100,000.00)	3008	Preference Shares Issued		
-	3010	Contributed Surplus		
-	3020	Donations Received		
-	3022	Development Charges Transferred to Equity		
-	3026	Capital Stock Held in Treasury		
-	3030	Miscellaneous Paid-In Capital		
-	3035	Instalments received on Capital Stock		
-	3040	Appropriated Retained Earnings		
(1,721,453.78)	3045	Unappropriated Retained Earnings		
(1,607,008.70)	3046	Balance Transferred From Income		
-	3047	Appropriated of Retained Earnings - Current Period		

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-	3048	Dividends Payable - Preference Shares		
-	3049	Dividends Payable - Common Shares		
-	3055	Adjustment to Retained Earnings		
-	3065	Unappropriated Undistibuted Subsidiary Earnings		
(18,896,850.48)	**SHAREHOLDER'S EQUITY per 2.1.7**		(18,896,851.00)	Retained Earnings
-	**INCOME STATEMENT ACCOUNTS**			
-	**SALES of ELECTRICITY**			
(8,330,500.01)	4006	Residential Energy Sales		
-	4008	Res Load Rebate		
-	4010	Commercial Energy Sales		
-	4015	Industrial Energy Sales		
(3,498,694.54)	4020	Energy Sales to Large Users		
(148,117.53)	4025	Street Lighting Energy Sales		
(12,525.31)	4030	Sentinel Lighting Energy Sales		
(21,378,257.67)	4035	General Energy Sales<50		
-	4036	General Energy Sales -TOU		
-	4037	Load Mgnt - Gen Service		
-	4038	General Energy Sales -Transformer Allow		
-	4039	General Energy Sales -Primary Metering		
-	4041	General service >50		
-	4044	Provincial benefit		
-	4045	Energy Sales to Railroads and Railways		
148,086.52	4050	COP Revenue Adjustment		
(5,115,375.57)	4055	Energy Sales for Resale		
-	40550	Retailer Revenue - DEML		
-	40551	Retailer Revenue - OPG		
-	40552	Retailer Revenue - THES		
-	40553	Retailer Revenue - OHEI		
-	40554	Retailer Revenue -CNE		
-	40555	Retailer Revenue - OESC		
-	40556	Retailer Revenue - Coral		
-	40557	Retailer Revenue - First Source		
-	40558	Retailer Revenue - ECNG		
-	40560	Retailer Revenue - UES		
-	40561	Retailer Revenue - CHL		
-	40562			
-				
-				
-				
-				
-				
-				
(3,226,836.19)	4062	Billed WMS		
-	4063	Billed WMS Contra		
(3,187,266.19)	4066	Billed Network		
-	4067	Billed Network Contra		
(2,658,369.19)	4068	Billed Connection		
-	4069	Billed Connection Contra		
(102,670.77)	4075	Customer Billed LV Charges		
-	4071	Customer LV Charges contra		
(47,510,526.45)	**SALES OF ELECTRICITY PER 2.1.7**		Not disclosed	
-	**REVENUE from SERVICES - DISTRIBUTION**			
-	**4075**	Dist Rev - Res		
-	**4076**	Dist Rev - Large User		
-	**4077**	Dist Rev - St. Lighting		
-	**4078**	Dist Rev - Sent Lights		
-	4079	Distribution Service Revenue - <50		
(9,371,738.01)	4080	Distribution Service Revenue - >50		
-	4081	SSS Admin Charge		
(40,178.52)	4082	Retailer Service Costs		
-	4083	Dist Rev - Hendrickson & Reliance		
-	4085	Distribution Revenue Adjustment	(9,185,645.00)	
(1,547.25)	4084	Retailer STR Costs	(227,819.00)	Special Purpose Charge netted on F/S
(9,413,463.78)	**REVENUES FROM SERVICES PER 2.1.7**		(9,413,464.00)	
-	4205	Interdepartmental Rents		
(168,285.93)	4210	Rent from Electric Property-Pole Rentals		

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-	4211	Rent from Electric Property-Pole Rentals		
-	4215	Other Utility Operating Income		
(6,738.48)	4220	Other Electric Revenues		
-	4221	Other Rev - Sewage collection Fees		
-	4222	Other Rev - Misc		
-	4223	Discounts Earned on Purchases		
(114,394.29)	4225	Late Payment Charges		
-	4232	Change of Occupancy		
(111,857.11)	4235	Miscellaneous Services Revenues		
-	4236	Rev from Temporary Services		
-	4245	Government Assistance Directly Credited to Income		
(401,275.81)	**OTHER OPERATING REVENUES PER 2.1.7**			
-	4305	Regulatory Debits		
-	4310	Regulatory Credits		
-	4315	Revenues from Electric Plant Leased to Others		
-	4320	Expenses of Electric Plant Leased to Others		
(114,812.53)	4324	Special purpose charge recovery		
-	4325	Revenues from Merchandise, Jobbing, Etc.		
-	4330	Costs and Expenses of Merchandising, Jobbing, Etc.		
-	4335	Profits and Losses from Financial Instrument Hedges		
-	4340	Profits and Losses from Financial Instrument Investments		
-	4345	Gains from Disposition of Future Use Utility Plant		
-	4350	Losses from Disposition of Future Use Utility Plant		
(1,757.00)	4355	Gain on Disposition of Utility and Other Property		
-	4360	Loss on Disposition of Utility and Other Property		
-	4365	Gains from Disposition of Allowance for Emission		
-	4370	Losses from Disposition of Allowances for Emission		
(690,076.84)	4375	Revenues from Non-Utility Operations		
-	4376	St Light Mtce -Expense		
-	4377	St Light Capital -Expense		
-	4378	St Light Mtce -Revenue		
-	4379	St Light Capital -Revenue		
523,165.17	4380	Expenses of Non-Utility Operations		
-	4381	T Orr Dam - Expenses		
-	4382	T Orr Dam - Revenue		
-	4383	Property monitoring Non -Utility Expenses		
-	4385	Non-Utility Rental Income		
-	4388	House Rental		
-	4389	House Rental Expenses		
(31,942.53)	4390	Miscellaneous Non-Operating Income		
-	4395	Rate-Payer Benefit Including Interest	(217,174.00)	Late payment & other cust charges
-	4398	Foreign Exchange Gains and Losses, Including Amortization	(193,920.00)	Rentals & Interest income
(315,423.73)	**OTHER INCOME DEDUCTIONS PER 2.1.7**		(445,322.00)	Other Income
(63,039.57)	4405	Interest and Dividend Income	(856,416.00)	
-	4415	Equity in Earnings of Subsidiary Companies	(36,329.00)	Realloc to Administrative Exp
(63,039.57)	**INVESTMENT INCOME PER 2.1.7**		113,006.00	Move Sp Purpose Contra to Admin
(779,739.11)	Total of Other Operating, Other Income & Investment Income		(779,739.00)	
	TOTAL REVENUE			
38,335,384.22	4705	Power Purchased		
-				
-	4707	Global Adjustment		
3,226,836.19	4708	Wholesale Market Charges		
-	4712	Wholesale Market Charges - One Time		
3,187,266.19	4714	Transmission Network		
2,658,369.19	4716	Transmission Connection		
-	4725	Competition Transition Expense		
102,670.77	4750	Hydro One LV Charges		
47,510,526.56	**POWER SUPPLY EXPENSES PER 2.1.7**		not disclosed	
-	**TRANSMISSION EXPENSES - MAINTENANCE**			
-	**DISTRIBUTION EXPENSES - OPERATION**			
-	5005	Operation Supervision and Engineering		
-	5006	Engineering		
-	5007	Eng Shared Services		
-	50070	Interfund Engineering		
-	5008	Supr Allocation		
-	5009	Engineering Alloc		

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25,961.90	5010	Load Dispatching		
23,262.03	5012	Station Buildings and Fixtures Expenses		
-	5014	Transformer Station Equipment - Operation Labour		
-	5015	Transformer Station Equipment - Operation Supplies and Expenses		
1,554.14	5016	Distribution Station Equipment - Operation Labour		
-	5017	Distribution Station Equipment - Operation Supplies and Expenses		
39,044.71	5020	Overhead Distribution Lines and Feeders - Operation Labour		
37,940.46	5025	Overhead Distribution Lines and Feeders - Operation Supplies and Expenses		
-	5030	Overhead Subtransmission Feeders - Operation		
7,980.05	5035	Overhead Distribution Transformers - Operation		
5,887.21	5040	Underground Distribution Lines and Feeders - Operation Labour		
3,287.99	5045	Underground Distribution Lines and Feeders - Operation Supplies and Expenses		
-	5050	Underground Subtransmission Feeders - Operation		
6,850.64	5055	Underground Distribution Transformers - Operation		
-	5060	Street Lighting and Signal System Expense		
267,356.07	5065	Meter Expense		
141,932.08	5070	Customer Premises - Operation Labour		
3,252.02	5075	Customer Premises - Materials and Expenses		
1,794.17	5085	Miscellaneous Distribution Expense		
-	5090	Underground Distribution Lines and Feeders - Rental Paid		
8,346.14	5095	Overhead Distribution Lines and Feeders - Rental Paid		
-				
-	**DISTRIBUTION EXPENSES - MAINTENANCE**			
-	5105	Maintenance Supervision and Engineering		
16,475.66	5110	Mtce of Substations		
-	5112	Maintenance of Transformer Station Equipment		
-	5114	Maintenance of Distribution Station Equipment		
-	5115	Mtce of Station Equipment		
13,686.11	5120	Maintenance of Poles, Towers and Fixtures		
124,752.48	5125	Maintenance of Overhead Conductors and Devices		
223,843.61	5130	Maintenance of Overhead Services		
117,853.44	5135	Overhead Distribution Lines and Feeders - Right of Way		
26,057.89	5145	Maintenance of Underground Conduit		
137,137.93	5150	Maintenance of Underground Conductors and Devices		
114,337.01	5155	Maintenance of Underground Services		
23,968.92	5160	Maintenance of Lines Transformers		
-	5165	Maintenance of Street Lighting and Signal Systems		
73,954.57	5175	Mtce of Meters		
-	5185	Water Heater Rental Units(here in error)		
-	5260	Stores		
-	5261	Stores allocation		
-	5270	Vehicles		
-	52700094	Allocated Accum Deppn		
-	5271	Vehicles Allocation		
-	5281	Super Mtc Allocation		
-	5290	Supervision Mtce		
-	5291	Supr Mtce Allocation		
-	5292	Additional Linesmen Costs		
-	5293	Additional Linesmen Costs Allocation		
-	5294	CDM Labour - Operations & Mtce		
-	5645	Employee Pensions and Benefits	1,221,399.23	Operating and Mtce
-	52800	Interfolded Service Centre	225,118.00	Alloc Depn in Depn Expense
1,446,517.23	**DISTRIBUTION EXPENSES PER 2.1.7**		1,446,517.23	
-	5205	Purchase of Transmission and System Services		
-	5210	Transmission Charges		
-	5215	Transmission Charges Recovered		
-	**BILLING and COLLECTING**			
23,909.05	5305	Supervision		
-	53050	Supervision- Interfund Collect		
-	53060	Supervision- Interfund Billing		
-	5307	Supervision - Other Retailer		
-	5308	Supervision - STR		
107,957.78	5310	Meter Reading Expense		
-	53100	Meter Reading Expense-Interfund		
376,447.72	5315	Customer Billing		
-	53150	Customer Billing Interfund		

FESTIVAL HYDRO INC				
DECEMBER 31, 2010				
RRR Reporting for 2.1.13				
-	5316	Billing other Utilities		
-	5317	Billing - Other Retailer Costs		
-	5318	SSS Administration Costs		
184,100.98	5320	Collecting		
-	53200	Collecting Interfund		
-	5321	Collection Expense		
(100.00)	5325	Collecting - Cash Over and Short		
(54,920.50)	5330	Collection Charges		
-	5331	Collecin Charge - Offset		
-	5332	Reconnect Charge Offset		
74,627.64	5335	Bad Debt Expense		
154,975.31	5340	Miscellaneous Customer Accounts Expenses		
-	53400	Miscellaneous Customer Accounts Interfund		
-	5342	Misc Cust Accts= Retailer		
-	5343	CDM Labour - Office		
866,997.98	**BILLING COLLECTING PER 2.1.7**		866,998.00	Billing, data process & collection
-	5405	Supervision		
588.49	5410	Community Relations - Sundry		
6,290.02	5415	Energy Conservation		
9,344.47	5420	Community Safety Program		
-	5425	Miscellaneous Customer Service and Informational Expenses		
16,222.98	**COMMUNITY RELATIONS PER 2.1.7**		16,222.98	
-	5505	Supervision	(16,222.98)	Included in Administrative
-	5510	Demonstrating and Selling Expense	-	
-	5515	Advertising Expense		
-	5520	Miscellaneous Sales Expense		
-	**ADMINISTRATIVE and GENERAL EXPENSES**			
524,414.72	5605	Executive Salaries and Expenses		
-	5610	Management Salaries and Expenses		
-	56100	Management Salaries Interfund		
-	5611	Mgmt Salaries		
304,236.48	5615	General Administrative Salaries and Expenses		
-	56150	General Administrative Salaries Interfuind		
92,928.61	5620	Office Supplies and Expenses		
-	56200	Office Supplies and Expenses Interfund		
-	5625	Administrative Expenses Transferred - Credit		
77,325.41	5630	Outside Services Employed		
-	56300	Outside Services Employed Interfund		
30,138.96	5635	Property Insurance		
33,989.03	5640	Injuries and Damages		
176,040.52	5645	Employee Pensions and Benefits		
-	5640	Injuries and Damages		
96,276.63	5655	Regulatory Expenses		
-				
-	5660	General Advertising Expenses		
75,004.75	5665	Miscellaneous General Expenses		
-	5670	Rent		
125,440.87	5675	Admin Building		
-	56750	Admin Building		
-	5676	Mtce - Gen Plant - Comp Equip		
9,468.72	5680	Electrical Safety Authority Fees		
114,812.52	5681	Special Purpose Charge		
-	5685	Independent Market Operator Fees and Penalties		
1,660,077.22	**ADMINISTRATION GENERAL EXPENSE PER 2.1.7**		1,575,204.00	
2,589,516.93	5705	Amortization Expense - Property, Plant, and Equipment	(45,959.96)	Property and Capital tax in Admin
-	5710	Amortization of Limited Term Electric Plant	(4,084.95)	Donations in Admin
-	5715	Amortization of Intangibles and Other Electric Plant	(16,222.98)	Community Relations in Admin
15,658.39	5720	Amortization of Electric Plant Acquition Adjustments	(113,006.00)	Spl Purpe Chg contra from other inc
-	5725	Miscellaneous Amortization	36,329.00	Realloc expense from other inc
-	5726	Amort of Org Costs	227,819.00	Special Purpose Charge gross
-	5730	Amortization of Unrecovered Plant	(1.00)	Rounding
-	5735	Amortization of Deferred Development Costs	1,660,077.11	
-	5740	Amortization of Deferred Charges		
2,605,175.32	**AMORTIZATION EXPENSE PER 2.1.7**		2,814,635.00	Amort of Prop, Plant & Eqpt
-	6005	Interest on Long Term Debt	15,658.00	Amort of Orgn Cost
-	6010	Amortization of Debt Discount and Expense	(225,118.00)	Less: Depn allocated to O & M

FESTIVAL HYDRO INC							
DECEMBER 31, 2010							
RRR Reporting for 2.1.13							
-	6015	Amortization of Premium on Debt-Credit			2,605,175.00		
-	6020	Amortization of Loss on Reacquired Debt					
-	6025	Amortization of Gain on required Debt-Credit					
1,131,000.00	6030	Interest on Debt to Associated Companies					
87,158.44	6035	Other Interest Expense					
-	6040	Allowance for Borrowed Funds Used During Construction - Credit					
-	6042	Allowance for Other Funds Used During Construction					
-	6045	Interest Expense on Capital Lease Obligations					
1,218,158.44	**INTERST EXPENSE PER 2.1.7**				1,218,158.00	Interest Expense	
45,959.96	6105	Taxes Other Than Income Taxes					
723,000.00	6110	Income Taxes					
-	6115	Provision for Future Income Taxes					
768,959.96	**TAXES PER 2.1.7**				768,959.96		
4,084.95	6205	Donations			(45,959.96)	Prop & Cap taxes in Admin Exps	
-	6210	Life Insurance			723,000.00	Provision for PILs	
-	6215	Penalities					
-	6225	Other Deductions					
4,084.95	**OTHER DEDUCTIONS PER 2.1.7**				4,084.95		
-	6305	Extraordinary Income			(4,084.95)	In administrative expenses	
-	6310	Extraordinary Deductions			-		
		Grand Total					
(1,607,008.70)	**PROFIT PER 2.1.7**				(1,607,009.00)	Net Earnings	

Festival Hydro

File Number:EB-2014-0073

Exhibit:	1
Tab:	4
Schedule:	1

Date Filed: May 29, 2014

Attachment 3 of 6

2013 Financial Statements

Financial Statements of

FESTIVAL HYDRO INC.

Year ended December 31, 2013

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

We have audited the accompanying financial statements of Festival Hydro Inc., which comprise the balance sheet as at December 31, 2013, 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Festival Hydro Inc. as at December 31, 2013, 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 Professional Accountants, Licensed Public Accountants

April 24, 2014

London, Canada

FESTIVAL HYDRO INC.

Balance Sheet

December 31, 2013, with comparative information for 2012

	2013	2012
Assets		
Current assets:		
Accounts receivable (note 7)	$ 3,035,458	$ 3,432,099
Inventory (note 6)	156,243	549,003
Prepaid expenses and deposits	306,032	285,766
Payments in lieu of income taxes recoverable	200,910	-
Unbilled revenue	8,679,665	6,957,971
Due from Festival Hydro Services Inc. (note 17)	1,109,088	829,784
	13,487,396	12,054,623
Regulatory asset, net (note 8)	11,841,146	-
Plant and equipment (note 4)	36,785,468	44,692,509
Future payments in lieu of income taxes (note 12)	2,109,748	2,732,143
Unrealized gain on interest rate swap (note 20)	711,813	-
Intangibles (note 5)	1,691,748	535,630
Goodwill	515,359	515,359
	$ 67,142,678	$ 60,530,264
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	$ 1,339,170	$ 965,369
Accounts payable and accrued liabilities	8,819,992	7,229,881
Accrued vacation, wages and benefits	356,094	352,124
Demand notes payable (note 9)	15,600,000	15,600,000
Current portion of long-term debt (note 19)	528,469	140,932
Current portion of customer deposits	259,019	252,393
Due to the Corporation of the City of Stratford	714,403	670,869
Payments in lieu of income taxes	-	74,738
	27,617,147	25,286,306
Regulatory liability, net (note 8)	-	3,821,252
Post-employment benefits (note 10)	1,397,008	1,458,962
Customer deposits, long-term	525,293	660,008
Long-term debt (note 19)	15,320,842	8,862,409
Shareholder's equity:		
Share capital (note 11)	15,568,388	15,568,388
Retained earnings	6,714,000	4,872,939
	22,282,388	20,441,327
Contingencies (note 18)		
	$ 67,142,678	$ 60,530,264

See accompanying notes to financial statements.

On behalf of the Board:

W J Malcolm Director Frank Mark Director

FESTIVAL HYDRO INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Distribution revenue	$ 11,020,318	$ 11,150,550
Change in unrealized gain on interest rate swap	711,813	-
Solar generation income	32,989	39,833
Late payment and other customer charges	183,896	193,682
Rentals and interest income	235,499	139,686
Other income	297,956	424,579
	12,482,471	11,948,330
Expenses:		
Operating and maintenance	1,881,778	1,884,296
Billing, data processing and collection	1,210,566	893,997
Administrative	1,741,817	1,688,783
Amortization of plant and equipment	2,129,199	3,457,023
MIFRS regulatory adjustment	696,846	-
	7,660,206	7,924,099
Earnings before the undernoted	4,822,265	4,024,231
Interest expense	1,318,361	1,285,666
Earnings before payments in lieu of taxes	3,503,904	2,738,565
Provision for payments in lieu of income taxes (note 12):		
Current	438,000	630,000
Net earnings	3,065,904	2,108,565
Retained earnings, beginning of year	4,872,939	4,059,167
Dividends	(1,224,843)	(1,294,793)
Retained earnings, end of year	$ 6,714,000	$ 4,872,939

See accompanying notes to financial statements.

FESTIVAL HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 3,065,904	$ 2,108,565
Items not involving cash:		
Amortization	2,129,199	3,457,023
Unrealized gain on interest rate swap	(711,813)	-
MIFRS regulatory adjustment	696,846	-
Transfer of smart meters to plant and equipment	-	(3,488,799)
Post-employment benefits	(61,954)	112,634
Spare parts transfer back to inventory	20,263	(66,863)
Future payments in lieu of income taxes	622,395	(214,056)
Change in non-cash operating working capital (note 16)	130,104	273,425
	5,890,944	2,181,929
Financing activities:		
Long-term debt	6,845,970	6,672,627
Customer deposits	(128,089)	(297,162)
Dividends	(1,224,843)	(1,294,793)
	5,493,038	5,080,672
Investing activities:		
Proceeds from disposal of plant and equipment	-	(1,000)
Purchase of plant and equipment	(9,099,456)	(10,984,432)
Regulatory asset, net	(1,047,463)	3,524,285
Intangibles	(1,610,864)	(525,630)
	(11,757,783)	(7,986,777)
Decrease in cash	(373,801)	(724,176)
Bank indebtedness, beginning of year	(965,369)	(241,193)
Bank indebtedness, end of year	$ (1,339,170)	$ (965,369)
Supplemental cash flow information:		
Taxes paid	$ 861,304	$ 626,488
Interest paid	1,611,458	1,327,049

See accompanying notes to financial statements.

Festival Hydro Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act (the "EA") 1998 on July 11, 2000. The Corporation of the City of Stratford (the "City") passed a bylaw pursuant to Section 145 of the Electricity Act 1998 transferring certain assets and liabilities used in connection with the sales of electricity and electrical distribution systems from the Stratford Public Utility Commission - Electric Department (the "Corporation"). In exchange for these assets the City received a promissory note and common shares. This business is regulated by the Ontario Energy Board ("OEB").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook") and reflect the significant accounting policies as summarized below:

(a) Financial effects of distribution rate regulation:

(i) Rate regulation:

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring distribution companies fulfill obligations to connect and service customers.

The economic impact of rate regulation is reported in these financial statements. Regulatory assets represent certain costs that may be recovered from customers in future periods through the rate-making process. In its capacity to approve or fix rates, the OEB has specified the following regulatory treatments, which have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulatory environment.

(ii) Settlement variances:

The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 set out in the AP Handbook. The settlement variances relate primarily to service charges, non-competitive electricity charges, and power charges. The nature of the settlement variances is such that their balances shall change each reporting period-end date.

1. Significant accounting policies (continued):

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

(iii) Rate setting:

The distribution rates of the Company are based on a revenue requirement that provides a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation. The Corporation files a rate application with the OEB annually. Rates are typically effective May 1 to April 30 of the following year. Accordingly, for the first four months of 2013, distribution revenue is based on the rates approved effective May 1, 2012. Once every five years, the Company is scheduled to file an Electricity Distribution Rate application ("EDR") where rates are rebased through a cost of service review. In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. A cost of service EDR application is based upon a forecast of the amount of operating and capital expenses, debt and shareholder's equity required to support the Company's business. An IRM application results in a formulaic adjustment to distribution rates to increase distribution rates for the annual change in the GDP IPI FDD net of productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The Company's last cost of service EDR application was filed for 2010 and approved on April 1, 2010, with rates effective May 1, 2010. Such decision provided for a $9,610,278 service distribution revenue requirement and a rate base of $24,076,547 (60%) debt and $16,051,031(40%) equity, respectively. Such amounts do not include provision for the investment of the Company in the Smart Meter Initiative or the transformer station.

The Company filed a 2011 IRM application on October 29, 2010 to adjust its base rates effective May 1, 2011. Accordingly, the Company’s base rate was approved to increase by 0.38% effective May 1, 2011, as a result of an annual change in the GDP IPI FDD of 1.30% net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Distribution Corporation.

The Company's 2012 IRM application was approved by the OEB on March 22, 2012 allowing the Company to adjust its base rates effective May 1, 2012. The Company's base rate was approved to increase by 1.08% effective May 1, 2012, as a result of an annual change in the GDP IPA FDD of 2.00%, net of a productivity factor of 0.72% and a "Stretch Factor" of 0.20% determined by the relative efficiency of the Company.

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1. Significant accounting policies (continued):

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

(iii) Rate setting (continued):

The Company's 2013 IRM application was approved by the OEB on April 18, 2013 allowing the Company to adjust its base rates effective May 1, 2013. On March 21, 2013, the Board notified distribution companies that the Board had approved an annual change in the GDP IPA FDD of 1.60%. As such, the Company's adjustment to rates was 0.68% effective May 1, 2013, as a result of the GDP IPA FFD of 1.60%, net of a productivity factor of 0.72% and a Stretch Factor of 0.20% determined by the relative efficiency of the Company.

As part of the Company's 2013 IRM application, the OEB also approved an Incremental Capital Rate Rider to assist on the recovery of costs associated with building a new transformer station in 2013. The transformer station was energized in December 2013. The incremental capital rate rider, as approved, is effective May 1, 2013 and will be in effect until the date of the Company's next cost of service rate order.

The Company's 2014 IRM application was approved by the OEB on March 13, 2014 allowing the Company to adjust its distribution rates effective May 1, 2014. The Company's adjustment to rates will be 1.25%, as a result of an inflation factor of 1.70%, less a productivity factor of 0.0% and a stretch factor of 0.45% determined by the relative efficiency of the Company.

The Company filed a letter with the OEB on January 29, 2013 requesting that the Company be granted permission to delay its next cost of service application until January 1, 2015. The reason for requesting the delay is so that the Company's rate year will coincide with its fiscal year. The OEB approved this deferral. Festival Hydro plans to file its 2015 cost of service application in April 2014 with rates effective January 1, 2015.

1. Significant accounting policies (continued):

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

(iv) Green Energy and Green Economy Act:

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

The Green Energy and Green Economy Act provides LDC's with the freedom to own and operate a portfolio of renewable power generation and permits them to provide district heating services in their communities through co generation. LDC's also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDC's gained 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.

On December 21, 2012, the Ministry of Energy issued a directive to the OPA under subsection 25.32 (4.1) of the Electricity Act to extend the funding time period for OPA-contracted province wide CDM initiatives under the Green Energy Act 2009 (Ontario) framework to December 31, 2015. Details of the extended funding period are unknown at this time.

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

On September 16, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Company’s license states that "the license shall meet its 2014 annual peak demand savings of 6.230 MW and its 2011-2014 Net cumulative energy savings target of 29.250 GWh over a four year period beginning January 1, 2011". LDC's must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Company commenced a number of new CDM initiatives during 2011 and 2012 in order to meet the four year period targets set out by the OEB and is actively working toward meeting its 2014 targets.

1. Significant accounting policies (continued):

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

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

Effective January 1, 2011, the Company entered into an agreement with the Ontario Power Authority ("OPA") for funding totaling $1,220,132 to deliver CDM programs extending from January 1, 2011 to December 31, 2014. This has since been extended to December 31, 2015. As at December 31, 2013, the Company had received $1,041,094 from the OPA and incurred CDM expenditures of $807,671. Amounts received not spent at December 31, 2013 totaling $235,939 are presented as accrued liabilities.

Upon the expiration of the OPA agreement the Company is required to repay to the OPA a prescribed portion of any excess funds received for program administration less any cost efficiency incentives. Based on the Company's budgeted CDM expenditures for 2014 and 2015, the Company expects the amount owing to the OPA at the end of the agreement will be immaterial.

(b) Revenue recognition:

In accordance with OEB regulation, the Company recognizes as revenue the regulated distribution tariffs associated with energy distributed and variances between energy purchase costs and energy billed are recorded as regulatory assets or liabilities for future rate application consideration.

The Company follows the practice of cycle billing customers' accounts and revenue is recognized in the period billed. An accrual is made in the accounts at December 31, for power supplied but not billed to customers between the date the meters were last read and the end of the year.

(c) Spare transformers and meters:

Spare transformers and meters are classified as plant and equipment in accordance with guidance in the AP Handbook.

1. Significant accounting policies (continued):

(d) Inventory:

Inventory consists primarily of consumable materials related to the maintenance of the electricity distribution infrastructure. The Company classifies major construction related components of it's inventory to plant and equipment. Once capitalized, these items are not depreciated until put into service. Inventory is carried at the lower of cost and net realizable value, with cost determined on an average cost basis.

(e) Plant and equipment:

Plant and equipment assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives. During 2013, the Company changed its estimate of the useful lives of depreciable assets effective January 1, 2013 as follows:

Asset	2013	2012
Distribution lines, overhead	30 - 60 years	25 years
Transformers	35 - 40 years	25 years
Services	40 - 60 years	25 years
Meters	15 - 40 years	25 years
Buildings	10 - 60 years	50 years
Transportation equipment	10 - 20 years	5 - 8 years
Distribution lines, underground	25 - 55 years	25 years
Computer equipment	5 years	5 years
Smart meters	10 years	15 years
Distribution equipment	40 years	35 years
Other equipment	10 years	10 years
Office equipment	8 - 10 years	8 - 10 years
Solar generation	20 years	20 years
Contributed capital	40 - 60 years	25 years
Transformer station	15 - 60 years	-

The impact of changes to estimated useful lives have been applied prospectively and have had the effect of decreasing depreciation expense in 2013 by $951,058.

1. Significant accounting policies (continued):

(e) Plant and equipment (continued):

Eligible capital expenditures approved under the OEB's Incremental Capital Module (ICM) are reclassified from construction work in progress to regulatory assets once the asset is determined to be in service. The assets are depreciated within the regulatory ICM Variance Account over the estimated useful lives. At the next Cost of Service Rate application, upon OEB approval, the net book value of the assets will be included in the LDC's rate base and the assets transferred from the ICM Variance Account back to their applicable plant and equipment asset and accumulated amortization accounts.

Maintenance and repair items are expensed as incurred. Additions, renewals or betterments are capitalized. Any normal gain or loss on sale or retirement of buildings or equipment is included in the statement of earnings and retained earnings in the year of disposal.

The cost of plant and equipment represents the original cost, consisting of direct materials, labour, contracted services and overhead directly attributable to the capital project. It may also include an allowance for funds during construction for larger projects spanning over a period of twelve months, as prescribed in the OEB's Accounting Procedures Handbook.

Construction Work in Progress ("CWIP") relates to assets not currently in use and therefore is not depreciated.

(f) Intangible Assets:

Intangible assets are initially recorded at cost. Amortization is provided on a straight-line basis over the estimated useful lives.

Intangible assets include contribution payments made to Hydro One Networks Inc. for dedicated infrastructure pursuant to an agreement in order to receive connections to transmission facilities and the cost of a permanent bypass. Contributions for work in progress relate to assets not currently available for use and therefore are not amortized.

In the event that facts and circumstances indicate that intangible assets may be impaired, any write-down of the carrying value of intangible assets is charged against the results of operations.

(g) Goodwill:

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. The carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. No goodwill was impaired during the year.

1. Significant accounting policies (continued):

(h) Contributed capital:

Contributed capital contributions are required contributions received from outside sources, used to finance additions to plant and equipment. Contributed capital contributions received are treated as a contra account included in the determination of plant and equipment. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related plant and equipment.

(i) Post-employment benefits:

The Company has a number of unfunded benefit plans providing post employment medical, dental and life insurance benefits to retired employees. These plans provide benefits to certain employees when they no longer provide active service. Future benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. Actuarial gains and losses are expensed as incurred.

(j) Other long-term liabilities:

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(k) Related party transactions:

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

1. Significant accounting policies (continued):

(l) Payments-in-lieu of corporate income taxes and capital taxes:

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by a municipality. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company was required, under the Electricity Act, 1998 to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the EA, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as through it had a "fresh start" at the time of its change in tax status.

1. Significant accounting policies (continued):

(m) Financial assets and liabilities:

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

The Company has classified its financial instruments as follows:

Cash and bank indebtedness	Held-for-trading
Accounts receivable	Loans and receivables
Payments in lieu of income taxes recoverable	Loans and receivables
Unbilled revenue	Loans and receivables
Due from Festival Hydro Services Inc.	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued vacation, wages and benefits	Other liabilities
Demand notes payable	Other liabilities
Due to the Corporation of the City of Stratford	Other liabilities
Payments in lieu of income taxes payable	Other liabilities

(n) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Future accounting changes:

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

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards (“IFRS”) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board (“AcSB”) granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. Subsequent deferrals granted by the AcSB have resulted in the extension of the adoption of IFRS to January 1, 2015. Management has elected to defer adoption of IFRS until January 1, 2015. The OEB has required as an interim step that LDC’s adopt a modified IFRS (“MIFRS”) in that the amortization periods and the burden calculations reflect the standards under IFRS. As such, the Company has adopted MIFRS on January 1, 2013 with the changes being accounted for prospectively as changes in estimates. The Company will continue to prepare its financial statements in accordance with Canadian GAAP, as modified by MIFRS, until January 1, 2015, at which point the Company will transition to IFRS.

In January 2014, the International Accounting Standards Board (“IASB”) published IFRS 14 *Regulatory Deferral Accounts.* This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive rate regulation project. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of, and risks associated with, rate regulation and the effect of rate regulation on the entity’s financial position, performance and cash flows.

3. Financial effects of distribution rate regulation:

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

(a) Regulatory decisions to adjust distribution rates:

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

3. Financial effects of distribution rate regulation (continued):

(b) Regulatory direction and practice:

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

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provision for future uncertainty, are more fully described in note 8 to the financial statements.

4. Plant and equipment:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
Distribution lines, underground	$ 26,904,273	$ 17,281,729	$ 9,622,544	$ 8,319,910
Distribution lines, overhead	27,696,519	12,329,097	15,367,422	14,346,332
Transformers	14,436,876	8,956,977	5,479,899	5,856,781
Services	4,681,054	2,735,337	1,945,717	2,193,728
Meters	7,612,304	3,746,429	3,865,875	4,344,262
Buildings	2,634,668	1,311,028	1,323,640	2,274,439
Transportation equipment	3,057,593	2,154,029	903,564	983,641
Distribution equipment	1,745,896	1,491,099	254,797	298,961
Computer equipment	2,503,833	1,932,253	571,580	381,637
Office equipment	901,947	759,952	141,995	154,160
Other equipment	744,743	663,402	81,341	111,299
Solar generation	294,688	36,964	257,724	272,587
Contributions, capital	(4,896,473)	(1,396,895)	(3,499,578)	(3,447,997)
Major spare parts inventory	468,948	-	468,948	489,209
Transformer station	-	-	-	8,113,560
	$ 88,786,869	$ 52,001,401	$ 36,785,468	$ 44,692,509

5. Intangible assets:

Intangible assets consist of the following agreements entered into with Hydro One Networks related to increased electricity distribution capacity:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
St. Marys CCRA Agreement	$ 480,000	$ 16,000	$ 464,000	$ -
Permanent Bypass Agreement	1,230,026	2,278	1,227,748	-
Stratford CCRA Agreement	-	-	-	535,630
	$ 1,710,026	$ 18,278	$ 1,691,748	$ 535,630

The 2012 Stratford CCRA agreement amount of $535,630 was transferred to the ICM Variance Account upon energization of the transformer station effective December 1, 2013.

The St. Marys CCRA agreement is amortized over the remaining 15 years of the CCRA agreement. The Permanent Bypass agreement is amortized over the same useful life of the major components of the transformer station, being 45 years.

6. Inventory:

The amount of inventory consumed by the Company and recognized as an expense during 2013 was $114,751 (2012 - $77,038).

7. Accounts receivable:

	2013	2012
Energy, water and sewage	$ 2,945,996	$ 2,763,611
Sundry	215,731	794,399
	3,161,727	3,558,010
Less: allowance for doubtful accounts	(126,269)	(125,911)
	$ 3,035,458	$ 3,432,099

Included in accounts receivable is approximately $471,560 (2012 - $468,843) of customer receivables for water consumption and sewage removal that the Company bills and collects on behalf of the Corporation of the City of Stratford. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption and sewage removal that is determined to be uncollectible is charged to the Corporation of the City of Stratford. At year end, there is nothing (2012 - nil) included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption and sewage removal.

8. Regulatory asset, net:

Regulatory assets and liabilities arise as a result of the rate-setting process. The Company has recorded the following assets and liabilities:

	2013	2012
Assets:		
Other regulatory assets	$ 47,479	$ 47,447
Post-market opening retail settlement variances:		
Cost of power variance	1,269,302	1,144,175
LRAM variance	121,555	-
Transmission Station Incremental Capital Account	15,053,811	-
Smart meter entity charges	15,670	-
2010 rate application costs	15,725	51,262
Low voltage charges	127,887	36,159
Post-market opening transmission network and connection charges	687,820	524,368
IFRS conversion costs	113,398	102,282
	17,452,647	1,905,693
Liabilities:		
PILs and HST variance account	(127,377)	(48,339)
IFRS - CGAAP Transitional PPE Recoveries	(696,846)	-
Retail settlement variance accounts	(54,842)	(50,862)
Wholesale market charges	(2,360,459)	(2,100,481)
Future regulatory taxes payable	(2,109,748)	(2,732,143)
	(5,349,272)	(4,931,825)
	12,103,375	(3,026,132)
Recoveries (repayments):		
2010 disposition variance	(312,135)	(841,992)
2012 disposition variance	1,640	-
Recovery of regulatory assets	48,266	46,872
	(262,229)	(795,120)
	$ 11,841,146	$ (3,821,252)

8. Regulatory asset, net (continued):

Post-market opening retail settlement variances - represent amounts that have accumulated since Market Opening and comprise:

(a) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission and network charges, and the amounts billed to customers by the Company based on the OEB approved wholesale market rates, transmission network and transmission connection rates;

(b) variances between the amounts charged by the IESO to allow for purchases of electricity and the amounts billed to customers by the Company based on OEB approved rates;

(c) deferred payments in lieu of income taxes - represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution service charges and the actual amount of these charges to customers that relates to the recovery of PILs;

(d) low voltage (sub-transmission) charges-variance between the amounts charged by Hydro One for Low Voltage charges and the amounts billed to customers by the Company based on OEB approved rates;

(e) as part of the 2010 rate application, the Company claimed for disposal $2.1 million in regulatory liability balances. The amount is being paid back to customers over a four year period starting May 1, 2010. The balances approved for disposition by the OEB were placed into a new account called 2010 disposition variance. The amount repaid in 2013 totaled $536,936 (2012 - $540,872). The remaining balance at December 31, 2013 totals $312,135 (2012 - $841,992);

(f) the OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain Local Distribution Companies (“LDCs”). On June 24, 2011 the OEB issued its decision for these LDCs and provided guidelines for remaining LDCs for the calculation and disposition accumulated in the PILs regulatory variance accounts. As part of the Company's 2013 rate application, the Company applied for and was approved $271,992 to be recovered through rates for the period May 1, 2012 to April 30, 2013, of which $126,159 was recovered in 2013 (2012 - $152,161);

8. Regulatory asset, net (continued):

(g) Incremental Capital (ICM) account - The Company received approval from the OEB to establish an ICM regulatory asset account effective May 1, 2013 related to the construction of the Stratford transformer station. The account is comprised of the cost of the eligible in service capital expenditures for the transformer station under ICM, offset by the revenues collected since May 1, 2013 through the OEB approved ICM rate riders. This account includes the recorded depreciation on the asset for the year plus carrying charges calculated on the outstanding balance based on OEB prescribed rates;

Eligible capital expenditures totaling $15,311,782 were reclassified from plant and equipment and intangible assets for the year ended December 31, 2013 (2012 - nil). Depreciation, calculated for the one month of operation in 2013 totaled $17,623. Revenues earned through the ICM rate rider and applied to this account in 2013 totaled $380,411;

The balance in the ICM variance account will be presented to the OEB for disposition as part of the Company's 2015 Cost of Service Rate application. Upon OEB approval, the assets will be transferred from the ICM variance account back to their applicable plant and equipment, intangible asset and accumulated amortization accounts; and

(h) IFRS-CGAAP Transitional recoveries – As outlined in the OEB's Accounting Procedures Handbook, the Company is to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified International Financial Reporting Standards ("IFRS"). Changes to asset useful lives and overhead capitalization polices were applied effective January 1, 2013 on a prospective basis. The December 31, 2013 regulatory liability balance of $696,846 represents the impact of changes to estimated useful lives which decreased depreciation expense in 2013 by $951,058. The impact of changes to capitalization of overhead costs has caused an increase to current expenses of $254,212. The balance in the IFRS-CGAAP Transitional recoveries account will be presented to the OEB for disposition as part of the Company's 2015 Cost of Service Rate application. Upon OEB approval, the amount in this account will be returned back to customers over a period of time to be determined by the Board.

9. Demand notes payable:

	2013	2012
Demand notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand	$ 15,600,000	$ 15,600,000

Interest paid on the demand notes for the year ended December 31, 2013 was $1,131,000 (2012 - $1,131,000).

10. Post-employment benefits:

The Company has a number of unfunded benefit plans providing post-retirement benefits (other than pension) to eligible retirees. The Company pays certain medical, dental and life insurance for retirees up to the age of sixty-five, and life insurance for beyond age sixty-five for existing employees and retirees hired prior to June 1, 2011. This results in a liability on the balance sheet at year end as follows:

	2013	2012
Post-employment benefits:		
Balance, beginning of year	$ 1,458,962	$ 1,346,328
Service cost	34,450	30,098
Interest cost	54,885	57,195
Actuarial loss (gain)	(91,659)	86,683
Benefits paid	(59,630)	(61,342)
Post-employment benefits, end of year	$ 1,397,008	$ 1,458,962

The accrued benefit obligation for post-employment benefits is based on an actuarial valuation for accounting purposes as at December 31, 2011. The actuarial valuation was based on assumptions about future events. The economic assumptions used in the valuation is the Company's best estimates of expected rates of:

	2013	2012
Wage and salary escalation	3.10%	3.10%
Annual increase in health care costs	8.00%	7.60%
Annual increase in dental care costs	5.00%	5.00%
Discount rate on accrued benefit obligations	4.60%	3.75%

11. Share capital:

	2013	2012
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 common shares	9,468,388	9,468,388
	$ 15,568,388	$ 15,568,388

Dividends paid on the 6,100 Class A special shares during 2013 totaled $305,000 (2012 - $305,000). Dividends paid on the 6,995 common shares during 2013 totaled $919,843 (2012 - $989,793).

12. Payment in lieu of income taxes:

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

	2013	2012
Basic rate applied to income before PILs 2013 - 26.5% (2012 - 26.5%)	$ 929,000	$ 726,000
Tax effect of non-deductible expenses	1,000	1,000
Tax effect of other temporary differences	(457,000)	(5,000)
Other items	(35,000)	(92,000)
Tax provision	$ 438,000	$ 630,000

Future income tax assets of $2,109,748 (2012 - $2,732,143) have been recorded at year end based on substantively enacted income tax rates. Such future income tax assets relate in part to the tax basis of depreciable capital assets and intangible assets in excess of amounts recorded for accounting purposes, and in part to the timing differences between the recognition of revenue and expenses for accounting and income tax purposes.

13. Pension agreements:

Effective February 1, 1989, the Company. commenced participation in the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, for all active employees at the date as well as for all new employees. As of December 31, 2013, there were forty six active employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on their length of service and rates of pay. As this is a multi-employer plan, no liability has been recorded on the Company's books.

Contributions for the year by the Company were $384,704 (2012 - $337,194). Contributions were set at a rate of 9.0% for employee earnings below the year's maximum pensionable earnings and 14.6% thereafter, effective the first full pay of January, 2013.

14. Public liability insurance:

The Company is a member of the Municipal Electrical Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. As at December 31, 2013, no assessments have been made.

15. Financial instruments:

(a) Credit risk:

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

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

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company has entered into interest rate swaps, as described in note 20, to reduce its exposure to fluctuations in interest expense on certain of its debt instruments.

16. Change in non-cash operating working capital:

		2012		2012
Cash increase (decrease):				
Accounts receivable	$	396,641	$	(292,054)
Inventory		392,760		(424,222)
Prepaid expenses		(20,266)		32,425
Payment in lieu of income taxes		(275,648)		168,161
Unbilled revenue		(1,721,694)		(20,761)
Accounts payable and accrued liabilities		1,590,111		814,458
Accrued vacation, wages and benefits		3,970		13,989
Due to the Corporation of the City of Stratford		43,534		(73,800)
Due from Festival Hydro Services Inc.		(279,304)		55,229
	$	130,104	$	273,425

17. Due from Festival Hydro Services Inc. ("FHSI"):

The Company performs all of the administrative functions for FHSI. Most expenses and revenue are paid and received through the Company according to a service level agreement dated June 27, 2013 and effective September 1, 2012.

The Company charged interest on the balance owing from FHSI at an interest rate equivalent to 5.09% up to May 27, 2013 and at a rate of prime after May 27, 2013 as per the revised intercompany loan agreement. Net interest received by the Company for the year was $37,317 (2012 - $40,464). The loan is due on demand and no later than September 1, 2017.

The Company and FHSI are wholly owned by the Corporation of the City of Stratford.

18. Contingencies:

(a) Prudential support:

As a purchaser of electricity through the IESO, the Company is required to provide security to minimize the risk of default, based on its expected activity in the market. The IESO may draw on this security if the Company fails to make payment required by a default notice issued by the IESO. To satisfy this requirement, the Company has provided the IESO with an irrevocable standby letter of credit in the amount of $3,095,139 (2012 - $3,095,139) which renews automatically on an annual basis.

(b) Connection and cost recovery agreement - St. Mary's Transformer Station:

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement ("CCRA") in September, 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment of the Transformer Station.

The CCRA has been trued-up effective July 5, 2013. Since load growth has fallen below target amounts, a contribution in the amount of $480,000 was owing to Hydro One Networks. This amount owing has been set up as an Intangible Asset subject to 15 year amortization over the remaining life of the agreement.

(c) Connection and cost recovery agreement - Stratford Transformer Station ("Festival Hydro MTS1"):

The Company and Hydro One Networks Inc. entered into a twenty-five year capital cost recovery agreement in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Company has guaranteed new load growth which, if not met, would require the Company to provide a financial contribution toward the capital investment.

The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date.

19. Long-term debt:

	2013	2012
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4%, with payments of $100,585 due semi-annually, maturing June 15, 2025	$ 1,800,378	$ 1,918,421
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98%, with payments of $13,733 due semi-annually maturing October 2025	260,045	276,664
Royal Bank non-revolving term loan, bearing interest at RBP and BA's at the acceptance fee plus 1.00%, maturing May 31, 2013	-	6,801,986
Royal Bank revolving term loan, bearing interest at 2.93% maturing May 31, 2030 and a stamping fee bearing interest at 0.42% maturing May 31, 2023	13,783,000	-
Accrued interest to December 31	5,888	6,270
	15,849,311	9,003,341
Less: current portion	528,469	140,932
Long-term debt	$ 15,320,842	$ 8,862,409

The Company approved financing from OIPC of up to $2,500,000 for its smart meter project. Amounts initially drawn were classified as advances with no specified repayment terms. The advances have been converted to two fifteen year debentures with fixed repayment terms and fixed interest rates.

The Company incurred interest expense in respect of the advances of $99,277 (2012 - $104,628).

20. Credit facility arrangement:

The Company entered into a credit facility agreement (the "agreement") with the Royal Bank effective June 29, 2012 to meet its short-term and long-term financing needs. The agreement allows for the following types of credit facilities:

(i) $10,000,000 revolving term facility by way of either RBP based loans, overdrafts or bankers acceptance;

(ii) $3,600,000 revolving term facility by way of a letter of guarantee;

(iii) $14,000,000 non-revolving term facility by way of RBP based loan or bankers acceptance; and

(iv) $14,000,000 revolving term facility by way of either RBP based loans or bankers acceptance, repayable in full on the last day of a ten year term from drawdown as selected by the Company.

The credit facilities are secured by a general security agreement.

As at December 31, 2013, there were no borrowings under facility (i) (2012 - nil). The Company did however, make use of its letter of guarantee under facility (ii) to furnish the IESO with prudential support of $3,095,139 (2012 - $3,095,139).

The borrowing under facility (iii) was undertaken to finance the construction of the transformer station in the south west section of the City of Stratford. As at December 31, 2012, $6,801,986 was advanced under this facility. The terms and conditions of the agreement indicate that the aggregate of facility (iii) and facility (iv) shall not exceed $14,000,000 at any time. The proceeds of borrowing under facility (iv) were used to repay in full all borrowing under facility (iii) effective May 31, 2013.

The Company also maintains a VISA Business credit facility to a maximum amount of $30,000.

During the year, the Company utilized the overdraft facility and incurred interest expense in respect of this lending arrangement of $15,790 (2012 - $10,467).

20. Credit facility arrangement (continued):

Interest rate swap

The Company entered into an interest rate swap agreement on a notional principal of $14,000,000 effective May 31, 2013, maturing May 31, 2038. The swap is a receive variable pay fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates on the bankers acceptances under facility (iv) to an effective fixed interest rate of 2.93% plus stamping fee of 0.42%. The stamping fee is subject to change every 10 years.

The Company has determined this swap does not meet the standard to apply hedge accounting. Since the standard is not met, the interest rate swap contract has been marked to market at December 31, 2013 with the unrealized gain for the year of $711,813 recorded in the statement of earnings.

21. Related party transactions:

During the year, and within the normal course of operations, the Company provided water and sewer billing and collection services to the Corporation of the City of Stratford. Revenue earned by the Company was $437,209 (2012 - $420,015). The Company also provided street light maintenance and capital services for the City of Stratford for which it earned revenues of $170,486 (2012 - $195,146).

During the year, the Company collected and remitted $3,183,813 (2012 - $3,715,613) for water services and $5,595,613 (2012 - $5,644,549) for sewage services to the shareholder.

The Company leases space to the Corporation of the City of Stratford for which it earned revenue in the year of $32,826 (2012 - $33,858). The Company also leases space to FHSI for which it earned revenue in the year of $44,106 (2012 - $29,684).

During the year, the Company provided labour services, trucking services, materials, management services, billing and collecting services, joint pole attachment approval, and electricity for WiFi equipment on Company poles to FHSI. Revenue earned by the Company for these services was $242,536 (2012 - $208,889).

The Company has five fibre service agreements with FHSI, two of which were new in 2013. Expenses paid by the Company relating to these five contracts totaled $146,791 (2012 - $127,000). The Company also purchased advertising on the Walled Garden from FHSI in 2013 for $6,000 (2012 - 6,000).

22. Comparative information:

Certain of the 2012 comparative information have been reclassified to conform with the financial presentation adopted per the current year.

Attachment 4 of 6

2013 Management Discussion and Analysis

2013 Management Discussion and Analysis

Festival does not produce a management discussion and analysis.

Attachment 5 of 6

Rating Agency Report

Rating Agency Report

Festival does not have a rating agency report.

Attachment 6 of 6

Recent or Planned Public Debt/Equity Offering

Recent or Planned Public Debt/Equity Offering

Festival has not had a recent public debt/equity offering and does not have one planned.

Festival Hydro Inc.

File Number: EB-2014-0073

Date Filed: May 29, 2014

Exhibit 1

Tab 5 of 6

Materiality Threshold

,Materiality Threshold

Festival's estimated revenue requirement for the 2015 test year is $11,871,010. As such the materiality threshold used in this application is at a rate of 0.5% which equals $59,355.

Festival Hydro INC.

File Number: EB-2014-0073

Date Filed: May 29, 2014

Exhibit 1

Tab 6 of 6

Administration

Statement as to who is affected by application

All of Festival Hydro's customers may be affected by this application.

Statement of publication

Festival plans to publish the notice of application in the local paper as follows:

- Stratford Beacon Herald (paid publication) which has the highest circulation in Festival's service area according to the best information available.

Festival will also place the notice on the Festival website, and make a hard copy available to the public at its customer service centre.

Applicants internet access

Festival Hydro's website address is www.festivalhydro.com

Application contact information

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CFO	Ms. Debbie Reece, CPA, CA 187 Erie Street, Stratford ON, N5A 6T5 Phone: 519-271-4703 ext. 268 Fax: 519-271-7204 dreece@festivalhydro.com
Financial & Regulatory Manager:	Ms. Kelly McCann, CPA, CA 187 Erie Street, Stratford ON, N5A 6T5 Phone: 519-271-4703 ext 221 Fax: 519-271-7204 kmccann@festivalhydro.com

Attachment 1 of 1

Curriculum Vitae - Festival Contacts

Curriculum Vitae of Ysni Semsedini, MBA, P.Eng

Chief Executive Officer
Festival Hydro Inc

Work Experience

May 2014 – Present

Festival Hydro Inc
Chief Executive Officer

Festival Hydro Services Inc
President & Chief Executive Officer

May 2011 – May 2014

Festival Hydro Inc
VP Engineering and Operations

Festival Hydro Services Inc (Jan 2012 – May 2014)
Chief Operating Officer

Dec 2006 – May 2011

London Hydro Inc

Director Metering and Business Planning (2010 – 2011)
Acting Director Customer Service and Strategic Planning (2010)
Distribution Engineer (2006 – 2010)

Education

Masters of Business Administration (MBA), Wilfrid Laurier University, 2009
Masters of Engineering Science – Power Systems (M.ESc), Western University, 2006
Bachelors of Engineering Science – Electrical (B.ESc), Western University, 2003

Professional Affiliations

Professional Engineer (P.Eng) – Professional Engineers of Ontario

Curriculum Vitae of Jac Vanderbaan, P.Eng, CPA, CMA

President
Festival Hydro Inc

Work Experience

December 2001 – Present

> Festival Hydro Inc
> President (May 2014 – Present)
> Chief Operating Officer (January 2011 – May 2014)
> Vice President of Engineering & Operations (December 2001 – January 2011)

June 1999 – December 2001

> London Hydro Inc
> Engineering Manager

July 1998 – June 1999

> Cutler-Hammer
> Field Service/Power Systems Engineer

September 1994 – June 1998

> West Kootenay Power
> Regional Engineer, Okanagan

June 1991 – August 1994

> SaskPower
> Design Engineer

Education

Bachelors of Applied Science – Electrical Engineering (B.A.Sc), University of Waterloo, 1991

Professional Affiliations

Professional Engineer (P.Eng.) - Ontario since 1998, BC from 1995 to 1998, Saskatchewan from 1993 to 1995
Chartered Professional Accountant (CPA, CMA) – Ontario since 2009

Curriculum Vitae of Debbie Reece, CPA, CA; MBA

Chief Financial Officer
Festival Hydro Inc.

Relevant Work Experience

Jan 2002 – Present

Festival Hydro Inc.
Chief Financial Officer

Jan 1989 – Sep 1998

National Trust Company
Manager – Financial & Regulatory Reporting

Sep 1980 – May 1983

Price Waterhouse
Auditor /Articling for CA Designation

Education

Masters of Business Administration (MBA), Wilfrid Laurier University, 1986
Chartered Accountants Designation in Ontario – December 1982
Honours Business Degree, Wilfrid Laurier University, August 1980

Professional Affiliations

Chartered Accountant (CPA, CA) – Admitted to the Institute of Chartered Accountants of Ontario 1983

Curriculum Vitae of Kelly McCann, CPA,CA

Financial & Regulatory Manager
Festival Hydro Inc

Work Experience

January 2009 – Present

Festival Hydro Inc
Financial & Regulatory Manager

January 2012 - Present

Festival Hydro Services Inc
Chief Financial Officer

September 2000 – December 2008

PricewaterhouseCoopers LLP
Senior Associate/Manager – Tax Services (Mar. 2002 – Dec. 2008)
Associate/Senior Associate - Audit and Business Advisory Services (Sept. 2000 – Feb. 2002)

Education

Bachelor of Commerce (BComm Co-Op), University of Windsor, 2000

Professional Affiliations

Chartered Accountant (CPA, CA) - Admitted to the Institute of Chartered Accountants of Ontario
November 2002

Statement of Representation

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

AND IN THE MATTER OF an application by Festival Hydro Inc. for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2014 distribution rates and related matters.

<u>APPLICATION</u>

1. The Applicant is Festival Hydro Inc. ("Festival"). Festival is a licensed electricity distributor operating pursuant to license ED-2002-0513. Festival distributes electricity to approximately 20,000 customers in several communities (City of Stratford, Towns of Seaforth, Brussels, Hensall, Zurich, Dashwood and St. Marys) pursuant to a distribution license (ED-2002-0513) issued by the Ontario Energy Board (the "Board") and charges Board-authorized rates (EB-2013-0129) for the distribution service it provides.

2. Festival hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998,* as amended, (the "OEB Act") approving just and reasonable rates for the distribution of electricity based on a 2015 Test Year with an effective date of January 1, 2015.

3. Except where specifically identified in this Application, the Applicant followed Chapter 2 of the *Filing Requirements for Transmission and Distribution Applications* dated July 17, 2013 in preparing this application.

4. The Applicant certifies that the information provided in this application is accurate at the time of this filing.

5. Festival acknowledges that the Board will publish an update to the Return on Equity and Short Term Debt Rate and that these matters will affect the Revenue Requirement that Festival has requested in this Application.

6. The Applicant requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant.

DATED at Stratford, Ontario, this 30th day of May, 2014

All of which is respectfully submitted.

FESTIVAL HYDRO INC.

Ysni Semsedini, **P. ENG, MBA**

CEO

Bill Impacts for public notice of application

The 2015 distribution rates proposed by the Applicant will result in overall bill impacts for residential and GS<50 customer classes as detailed in Table 1 below. A full list of the bill impacts applicable to all customer classes is found at E8/T12/S1.

2015 COS - Bill Impact for Typical Festival Hydro Customers

Customer Class	2014 Distribution Charge	2015 Proposed Distribution Charge	Dollar Change	% Change	2014 Total Bill	2015 Total Bill	Dollar Change	% Change
Residential, 800 kWh	34.69	31.53	(3.16)	-9.1%	119.69	116.06	(3.63)	-3.0%
GS < 50 kW, 2,000 kWh	70.21	64.01	(6.20)	-8.8%	291.07	283.73	(7.34)	-2.5%
GS < 50 kW, 10,000 kWh	203.53	182.12	(21.41)	-10.5%	1,336.02	1,309.10	(26.92)	-2.0%
GS >50 to 4,999 kW, 100 kW, 51,100 kWh	494.57	511.58	17.01	3.4%	6,546.03	6,543.85	(2.18)	0.0%
GS >50 to 4,999 kW, Interval, 600 kW, 306,600 kWh	1,755.12	1,802.01	46.89	2.7%	40,131.68	40,044.46	(87.22)	-0.2%
Large Use, 5000 kW, 2,555,000 kWh	17,210.55	19,123.95	1,913.40	11.1%	338,731.81	339,547.44	815.63	0.2%
Unmettered Scatterd Load SL, 340 kWh	18.71	9.96	(8.75)	-46.8%	53.43	44.36	(9.07)	-17.0%
Sentinel Lights, 131 kWh, 0.36 kW	6.30	5.96	(0.34)	-5.4%	19.65	19.24	(0.41)	-2.1%
Street Lights, 657 kW, 239,805 kWh	6,965.17	4,951.56	(2,013.61)	-28.9%	37,730.75	35,344.74	(2,386.01)	-6.3%

Statement of requested hearing form

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 the Application.

Festival 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.

List of specific approvals requested

Festival is requesting that the Board provide it with an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other charges, as specified in this Application, to be effective January 1, 2015.

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

1. The Applicant requests that the Board approve the 2015 Schedule of Rates and Charges as found at E8/T10/S1/Att2.
2. Specifically, the Applicant hereby applies for an order or orders granting approval of:
    a. Its forecasted 2015 service Revenue Requirement of 949,615, which leads to a base distribution Revenue Requirement of $11,115,311, net of other revenue;
    b. Distribution rates that allow the Applicant to recover its forecasted 2015 distribution Revenue Requirement, effective January 1, 2015;
    c. The Applicant's current distribution rates becoming interim commencing January 1, 2015 until its proposed distribution rates are implemented;
    d. The dispersal of Group 1 and 2 deferral and variance accounts as detailed at E9/T1/S1 and additionally:
        i. The recovery of stranded meter costs of $234,537 collected through a rate rider over a one year period as described at E9/T3/S11.

ii. The disposition of the existing ICM Rate Rider variance account which came into effect May 1, 2013

iii. The establishment of a new ICM Rate rider variance account to for the differences arising on the reconciliation of the actual Transformer costs, expenses less recoveries which have occurred to December 31, 2013 to be collected over a one year period.

iv. The disposition of the LRAMVA account also to be collected over a one year period.

v. The disposition of Acct 1575 CGAAP/MIFRS variance account to be disposed over a one year period.

e. Updated Retail Transmission Service Charge rates as described at E8/T2/S1;

f. Updated loss adjustment factors based on the most recent five year average as described at E8/T8/S1;

g. Updated Low Voltage Charge rates as described at E8/T7/S1;

h. Continuation of the existing MicroFIT generator rate as described at E8/T3/S8;

i. Existing Specific Service Charges, excluding three Specific Service Charges related to temporary services, as described at E8/T6/S1; and

j. The Retail Service Charges, Wholesale Market and Rural Rate Assistance rates, Transformer Allowance and Primary Metering Allowance as they exist today.

Changes in tax status

Festival has had no changes in tax status.

Existing/proposed accounting orders

At the time of this Application, the Accounting Standard Board ("AcSB") has deferred mandatory adoption of IFRS for qualifying rate-regulated entities to January 1, 2015. The 2015 Cost of Service Application is to be filed on a MIFRS accounting basis.

As such, Festival has prepared its current application on an MIFRS basis.

Description of applicants service area

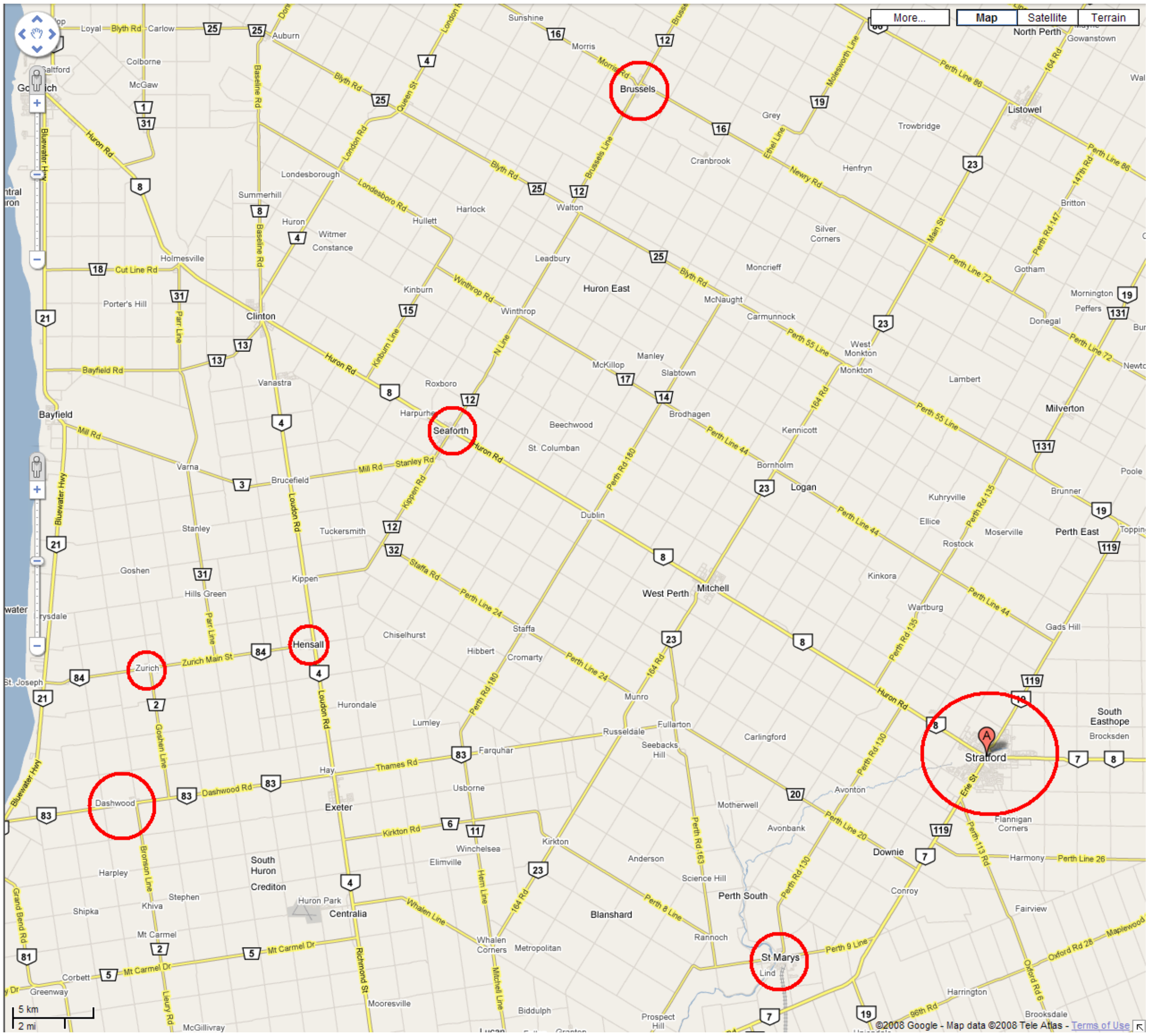
Festival is comprised of seven geographically separate service territories (City of Stratford, Towns of St. Marys, Seaforth, Dashwood, Hensall, Zurich, Brussels) and each service territory is bounded by Hydro One Networks Inc.

Hydro One Networks Inc.	Direct Line:	416-345-5000
483 Bay St.		
Toronto, ON M5G 2P5	Website:	www.HydroOne.com

Festival is a Registered Market Participant for the purposes of settlement with the Independent Electricity System Operator. However, Festival is considered a partially "embedded" LDC because it received some of its electricity from Hydro One Networks Inc.'s low voltage distribution system for electricity supplied to our customers in the towns of Brussels, Seaforth, Hensall, Zurich, and Dashwood.

Attachment 1 of 1

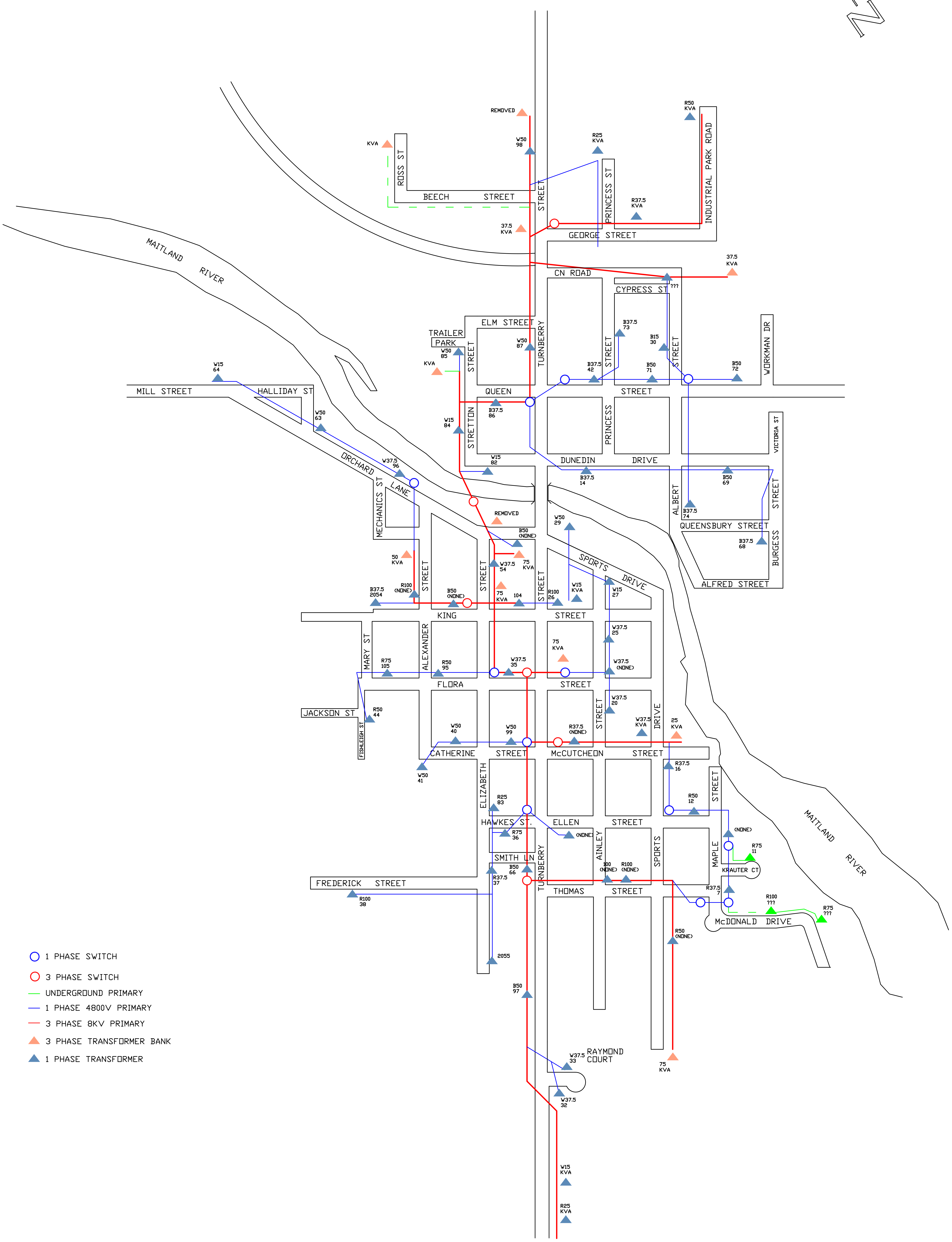
Service area map

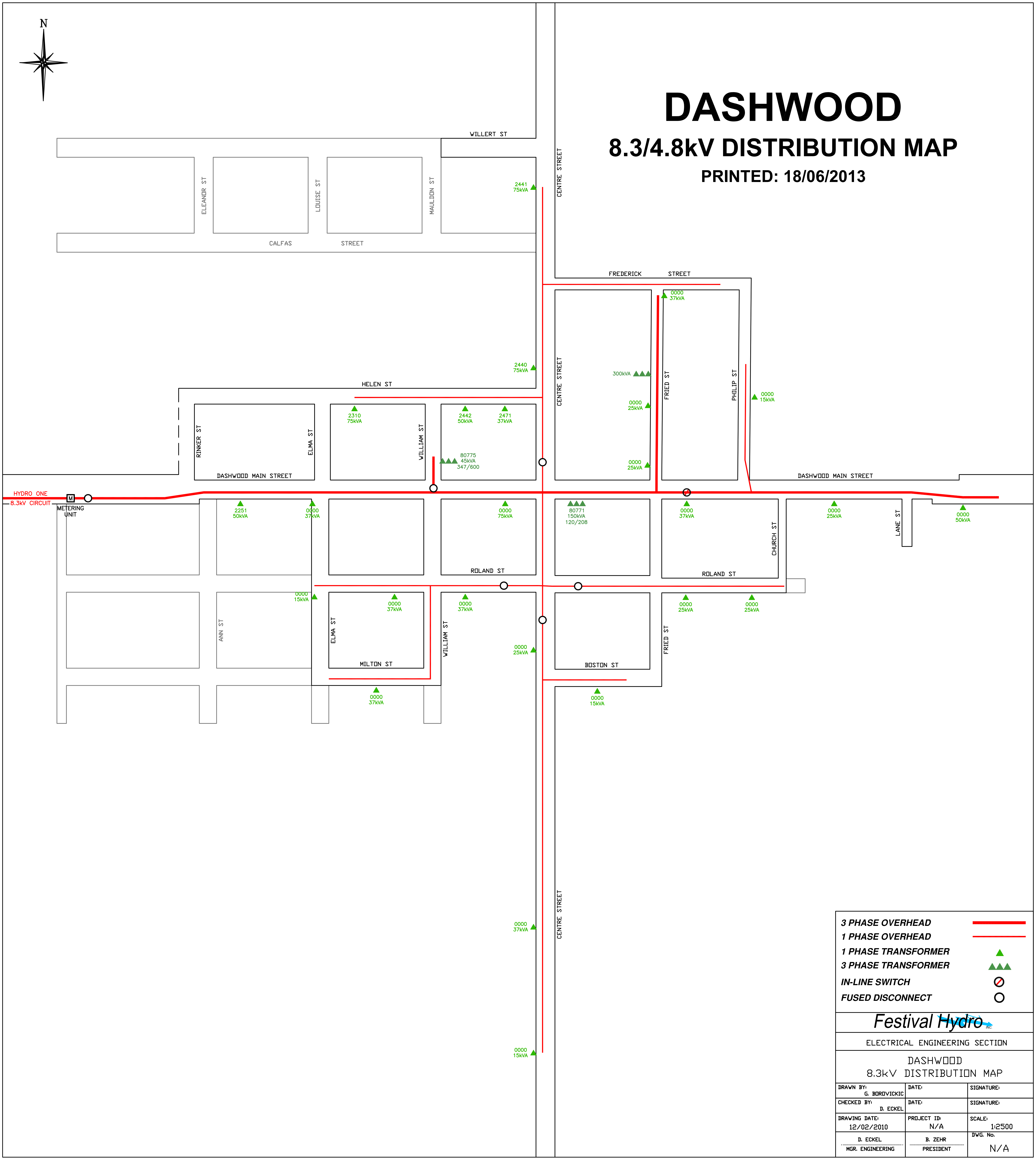


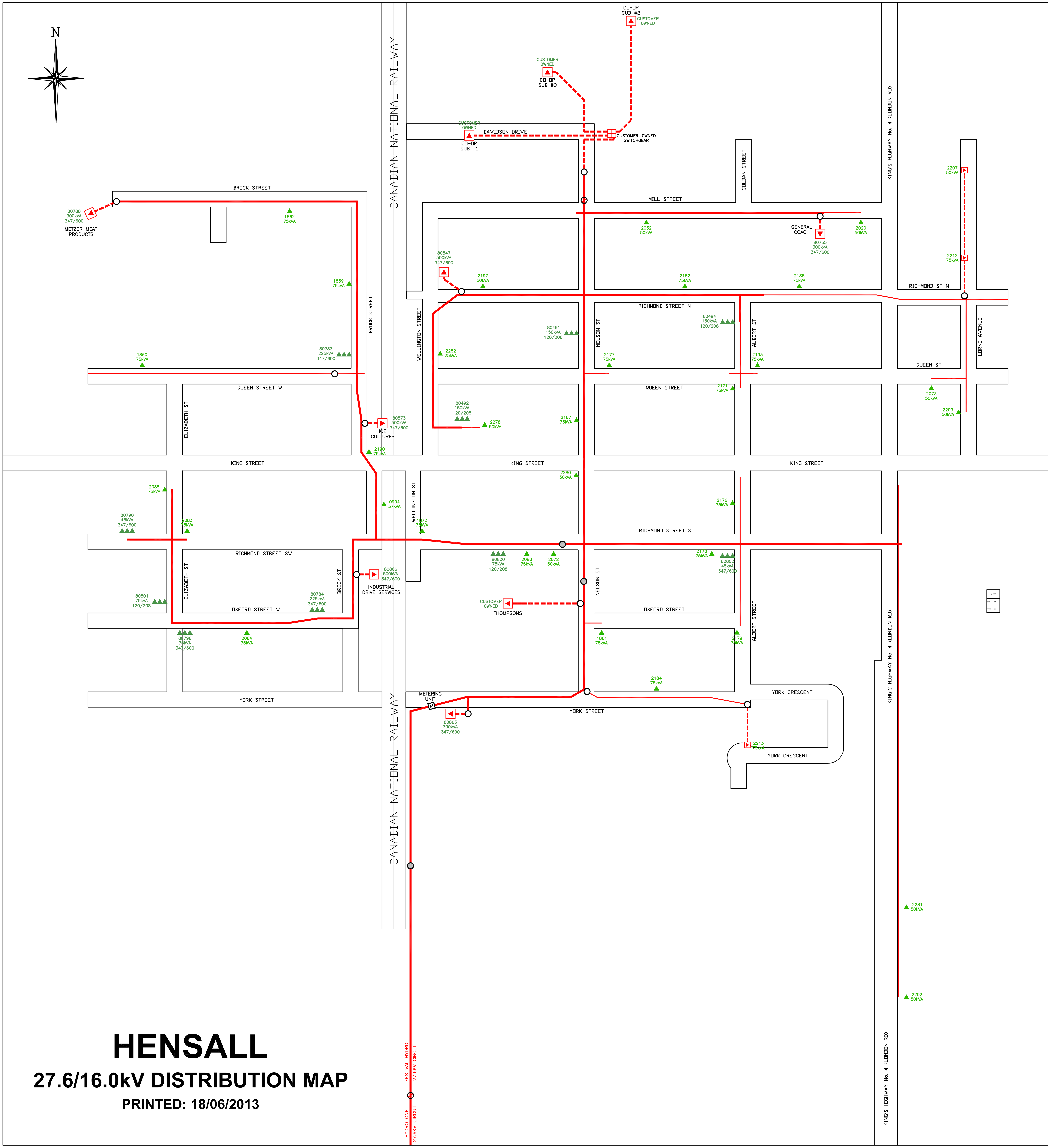
More...
Map
Satellite
Terrain
Brussels
Seaforth
Hensall
Zurich
Dashwood
Stratford
St Marys
Clinton
Bayfield
Exeter
Mitchell
Listowel
Milverton
Logan
West Perth
Huron East
Perth East
Perth South
Blanshard
South Huron
Centralia
Crediton
Goderich
Auburn
Blyth Rd
Morris
Walton
Londesborough
Harlock
Hullett
Kinburn
Winthrop
McKillop
Dublin
Kippen
Brucefield
Varna
Stanley
Goshen
Hills Green
Tuckersmith
Chiselhurst
Staffa
Cromarty
Hibbert
Munro
Russeldale
Fullarton
Carlingford
Avonton
Downie
Sebringville
Hay
Usborne
Farquhar
Kirkton
Winchelsea
Elimville
Huron Park
Harpley
Khiva
Stephen
Shipka
Mt Carmel
Greenway
Corbett
McGillivray
Biddulph
Moorseville
Whalen Corners
Metropolitan
Prospect Hill
Rannoch
Science Hill
Anderson
Motherwell
Avonbank
Conroy
Fairview
Harrington
Brooksdale
Flannigan Corners
South Easthope
Brocksden
Gads Hill
Wartburg
Kinkora
Rostock
Ellice
Moserville
Kuhryville
Brunner
Poole
Bornholm
Kennicott
Brodhagen
Slabtown
Manley
Beechwood
St. Columban
Roxboro
Harpurhey
Vanastra
Porter's Hill
Holmesville
Summerhill
Witmer
Constance
Leadbury
McNaught
Carmunnock
West Monkton
Monkton
Lambert
Donegal
Mornington
Peffers
Gotham
Britton
Henfryn
Silver Corners
Moncrieff
Cranbrook
Grey
Trowbridge
North Perth
Gowanstown
Sunshine
Colborne
McGaw
Saltford
Carlow
Loyal
Cut Line Rd
Bayfield Rd
Mill Rd
Huron Rd
Londesboro Rd
Winthrop Rd
Perth Line 86
Perth Line 72
Perth Line 44
Perth Line 24
Perth Line 20
Perth Line 26
Perth 55 Line
Perth 9 Line
Perth 8 Line
Newry Rd
Thames Rd
Dashwood Rd
Kirkton Rd
Mt Carmel Dr
Zurich Main St
Stanley Rd
Staffa Rd
Whalen Line
Loudon Rd
Richmond St
Bluewater Hwy
Goshen Line
Bronson Line
Parr Line
Baseline Rd
Kippen Rd
Kinburn Line
Brussels Line
Morris Rd
Ethel Line
Molesworth Line
Main St
Erie St
Oxford Rd 28
Grand Bend Rd
Mitchell Line
Hern Line
164 Rd
Perth Rd 130
Perth Rd 135
Perth Rd 163
Perth Rd 180
5 km
2 mi
©2008 Google - Map data ©2008 Tele Atlas - Terms of Use

BRUSSELS

8300V/4800V
DISTRIBUTION SYSTEM




DASHWOOD
8.3/4.8kV DISTRIBUTION MAP
PRINTED: 18/06/2013
N
WILLERT ST
CENTRE STREET
ELEANOR ST
LOUISE ST
MAULDON ST
CALFAS STREET
FREDERICK STREET
HELEN ST
FRIED ST
PHILIP ST
RINKER ST
ELMA ST
WILLIAM ST
DASHWOOD MAIN STREET
HYDRO ONE
8.3kV CIRCUIT
METERING UNIT
ROLAND ST
CHURCH ST
LANE ST
ANN ST
MILTON ST
BOSTON ST
2441 75kVA
2440 75kVA
0000 37kVA
300kVA
0000 25kVA
0000 15kVA
2310 75kVA
2442 50kVA
2471 37kVA
80775 45kVA 347/600
2251 50kVA
0000 75kVA
80771 150kVA 120/208
0000 50kVA
3 PHASE OVERHEAD
1 PHASE OVERHEAD
1 PHASE TRANSFORMER
3 PHASE TRANSFORMER
IN-LINE SWITCH
FUSED DISCONNECT
Festival Hydro
ELECTRICAL ENGINEERING SECTION
DASHWOOD
8.3kV DISTRIBUTION MAP
DRAWN BY: G. BOROVICKIC
DATE:
SIGNATURE:
CHECKED BY: D. ECKEL
DRAWING DATE: 12/02/2010
PROJECT ID: N/A
SCALE: 1:2500
D. ECKEL
MGR. ENGINEERING
B. ZEHR
PRESIDENT
DWG. No. N/A



HENSALL

27.6/16.0kV DISTRIBUTION MAP

PRINTED: 18/06/2013

LEGEND

3 PHASE OVERHEAD	
3 PHASE UNDERGROUND	
1 PHASE OVERHEAD	
1 PHASE UNDERGROUND	
1 PHASE O/H TRANSFORMER	
3 PHASE O/H TRANSFORMER	
1 PHASE LP TRANSFORMER	
3 PHASE PADMOUNT TRANS	
LOAD BREAK SWITCH	
IN-LINE SWITCH	
FUSED DISCONNECT	

REV	DATE	REVISION DESCRIPTION	BY

Festival Hydro

ELECTRICAL ENGINEERING SECTION

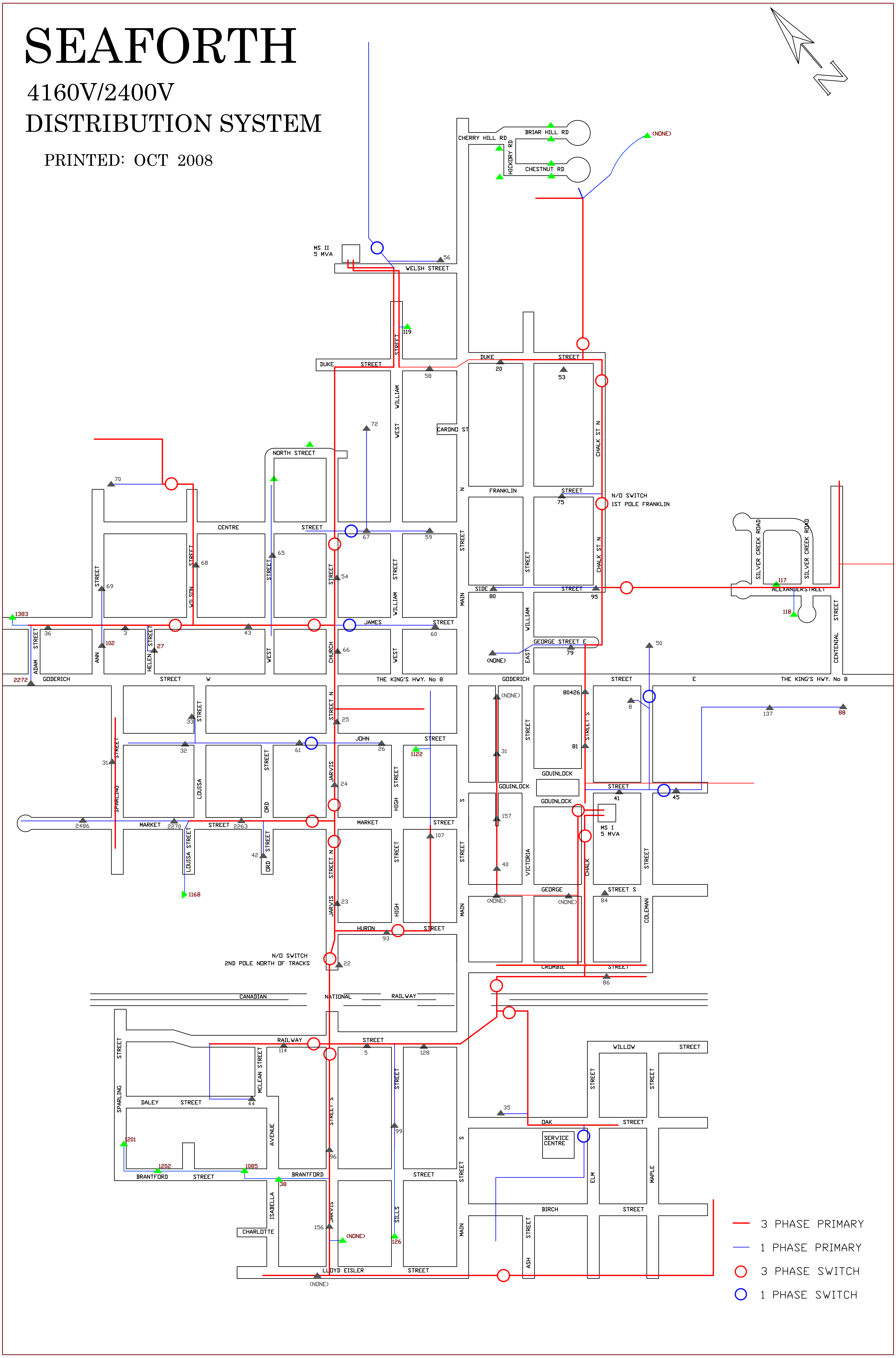
HENSALL
27.6KV DISTRIBUTION MAP

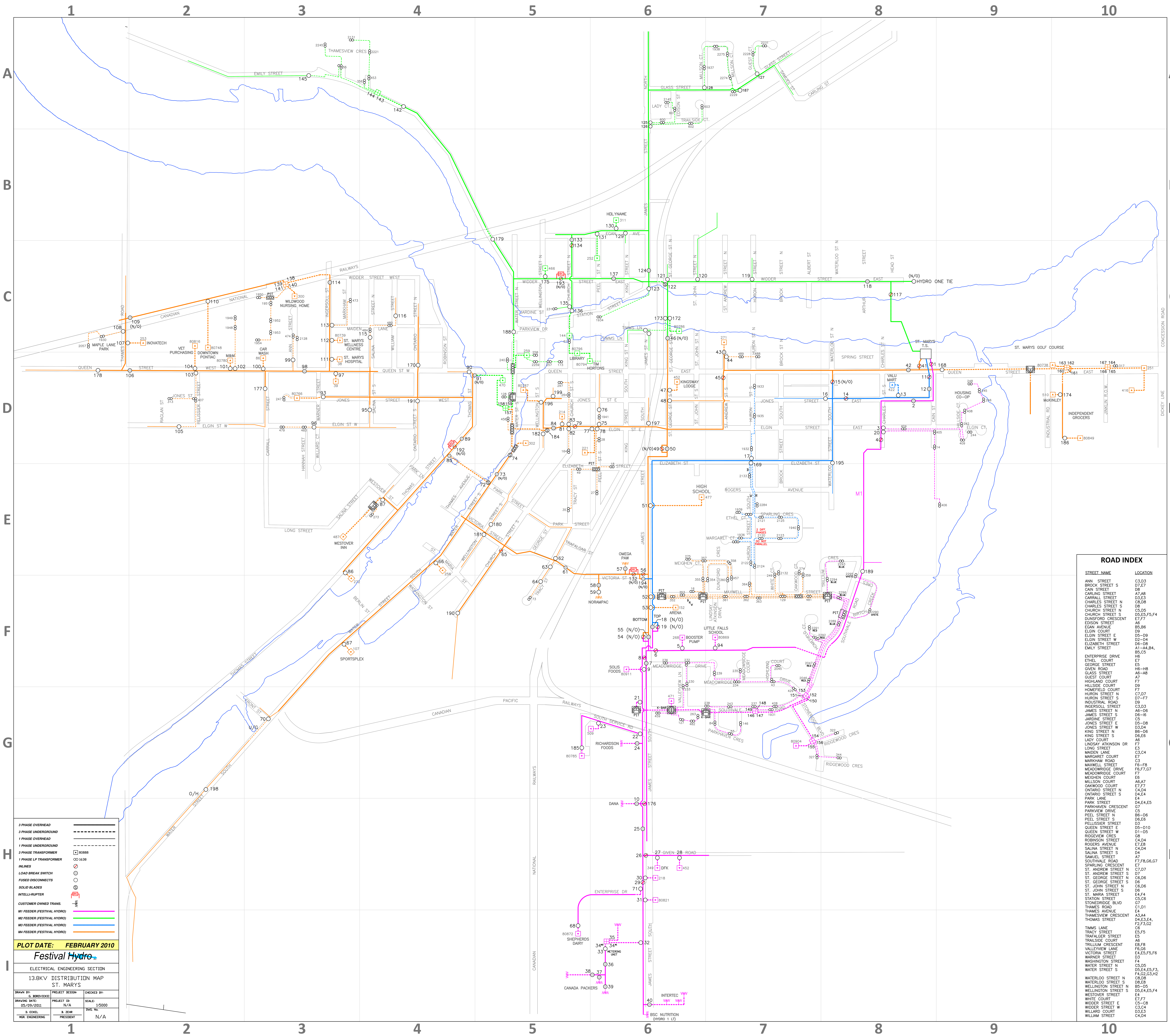
DRAWN BY: G. BOROVICKIC	DATE:	SIGNATURE:
CHECKED BY: D. ECKEL	DATE:	SIGNATURE:
DRAWING DATE: 12/03/2010	PROJECT ID: N/A	SCALE: 1:2500
D. ECKEL MGR. ENGINEERING	B. ZEHR PRESIDENT	DWG. No. N/A

SEAFORTH

4160V/2400V
DISTRIBUTION SYSTEM

PRINTED: OCT 2008



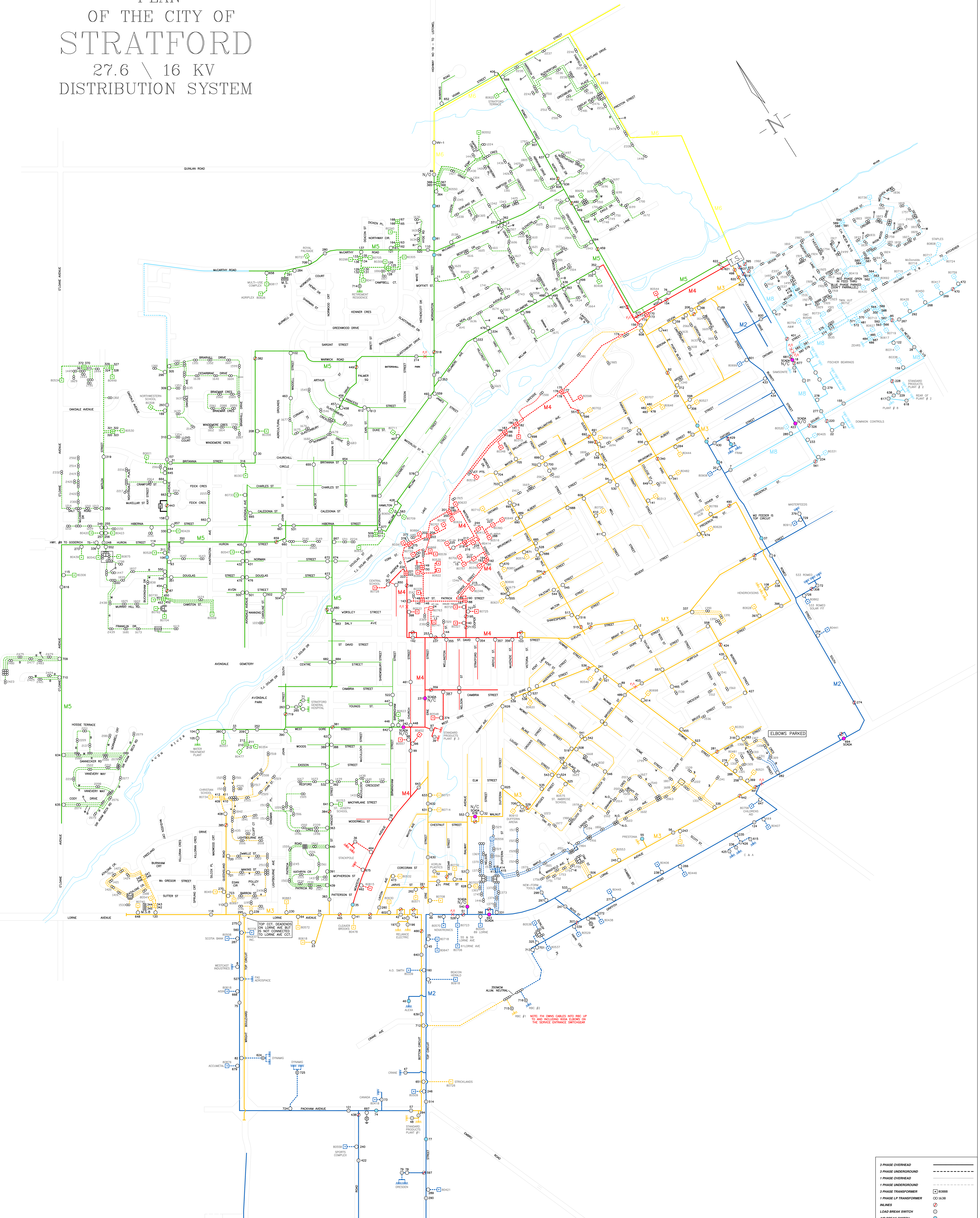


ROAD INDEX

STREET NAME	LOCATION
ANN STREET	C3,D3
BROCK STREET S	D7,E7
CAIN STREET	D8
CARLING STREET	A7,A8
CARRALL STREET	D3,E3
CHARLES STREET N	C8,D8
CHARLES STREET S	D8
CHURCH STREET N	C5,D5
CHURCH STREET S	D5,E5,F5,F4
DUNSFORD CRESCENT	E7,F7
EDISON STREET	A6
EGAN AVENUE	B5,B6
ELGIN COURT	D9
ELGIN STREET E	D5–D9
ELGIN STREET W	D2–D4
ELIZABETH STREET	D6–D8
EMILY STREET	A1–A4,B4, B5,C5
ENTERPRISE DRIVE	H6
ETHEL COURT	E7
GEORGE STREET	E5
GIVEN ROAD	H6–H8
GLASS STREET	A6–A8
GUEST COURT	A7
HIGHLAND COURT	F7
HILLSIDE COURT	D9
HOMEFIELD COURT	F7
HURON STREET N	C7,D7
HURON STREET S	D7–F7
INDUSTRIAL ROAD	D9
INGERSOLL STREET	C3,D3
JAMES STREET N	A6–D6
JAMES STREET S	D6–I6
JARDINE STREET	C5
JONES STREET E	D5–D8
JONES STREET W	D3,D4
KING STREET N	B6–D6
KING STREET S	D6,E6
LADY COURT	A6
LINDSAY ATKINSON DR	F7
LONG STREET	E3
MAIDEN LANE	C3,C4
MARGARET COURT	E7
MARKHAM ROAD	C3
MAXWELL STREET	F6–F8
MEADOWRIDGE DRIVE	F6,F7,G7
MEADOWRIDGE COURT	F7
MEIGHEN COURT	E6
MILLSON COURT	A6,A7
OAKWOOD COURT	E7,F7
ONTARIO STREET N	C4,D4
ONTARIO STREET S	D4,E4
PARK LANE	E4
PARK STREET	D4,E4,E5
PARKHAVEN CRESCENT	G7
PARKVIEW DRIVE	C5
PEEL STREET N	B6–D6
PEEL STREET S	D6,E6
PELLISSIER STREET	D3
QUEEN STREET E	D5–D10
QUEEN STREET W	D1–D5
RIDGEVIEW CRES	G8
ROBINSON STREET	C4,D4
ROGERS AVENUE	E7,E8
SALINA STREET N	C4,D4
SALINA STREET S	D4
SAMUEL STREET	A7
SOUTHVALE ROAD	F7,F8,G6,G7
SPARLING CRESCENT	E7
ST. ANDREW STREET N	C7,D7
ST. ANDREW STREET S	D7
ST. GEORGE STREET N	C6,D6
ST. GEORGE STREET S	D6
ST. JOHN STREET N	C6,D6
ST. JOHN STREET S	D6
ST. MARIA STREET	E4,F4
STATION STREET	C5,C6
STONEDRIDGE BLVD	G7
THAMES ROAD	C1,D1
THAMES AVENUE	E4
THAMESVIEW CRESCENT	A3,A4
THOMAS STREET	D4,E3,E4, F2,F3,G2
TIMMS LANE	C6
TRACY STREET	E5,F5
TRAFALGER STREET	E5
TRAILSIDE COURT	A6
TRILLIUM CRESCENT	E8,F8
VALLEYVIEW LANE	F6,G6
VICTORIA STREET	E4,E5,F5,F6
WARNER STREET	D3
WASHINGTON STREET	F4
WATER STREET N	C5,D5
WATER STREET S	D5,E4,E5,F3, F4,G2,G3,H2
WATERLOO STREET N	C8,D8
WATERLOO STREET S	D8,E8
WELLINGTON STREET N	B5–D5
WELLINGTON STREET S	D5,E4,E5,F4
WESTOVER STREET	E4
WHITE COURT	E7,F7
WIDDER STREET E	C5–C8
WIDDER STREET W	C3,C4
WILLARD COURT	D3,E3
WILLIAM STREET	C4,D4

PLAN OF THE CITY OF STRATFORD

27.6 \ 16 KV DISTRIBUTION SYSTEM



SCADA LOCATIONS
#18 – SOUTH OF ONTARIO ST IN SAMOSONITE PARKING LOT
#423 – BURRITT ST, 2ND POLE NORTH OF DOURO ST.
#678 – WALNUT ST, EAST OF RAILWAY AVE
#540 – RAILWAY AVE, 2ND POLE NORTH OF LORNE AVE
#231 – ERIE ST, 2ND POLE SOUTH OF CAMBRIA ST
#242 – WEST GORE ST, BETWEEN CHURCH & BIRMINGHAM
#680 – FUTURE (ST. VINCENT ST S, NORTH OF WORSLEY)
#693 – LORNE AVE, WEST OF NELSON ST
#694 – LORNE AVE, WEST OF ROMEO ST

FAULT INDICATOR LOCATIONS

68M2
1. 50 LORNE AVE E. (FESTOSO'S)
2. LORNE AVE. 1ST SPAN EAST OF DOWNIE.

68M3
1. 22 NORFOLK ST. (1ST SPAN WEST OF LBS #403)

68M4
1. 54 ROMEO ST S (GALLERY STRATFORD)
2. 74 CHURCH ST (1ST SPAN SOUTH OF DIP #143)

68M5
1. AVONDALE CEMETARY SOUTH OF RAILROAD TRACKS.
2. MORNINGTON ST. AT BATTERSHELL PARK.

68M8
1. TWO SETS ON DOUBLE DIP AT SAMSONITE PARKING LOT OFF OF ONTARIO STREET.

3 PHASE OVERHEAD	
3 PHASE UNDERGROUND	
1 PHASE OVERHEAD	
1 PHASE UNDERGROUND	
3 PHASE TRANSFORMER	80888
1 PHASE LP TRANSFORMER	1638
INLINES	
LOAD BREAK SWITCH	
AIR BREAK SWITCH	
SCADA-MATE SWITCH	
FUSED DISCONNECTS	
CAPACITOR BANK	
CUSTOMER OWNED TRANS.	
M2 FEEDER (FESTIVAL HYDRO)	
M3 FEEDER (FESTIVAL HYDRO)	
M4 FEEDER (FESTIVAL HYDRO)	
M5 FEEDER (FESTIVAL HYDRO)	
M6 FEEDER (HYDRO ONE)	
M8 FEEDER (FESTIVAL HYDRO)	

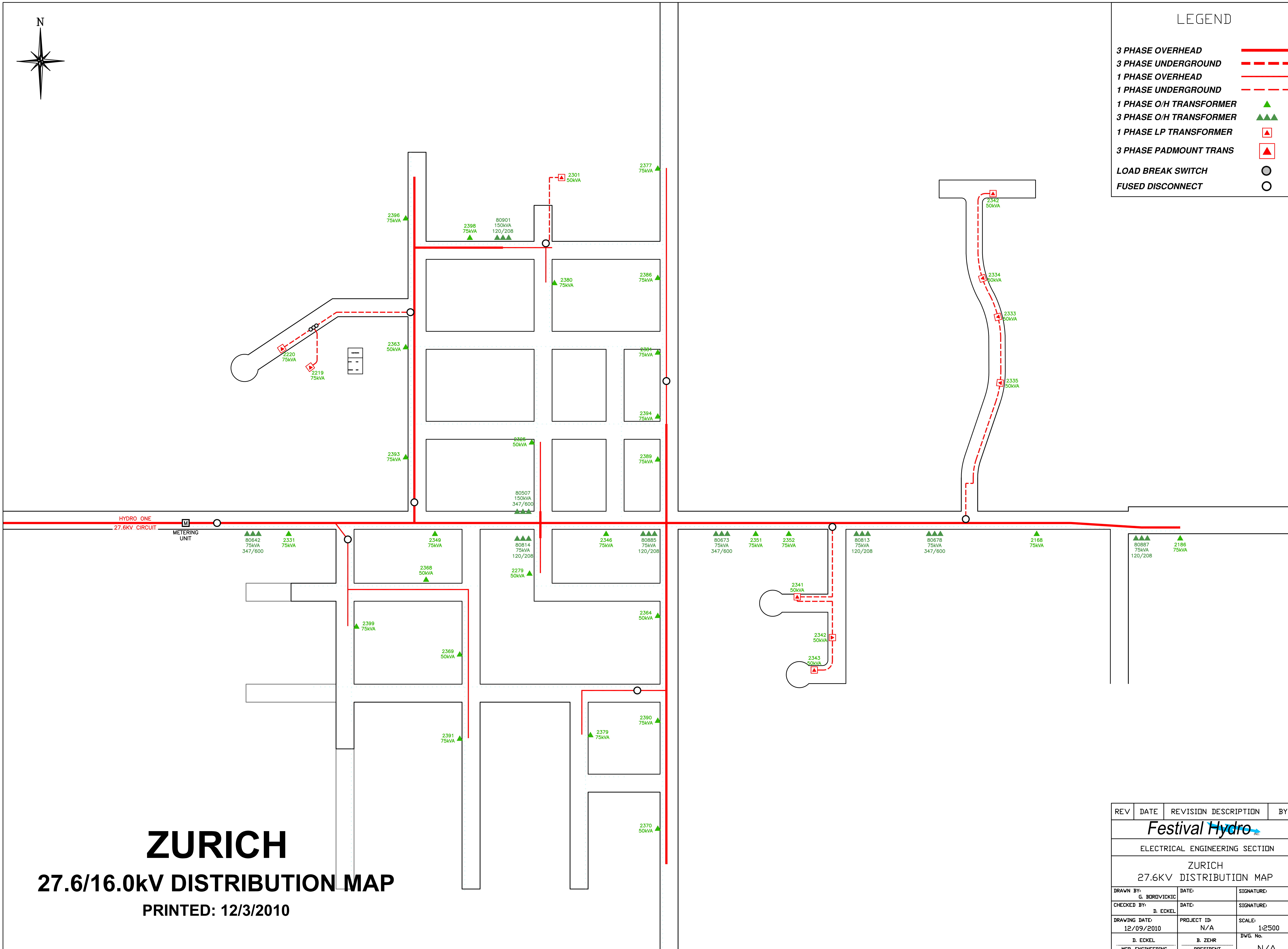
PLOT DATE: FEBRUARY 2012

Festival Hydro INC.

ELECTRICAL ENGINEERING SECTION

27.6KV DISTRIBUTION MAP
STRATFORD

DRAWN BY: M. KOOY	PROJECT DESIGN: M. KOOY	CHECKED BY: D. ECKEL
DRAWING DATE: 02/21/2006	PROJECT ID: N/A	SCALE: NTS
D. ECKEL MGR. ENGINEERING	B. ZEHR PRESIDENT	DWG. No. N/A


N
LEGEND
3 PHASE OVERHEAD
3 PHASE UNDERGROUND
1 PHASE OVERHEAD
1 PHASE UNDERGROUND
1 PHASE O/H TRANSFORMER
3 PHASE O/H TRANSFORMER
1 PHASE LP TRANSFORMER
3 PHASE PADMOUNT TRANS
LOAD BREAK SWITCH
FUSED DISCONNECT
HYDRO ONE
27.6KV CIRCUIT
METERING UNIT
ZURICH
27.6/16.0kV DISTRIBUTION MAP
PRINTED: 12/3/2010
REV
DATE
REVISION DESCRIPTION
BY
Festival Hydro
ELECTRICAL ENGINEERING SECTION
ZURICH
27.6KV DISTRIBUTION MAP
DRAWN BY: G. BOROVICKIC
DATE:
SIGNATURE:
CHECKED BY: D. ECKEL
DATE:
SIGNATURE:
DRAWING DATE: 12/09/2010
PROJECT ID: N/A
SCALE: 1:2500
D. ECKEL
MGR. ENGINEERING
B. ZEHR
PRESIDENT
DWG. No.
N/A

Corporate Entities Chart

Summary of Affiliates

Festival is wholly owned by the City of Stratford. Festival is the licensed distributor of electricity. Festival Hydro Services Inc. (FHSI) is also wholly owned by the City of Stratford. Festival and FHSI have the same president and this individual is the main contact with the parent company officials. There are also City of Stratford Council members on the Festival and FHSI Board of Directors and as such represent reporting relationships between utility management and parent company officials.

A chart illustrating Festival's corporate family is provided below followed by a corporate organization chart.

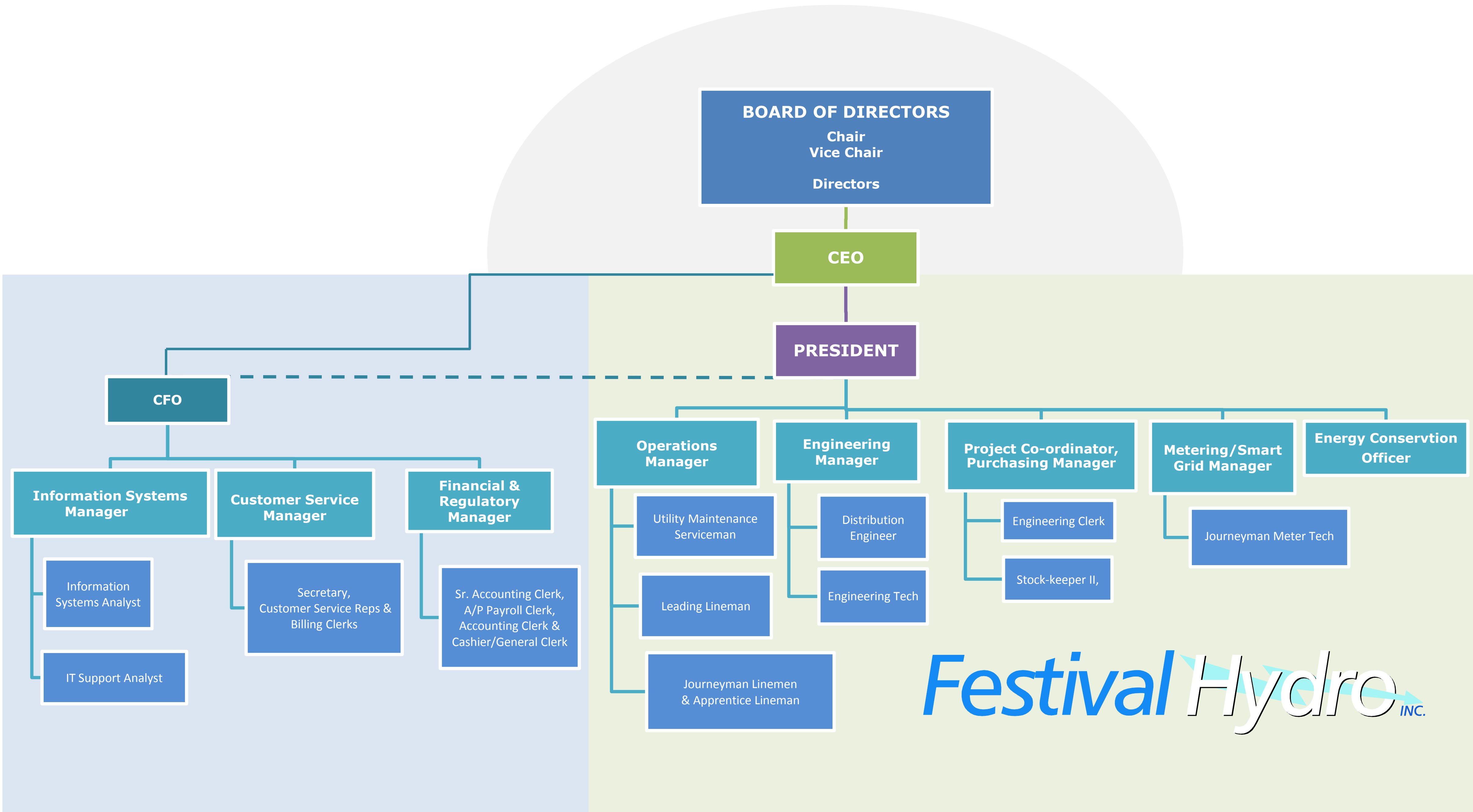

CITY COUNCIL
(STRATFORD)
CITY OF STRATFORD FINANCE & LABOUR
RELATIONS SUB-COMMITTEE
FESTIVAL HYDRO INC.
FESTIVAL HYDRO
SERVICES INC.

1

Effective May 12th 2014, Festival's internal corporate structure changed by separating the President/CEO position into two positions and eliminating the VP of engineering and operations position and the COO position. The rationale for such a corporate reorganization stemmed from the retirement of the previous CEO/President and an opportunity to revise the company structure while this transition was taking place. There are no known costs of this structure change at this time as additional roles were not added and salaries are still being negotiated.

Attachment 1 of 1

Festival Organizational Chart


BOARD OF DIRECTORS
Chair
Vice Chair
Directors
CEO
PRESIDENT
CFO
Information Systems Manager
Information Systems Analyst
IT Support Analyst
Customer Service Manager
Secretary, Customer Service Reps & Billing Clerks
Financial & Regulatory Manager
Sr. Accounting Clerk, A/P Payroll Clerk, Accounting Clerk & Cashier/General Clerk
Operations Manager
Utility Maintenance Serviceman
Leading Lineman
Journeyman Linemen & Apprentice Lineman
Engineering Manager
Distribution Engineer
Engineering Tech
Project Co-ordinator, Purchasing Manager
Engineering Clerk
Stock-keeper II,
Metering/Smart Grid Manager
Journeyman Meter Tech
Energy Conservtion Officer
Festival Hydro INC.

Corporate governance practices

Included below are the detailed governance policies as approved and followed by the Festival Board of Directors. Note that the document included in E1/T6/S13/A8 is in the process of being revised based on the organizational structure change.

Attachment 1 of 1

Details of corporate governance practices

Board of Directors

There are eight members of the Festival Board of Directors, four of which are independent. Festival has an existing policy that at least three Board members must be independent.

The Festival Governance policies are attached at E1/T6/S13/A1/page 8 and include information relating to the Board's actions taken to facilitate its exercise of independent judgment in carrying out its responsibilities.

Board Mandate

The Festival Board mandate is as documented in the detailed Festival Board of Directors governance policies attached.

2014 Board Meetings

The Festival Board of Director meeting dates in 2014 are scheduled as follows:

January 30th
February 27th
March 27th
April 24th
May 29th
June 26th
September 4th
September 25th
October 30th
November 27th
December 18th

Orientation and continuing education

Festival’s policy for Board continuing education is as documented in the Board Governance package.

Ethical business conduct

The Festival Code of Ethical business conduct is as documented in the Board Governance policies attached.

The Festival Board monitors compliance with its code by an annual review of this policy and Board member and employee sign off that everyone has both read and understood the content of the policy.

Nomination of directors

Festival's Board member recruitment policy is as documented in the detailed Board Governance policies attached.

Board committees

The Festival Board committees are as documented in the detailed governance package and include a Finance Subcommittee and Human Resource Subcommittee.

The existing Finance subcommittee consists of six Board members, two of which have industry knowledge and four of which are independent. None of the Finance subcommittee members have specific accounting or finance designations.

There are five members on the HR subcommittee, three of which are independent.

Board Governance and Policies

January 2014

Board Governance and Policies

Mission, Vision and Strategic Planning

a. Board Role

The board role is to Govern the Organization.

b. Strategic Planning

The board is responsible for the organization having a current, relevant strategic plan.

The board will review the strategic plan annually and every three years complete a more comprehensive strategic plan review.

c. Vision

A reliable, cost-effective, community owned distributor of clean electricity FHI is the distributor of reliable and safe electric power and related services for the communities we serve.

d. Mission

FHI is the distributor of reliable and safe electric power and related services for the communities we serve

e. Values

Building on Safety…. By following the best practices and procedures, FHI strives to be above industry averages and to continuously improve our safety record for the workplace and electrical systems. We provide ongoing training and education to challenge ourselves to be better and to ensure safety for all.

Fostering a Strong Corporate Culture… Our employees are one of our strongest assets. Festival Hydro fosters an organizational culture that encourages employee growth and development and recognizes individual and team contributions. We operate with a strong commitment to maintain a healthy and safe working environment for employees and the community.

Proactive and Accountable in All That We Do….FHI is dedicated to providing the highest quality services that not only meet the needs, but exceed the requirements of internal and external customers. We are committed to continuous improvement and are open to suggestions and options. We create a learning environment leading to the most efficient and effective work processes. We anticipate needs and learn quickly when facing new challenges; we analyze our actions to improve the way we find solutions.

.

Acting with Integrity… Personal and corporate integrity is fundamental to our success. FHI will be direct, trustworthy and truthful and will present the unvarnished truth in an appropriate and helpful manner. We are accountable for our actions and as such, we will do what we say. We will keep confidences and build trust; we will admit mistakes and we will not misrepresent ourselves for personal gain.

Creating Positive Solutions… At Festival Hydro, we create a climate in which people want to do their best. We empower others and invite input from each person. We share ownership and visibility for our success and convey that each individual's contribution is important. We foster two-way dialogue with others and find positive solutions for work and results; we bring out the best in people. As such, we build rapport and relate well with all kinds of people, inside and outside the organization. We develop constructive and effective relationships and use diplomacy and tact with others.

Prudent Operations… Festival Hydro conducts its business the operations prudently in order to provide profits for our Shareholder through strong financial performance, ensuring growth and sustainability for the future

The most current strategic plan review is located in appendix.

2. Governance Framework

a. Legislative and Regulatory Framework

The City of Stratford passed by-law resolution 7-2001, Declaration of Sole Shareholder of Festival Hydro Inc. Board restrictions are identified accordingly.

The Province and its regulator, the OEB, establish a regulatory regime in which electricity distribution businesses must adhere to. The Board is ultimately responsible to ensure business activities are conducted in accordance with the regulatory rules applicable as posted under the Ontario Energy Board website.

Festival Hydro Inc operates under Distributor Licence ED-2002-0513. A copy is included in the appendix.

THIS IS SCHEDULE "A" TO BY-LAW 9-2014
of
The Corporation of the City of Stratford
passed this 13th day of January, 2014.

DECLARATION OF SOLE SHAREHOLDER
OF
FESTIVAL HYDRO INC.

Made pursuant to section 108(3) of the *Business Corporations Act* (Ontario)

The Corporation of the City of Stratford, being the owner of all of the issued and outstanding shares of Festival Hydro Inc., hereby amends and replaces the Declaration of Sole Shareholder dated October 23, 2000, as amended by the Declaration of Sole Shareholder of Festival Hydro Inc., dated January 22, 2001, and declares that the powers of the directors of the said corporation to manage or supervise the management of the business and affairs of the corporation shall be restricted in the following manner:

1. The basic compensation paid by the said corporation to the Chair of its Board of Directors shall be at the rate per annum as shown in Table 1 below and to each of its Directors shall be at the rate per annum as shown in Table 1 below, and such basic compensation not be altered without an amendment to this declaration.

Table 1: Festival Hydro Inc., Compensation

Position	2013	2014	2015
Chair	$5,500	$7,000	$8,500
Vice Chair	$3,750	$4,500	$5,250
Directors	$3,400	$3,800	$4,200

2. In addition to the compensation provided for in Paragraph 1, in the event that there are meetings of the Board of Directors other than their regularly scheduled monthly meetings, each of the Chair and the members of the Board of Directors in attendance at such meetings shall receive additional compensation, $60.00 for a meeting lasting three hours or less, and $90.00 for a meeting lasting more than three hours.

3. Notwithstanding Paragraphs 1 and 2 of this Declaration, the remuneration rates herein do not apply to members of City Council serving on the Board of Directors.

4. The directors of the corporation shall not
   (a) change the name of the corporation;
   (b) add to, change, or remove any restrictions in the articles of incorporation;
   (c) change the authorized share capital of the corporation or the attributes of the existing authorized shares;
   (d) sell all or substantially all of the corporation's assets;
   (e) amalgamate with another corporation;
   (f) windup or dissolve the company;
   (g) declare or pay dividends or make any other distribution of the assets of the corporation,

without the prior written consent of all of the shareholders of the Corporation unless this declaration is amended to permit such action.

Dated this 13th day of January, 2014.

The Corporation of the City of Stratford

Mayor – Daniel B. Mathieson

Clerk – Joan Thomson

b. Roles & Responsibilities

i. Board Leadership

The board is responsible for creating and managing a governance structure, for holding itself accountable, and for ensuring effective board collaboration for the benefit of the organization and its owners.

The board commits itself to ethical, efficient, and lawful conduct. Board members will function in an ethical manner, contribute to the work of the board, support the decisions of the board, and respect the confidentiality of privileged information.

The board will speak with one voice. All board members will support all board decisions outside of board meetings.

Board members will make every effort to attend and participate in all meetings and be properly prepared for board deliberation.

Board members will treat each other with respect and professionalism. When differences of opinion exist, the commitment will be to challenge the issues but never attack or defame the person.

Board members may not exercise individual authority over the organization, management, staff, or clients except as explicitly directed by the board through a duly passed motion. Board members will not judge the performance of personnel outside of the official board process.

The board will annually monitor its own effectiveness and take actions to excel in its role.

The board will annually conduct an assessment of each board member's individual performance.

ii. Board Officers

The board will maintain clear descriptions of the duties of each officer. Each officer will serve the board and follow the board's direction.

1. Chair

The Chair of the board will ensure that the board behaves consistently with its own rules and those legitimately imposed upon it from outside the organization.

The Chair of the board will preside at board meetings. He/she may appoint an alternate to serve in this capacity as needed.

The Chair of the board will prepare the draft agenda in consultation with Vice Chair and the CEO.

The authority of the Chair between board meetings is only to make reasonable interpretations of board policy on behalf of the board.

The Chair of the board will work within board policy when making any necessary decisions between board meetings, except where the board specifically delegates portions of its authority to the Chair.

The Chair will confer with the Vice-Chair to ensure that the Vice-Chair is familiar with and informed about the issues well enough to assist and replace the Chair if necessary.

The Chair of the board will be the public spokesperson for the board, unless someone else is appointed by the board.

The Chair has no authority to supervise or direct the CEO.

The Chair should have served as a committee chair and board vice chair for a minimum of one year.

The Chair shall be an independent Director.

2. Vice-Chair

The Vice-Chair of the board will perform the functions of the Chair in the Chair's absence.

The Vice-Chair should have served as a committee chair for a minimum of one year.

The Vice-Chair should be an independent Director.

3. Secretary (Corporate Secretary)

The Secretary will be appointed at the 1st meeting of the new term of Directors and Officers.

The Secretary should be a member of the Board. Consideration should be given that the CEO be deemed a non-voting member of the Board and hold the position of Secretary.

The primary role of the Secretary of the board is to ensure appropriate written documentation of the board's decisions and general meeting decisions.

The Secretary will ensure that the minutes are prepared and circulated following a board meeting.

The Secretary will ensure that the policy manual is updated following each board meeting.

The Secretary will ensure that all documentation of board business is up to date and in compliance with legal obligations.

iii. Board Committees

Board committees are to help the board do its job, not to help staff do its jobs. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation.

Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes.

Committee reports to the board will be in writing and made available so that they can be circulated for all board members to receive them in adequate advance prior to the board meeting at which related matters will be discussed.

Committee reports will summarize the information researched by the committee. When various options have been considered by the committee, the report will indicate the pros and cons of each option. The committee will make a recommendation to the board.

The Committee Chair should have served on the committee for a minimum of one year.

The Chair should be an independent Director.

The Board may establish committees of the Board at the Board's discretion. The following **are the standing** committees.

Finance and Audit Committee - Terms of Reference as posted in appendix.

Risk Management and Human Resource Committee - Terms of Reference as posted in appendix.

Executive Committee - Terms of Reference as posted in appendix.

iv. Director Terms

A director is elected to serve for a single term and may be re-elected for a second term. A single one year extension is optional after the first or second term at the board and shareholders discretion. The term lengths are generally a three or four year term.

Board size options with a staggered term structure are shown in Table 1 with eight board members and in Table 2 with seven members.

At any time the Board of Directors can recommend the appointment of a Director for a term of one year, subject to Shareholder approval.

Table 1

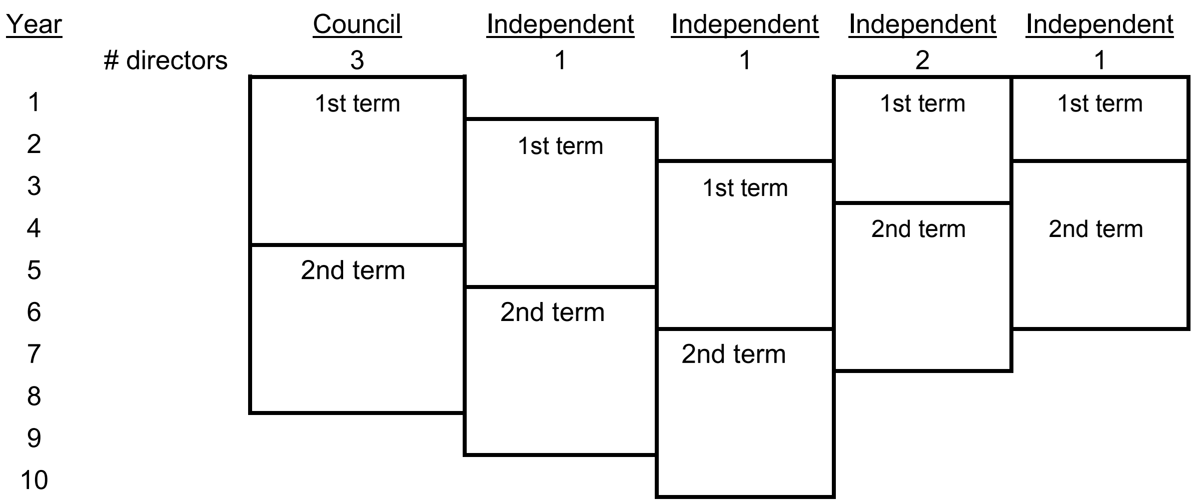
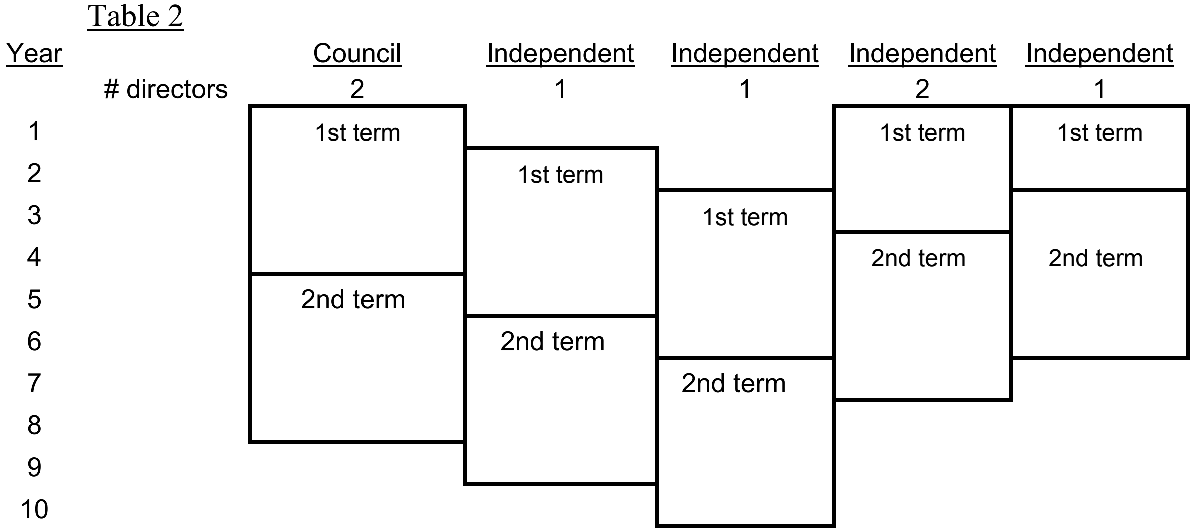


Table 2



Suggested Guidelines for Respective Roles & Responsibilities of the Shareholder, Directors and CEO as posted in appendix.

c. Ethics

Board members will operate in an ethical and legal manner.

Board members will adhere to policies concerning fraud, dishonest conduct, discrimination, and sexual harassment as established by the organization.

All employees have the opportunity to exercise the Whistle Blower Policy and to report any activity or suspected activity of which he or she may have knowledge which appears to be prohibited by Festival Hydro's Code of Conduct.

d. Organizational Planning

The board will ensure the organization has a current strategic plan at all times.
The board will engage in a full strategic planning process every 3 years.
The board will review the strategic plan and set annual strategic goals every year via the HR and Risk subcommittee.
The board will approve the annual budget in the year prior to the beginning of the fiscal year.

e. Organizational Results

The board will assess the organization's results within the context of its business environment.
The board will regularly allow for whole board reflection on operational performance.
On an ongoing basis the board will compare organizational results against goals.
Every year the board will compare the organization's results to available bench-marking data for similar organizations.
The board will consider the reasons for the organization's recent results and identify lessons learned.

f. Business Context

The board will reflect on the business environment and consider implications to the organization.
On an annual basis board should reflect on fiduciary, strategic, generative and operation activities.

CODE OF BUSINESS CONDUCT

Festival Hydro values its reputation and the trust that exists between Festival Hydro, its employees, the public, our customers, and our business associates.

As Directors and/or employees of Festival Hydro, we are committed to apply and maintain high standards of integrity and ethics in our business practices. Conduct must be able to withstand public scrutiny at all times. This policy describes how Festival Hydro employees are expected to conduct themselves while working for the organization. This guide will help you to:

- understand the Code of Business Conduct Policy
- avoid situations where your personal interests conflict or may conflict with the interests of Festival Hydro.
- know what to do if you think you are in a potential conflict of interest.

Confidentiality –

- Strategic, operational, customer specific or any other confidential information of Festival Hydro Inc. should never be given to an outside firm or individual without the expressed written direction of the Board of Directors or the President. Any improper transfer of material or disclosure of information with or without personal gain constitutes unacceptable conduct.
- Any confidential information pertaining to Festival Hydro Inc. that is used by employees for the operations and administration of Festival Hydro Services Inc. shall be kept confidential in the strictest manner.

Use of Festival Hydro Property –

- Employees will not use, or allow someone to use facilities, equipment, supplies or other resources for activities that are not associated with Festival Hydro unless prior approval is received by senior management.
- Improper use, carelessness, destructive or unsafe handling of company assets is both costly and hazardous. It is the responsibility of each employee to protect the assets of Festival Hydro and to report appropriately any damage, defect or need for repair to prevent further deterioration and or injury to others.

Vendor Relationships-

- We protect Festival Hydro’s reputation by refusing to make purchasing decisions based on favoritism, prejudice, preferential treatment or personal gain. Decisions are made honestly and with integrity using such criteria such as competitive pricing, quality, delivery and service. We treat suppliers courteously, respectfully and in a professional manner.
- Employees will not accept any form of kickbacks, bribes or substantial gifts or special consideration as a result of any transaction or business dealing involving Festival Hydro, its’ suppliers, contractors or customers. Employees may not accept any gift or give any gift or benefit if it influences or appears to influence them in the performance of their duties. The exception to this are gifts of minimal value such as coffee mugs, pens, t-shirts and reasonable business lunches (up to $150.00).

Special Treatment –

- Employees may not use their position to give anyone special treatment that would advance their interests or the interests of their family, friends or business associates.

Outside Work or Business Activities-

- Employees may not participate in any outside work or business activity that conflicts with Festival Hydro, or could be perceived as conflicting with Festival Hydro.

Conflict of Interest

- Employees that have financial interests in a Festival Hydro business transaction, or have family members, friends or business associates with such interest, may not represent or advise the company in such transactions.

This guide is for employee information and protection. Sometimes it can be difficult to recognize a conflict. Talk to your supervisor or the Chief Financial Officer as soon as possible if you:

- are not sure if a situation you face presents a conflict of interest.
- think you are in a conflict.
- are not sure if a specific part of the policy applies to you.

On an annual basis both Directors and employees will sign off on Code of Conduct.

WHISTLE BLOWER POLICY

Application:

This policy applies to Festival Hydro Inc. employees.

Purpose: Every director, officer or employee of the company has an ongoing responsibility to report any activity or suspected activity of which he or she may have knowledge which appears to be prohibited by Festival Hydro's Code of Conduct.
Festival Hydro recognises that a person wishing to make such a report may not feel comfortable doing so within the normal management framework of the company. This policy has therefore been established in order to provide a vehicle in accordance with Festival Hydro's Code of Conduct Policy, for any such person to report the circumstances outside the normal management framework with the assurance that such person shall be free from retaliation or discrimination for having disclosed or reported suspected or actual illegal or unethical conduct by another employee, officer or director of the corporation.

Policy Statement:

Festival Hydro is committed to fostering a workplace conducive to open communication regarding the company's business practices. In an effort to further this commitment, this policy (i) establishes guidance for the receipt, retention and treatment of verbal or written reports received regarding accounting, internal controls, auditing matters, disclosure, fraud and unethical business practices; (ii) establishes guidance for providing company employees a means to make reports in a confidential and anonymous manner; and (iii) makes clear the company's intention to discipline, up to and including termination of employment, any person determined to have engaged in.
The creation and implementation of this policy in no way implies that there is an indication of suspected or real issues of unethical or illegal conduct by any employee, officer or director. This policy aligns with the highest standards of governance and further supports Festival Hydro's Code of Conduct and the Board of Directors Governance Guidelines and provides an open and transparent demonstration that such conduct is clearly unacceptable at all levels of the organization.

Procedure:
This policy, and additional information regarding conflict resolution resources, shall be provided to all employees, officers and directors.

The Chair of the Board of Directors and the Chief Financial Officer are designated to be the recipients of all the reports filed under this policy and will designate, at his or her discretion, the appropriate individual(s) to communicate and facilitate the necessary company action.

Retention of Reports:
Reports filed under this policy will be controlled and documented by the Chair of the Board or the Chief Financial Officer. All related documentation shall be maintained for six years in secured files and only the named parties shall have access to the files.

Treatment of Reports:
All reports will be taken seriously and addressed promptly, discreetly and professionally. Employees are encouraged to identify themselves to the contact of their choice, but they ultimately have the right to remain anonymous. If a person desires to remain anonymous, that desire will be respected. Discussions and documentation regarding reports will be kept in strict confidence to the extent appropriate or permitted by policy or law. Should the person submitting the report identify himself or herself, the recipient of the report will communicate to the employee the steps to be taken to address the report and the results of any company actions initiated.

Retaliation:
Retaliation against any employee that files a report or voices a concern under this policy is strictly prohibited. Employees determined to have engaged in retaliatory behaviour or who fail to maintain an employee's requested anonymity may be subject to discipline, which could result in termination of employment. Any employee who feels that he or she has been subject to any behaviour that violates this policy should immediately report such behaviour to his or her supervisor, Chief Financial Officer or the Chair of the Board.

Misleading or False Reports:
Employees who knowingly file misleading or false reports, or reports without a reasonable belief as to truth or accuracy, will not be protected by this policy and may be subject to discipline, including termination of employment.

Board Review of Reports:
A summary of reports received under this policy will be communicated to the Board.

Contact to Report:
Employees may contact the Chair of the Board or the Chief Financial Officer.
Chair
Wally Malcolm 519-741-2600 (4538)
malcolm@golden.net
Chief Financial Officer
Debbie Reece 519-271-4700 268
dreece@festivalhydro.com

3. Meetings

a. Board Meetings

The board will normally meet on a monthly basis but no less than a quarterly basis and no less than 9 times per year.

The board will establish a schedule of regular meeting times at the first meeting after the annual meeting.

The Chair or a majority of board members may call for a special meeting to deal with urgent issues.

Board members will notify the Chair, or the staff person who makes arrangements for board meetings, if unable to attend a meeting.

i. Board Meeting Process

Meetings will follow a customized process for our board.

The preference is to build consensus leading to decision making. The Chair has the responsibility to manage the discussion and discern when the group is ready to make a decision. Decisions will be formalized by a vote on a motion duly moved and seconded.

The will of the majority must be carried out while hearing the minority and protecting their rights.

All board members are expected to participate in the meetings. Each board member is to be regarded as having rights and power equal to every other board member and is expected to voice an opinion.

Only one topic or motion will be considered at a time.

On meeting matters not specifically covered by bylaws or policies, Robert's Rules of Order will be followed.

1. In Camera Meetings

In Camera Meetings will be at the call of the Chair and will include staff as invited.

2. Meetings without Management

Meetings without management will be at the call of the Chair.

ii. Board Meeting Agenda

The board will set the agenda for its meetings. Every board member will receive a draft agenda in advance of each meeting.

The Chair and/or Vice Chair of the board will develop a draft agenda for every board meeting in advance.

Anyone wishing an item to be put on the agenda of a future meeting will notify the Chair of the board at least 10 days prior to the meeting.

The agenda will be circulated so all board members receive it at least 7 calendar days in advance of the meeting.

Approval of the agenda by the board will be one of the first items of business at every meeting.

The Chair has discretion to allow or disallow agenda additions on the date of the meeting. However, the board may insist that an item be added if that is the preference of a two-thirds majority of board members present.

Board members will be provided with adequate background information on every agenda item at least 7 days in advance of the meeting, subject to late submissions.

b. Committee Meetings

Committee Meetings will be as per the terms of reference or the call of the Chair.

4. Board Membership

a. Board Member Recruitment

The board will actively recruit capable candidates /individuals to run for positions on the board.

The board will have a selection process that identifies individuals with appropriate experience and skills and encourages them to be candidates for board positions.

b. Board Member Selection and Support

The board is responsible to ensure that board members and officers have the appropriate knowledge and skills to fulfill their roles.

The board will maintain a clear description of the duties of board members and board officers.

The board will be composed of people who have the skills and commitment to do an excellent job of governing the organization.

The various groups that nominate members to the board will be provided with a description of the board member's job and expected time commitment.

c. Board Member Development

The board is responsible for ensuring proper board member orientation and effective board performance and succession.

New board members will receive an orientation to ensure familiarity with the organization, its issues, and the process of governance. A board handbook including all governing policies will be provided.

Board members will participate in education sessions in areas that will enhance their effectiveness on the board.

The board will support each board member in leading the organization with excellence.

d. Board Member Removal

Board members who are not fulfilling their mandate may be removed from the board.

e. Board Per Diem and Expenses

Board members will receive per diems and expense reimbursement for their board-authorized, board-related work on behalf of the organization every three months.

Board members will receive a per diem as an expression of thanks for their service to the organization; it is not intended as payment for service nor to replace income which could be earned elsewhere. Per diems will be paid for their attendance at meetings and events as requested by the board and travel time related to these activities.

Board members will be reimbursed for any direct expenses related to their involvement with the board and their authorized work on its behalf.

Reimbursements will be subject to the same process, rates, and deadlines as annually determined for and by staff. All reimbursement requests will be accompanied by receipts except for travel with personal vehicles and standard rate meal claims.

The per diem rate will be established by the City of Stratford via a By-law Resolution.. Stratford City Council in session on December 10, 2001 adopted the following recommendations of the Festival Hydro with respect to remuneration:

That Festival Hydro be authorized to provide remuneration its Chair of $4,000.00 per annum effective November 1, 2001.

That Festival Hydro be authorized to provide remuneration to its Directors of $3,000.00 per annum effective January 1, 2002.

The $60/$90 per diem for extra meetings will be submitted by Directors and will be paid on a quarterly basis, with the exception of conference expenses which should be submitted immediately for reimbursement.

Meetings 3 hrs or less $60.00 – Meetings longer than 3 hours $90.00

5. Board/Management Role Relationship

a. Signing Authority

The board delegates signing authority on behalf of the board to the CEO or its delegate as authorized.

b. CEO Job Description

The board will ensure the CEO Job Description is kept current.

The board may change its strategic plan and board policies and, by so doing, change the latitude of choice given to the CEO.

c. CEO Selection and Support

The board is responsible for the organization having a CEO who ably leads the operations of the organization.

i. Supporting the CEO

The board will determine the skills and characteristics that are needed in the organization's CEO and ensure a capable individual holds the position.

The board is responsible for monitoring CEO performance and redirecting the CEO as required.

The board will monitor CEO performance.

The board is responsible for making appropriate developmental opportunities available to the CEO.

ii. Selecting a CEO

When the CEO position is vacant, the board is responsible for doing due diligence to select a CEO who can satisfy the requirements of the job.

The board is responsible for orienting the CEO.

iii. Removing a CEO

The board is responsible for removing the CEO when it determines that there is no longer a fit between the incumbent and the organization's needs.

d. Delegation to the CEO

All board authority delegated to staff is delegated through the CEO so that all authority and accountability of staff and operations is considered to be the authority and accountability of the CEO.

The CEO is responsible for, and accountable for, the complete operations of the organization.

The board delegates all staff authority through the CEO. This means the board will not direct, manage, hire, or fire any staff other than the CEO. The board will refrain from evaluating, either formally or informally, any staff other than the CEO.

The board will accept any reasonable interpretation by the CEO of the strategic plan and board policies.

If the board is not satisfied with the CEO's interpretation of policies, the board will more clearly articulate its expectations for future performance through policy revisions or additions.

e. Unity of Control

Only officially-passed motions of the board are binding upon the CEO.

The board will instruct the CEO through written board policies.

Decisions or instructions of individual board members, officers, or committees are not binding on the CEO except in rare instances when the board has specifically authorized such exercise of authority.

The CEO is the board's only link to operational achievement and conduct so that all authority and accountability of staff is considered the authority and accountability of the CEO.

f. Remuneration

The CEO's remuneration, including salary and benefits, will be determined by the board.

g. Board Supervision of the CEO

The board, as a whole, is responsible to ensure effective performance of the CEO.

h. CEO Performance

The organization's accomplishment of the strategic plan, and compliance with board policies will be viewed as successful CEO performance.

i. Monitoring the CEO

Monitoring CEO performance is synonymous with monitoring the organization's performance against the strategic plan and board policies.

j. Performance Review

The Executive Committee of the Board will provide a formal, verbal, and written performance review of the CEO annually, during the last month of the fiscal year or in the first 2 months of the subsequent fiscal year. In the first year of hire, the CEO will also receive reviews at 3 months and 6 months from his/her start date.

The formal performance review period will coincide with the fiscal year.

The board's review of CEO performance will include a self-evaluation by the CEO, praise for jobs well done, articulation of concerns related to elements of the strategic plan not achieved and board policies not followed, discussion of how to address the areas of concern, and development of a mutually agreed-to professional development plan for the CEO for the coming year.

Evaluation of the CEO's performance will include assessments of the organization's performance completed independently by each board member, the CEO, each staff person who reports directly to the CEO, and possibly by a few other key individuals whom the board may select.

6. Enterprise Risk Management

a. Enterprise Risk Management Process

The Audit & Finance and Human Resource & Risk Management Committee of the Board of Directors shall have a mandate to identify significant risks of Festival Hydro Inc. (FHI) and to verify that effective control systems are I place to manage and mitigate these risks. These committees will not fail to annually assess risks facing the organization and present options for board discussion to minimize unnecessary risks.

7. Performance Management/Measurement

a. Board Controls

The board will not fail to protect the interests of the owners by assessing and managing risk, setting policies, and monitoring operations.

b. Operational Limits

The CEO will not cause or allow any practice, activity, decision, or organizational circumstance that is either unlawful, imprudent, or in violation of commonly accepted business and professional ethics, nor allow any practices that violate the interests of the organization or its policies.

c. Prudent Management of Operations

The CEO will not fail to manage operations in a prudent and effective manner.

The CEO will not fail to maintain a skilled, ethical, results-oriented workforce.

In this regard, the CEO will:

Not fail to develop and implement processes to ensure that staff have the skills necessary to fulfill their job requirements.

Not allow staff actions to occur which do not promote a positive image in the community.

Not allow staff to violate the standards of ethical conduct that are expected of employees.

d. Compensation & Benefits

With respect to employment, compensation, and benefits, the CEO will ensure a reasonable compensation policy is in effect. The CEO will:

Not change his or her own compensation or benefits.

Not promise or guarantee permanent employment to people if it is not in the organization's best interests.

e. Treatment of Staff

The CEO will not allow staff to be treated in any way which shows disregard for their quality of life or the quality of their work experience. The CEO will:

Not allow or cause staff working conditions or hiring practices which are unfair, undignified, inequitable, unsafe, or in contravention of legislated employment standards.

Not allow staff to be exposed to unsafe or unhealthy conditions.

Not allow staff to be denied a due-process.

Not allow staff to be discriminated against.

Not fail to ensure that all full time and management staff have an annual performance review.

Not allow the majority of staff to be unmotivated or inappropriately managed.

Not allow retaliation against anyone reporting fraudulent or dishonest conduct.

Not allow any staff members to hire relatives as per City of Stratford guidelines. As per appendix

f. Financial Condition & Asset Protection

The CEO will not allow the organization to be placed in a position of undue financial risk or assets to be unprotected, inadequately maintained, or unnecessarily risked. Board approval is required in the event that unexpected additions to the Capital Budget will exceed approved amounts.

The CEO will update the Board of material expenditures spent below or above budget.

The CEO will adhere to the following policies:

i. Capital Investment Replacement Policy

Festival Hydro will provide a safe, reliable, and cost-effective electrical system for our customers while retaining and enhancing shareholder value.

All physical assets depreciate over time; therefore, it is necessary to continually re-invest in the system to maintain value and integrity. The timing of capital investment should be such that safety, reliability, and economics are not compromised. That is, replacements of depreciated assets should occur before they become unsafe, unreliable, and uneconomical.

New technology will be utilized when appropriate, and the system will be enhanced and expanded to accommodate load growth. New capital investments must enhance shareholder and customer value by improving safety, reliability, customer service, and meeting projected load growth. Investments must be made prudently, using proven technology and based on sound business principles.

A Five Year Plan will be maintained, which identifies major projects and anticipated spending levels for the next five years. As indicated in the Dividend Policy, capital expenditures will be at least equal to the rolling average depreciation during the period. Prepared by the Engineering Department, the Five Year Plan will take into account the physical condition of the assets (based on inspections and test results), historical reliability information, age of components, system loading and load growth projections (including planning information from local municipalities), and input from employees. From the Five Year Plan, an Annual Capital Budget will be prepared and presented to the Board of Directors for approval.

The annual budget for capital replacement projects will be, at a minimum, equal to the amount of depreciation anticipated for the year. The budget for new infrastructure projects will reflect the projected load growth, using best available information. Investments in new technology will be presented to the Board with an outline of the expected improvements in safety, reliability, and customer service.

Management is expected to pre-screen and prioritize all projects before presenting the Annual Capital Budget to the Board. The screening process will use the following criteria: safety, reliability, capacity (load and voltage), forecasted growth, cost-effectiveness, and customer service. The Finance & Audit Subcommittee will review the annual capital budget prior to Board approval of the budget.

ii. **Cash Management / Investment Policy**

The Investment Policy for Festival Hydro Inc. as presented in detail be approved as follows:

Funds held by Festival Hydro which are over and above current operating requirements can be used in the purchase of any of the following securities:
Bonds, debentures and other evidence of indebtedness of or guaranteed by the Government of Canada or any Province in Canada.
Deposit receipts, deposit notes, certificates of deposit and other similar instruments issued by any bank listed in Schedule I or II to the Bank Act (Canada). Other similar instruments to include Bankers Acceptances.
Guaranteed investment certificates of any trust corporation registered under the Loan and Trust Corporations Act.

iii. Dividend Policy

Dividends will be paid by the Company based on its ability to meet the financial criteria established for dividend payout as outlined under Point # 4.

Assuming the financial criteria are met;

Common Share dividends will be paid quarterly based on 5% of the book value of the outstanding shares.

Non-Cumulative Preferred Share dividends will be paid quarterly based on the annual prescribed 5% dividend rate of the shares.

In the last quarter of each year, net income earned for the nine months will be reviewed to determine the final percentage (%) of net income to be paid out in the form of a special dividend.

The total dividend payout shall be targeted in the range of a minimum of 50% to a maximum of 70% of the annual net income available for dividend distribution. (Net income available for dividend distribution is defined as the net income amount after adjusting for the non-cash gain/loss journal entries for employee future benefit and the SWAP spot to market entry, less the difference between annual RBC TS loan principal payment and TS depreciation net of tax savings on interest deemed to actual differential)

The transfer payment cannot be considered a normal cost of utility operations recoverable through the electric rate base.

The final amount to be paid will be declared by the Board of Directors before year end. Payout will occur in the first quarter of the subsequent year.

The following financial criteria must be maintained to ensure prudence is exercised prior to the distribution of dividends:

Dividends paid cannot jeopardize the financial health of the utility. Profits from the utility's operation are needed to help pay for system capital improvements and provide a working capital reserve for unexpected items.

On an annual basis, within 60 days of year-end, an updated five-year financial projection analysis will be done. The analysis will include all expected sources and uses of funds for the current year as well as five-year future expansion. This will be used as a basis to determine the Company's ability to pay quarterly dividends.

Capital expenditures on average during the five-year projection period must be at least equal to the rolling average depreciation during the period. (This section is subject to change to reflect the content of a Festival Hydro Inc. Capital Expenditure Policy).

On preparation of the annual operating budget and five year forecast, Senior Management will attempt to forecast budgets to meet at a minimum, a working capital reserve level equal to three months of operating costs. Operating cost is defined as total operating costs less depreciation and interest expense.

Adequate funds must be provided for debt interest and any debt coverage requirements and any financial covenants that apply. Prior to quarterly payout, the ability to meet financial covenants, including banking institution covenants, will be verified. The needs of

Festival Hydro and the Shareholder must be anticipated and adequately provided for in determining what level of dividend can be sustained from year to year without depleting necessary cash reserves or reducing service delivery capabilities

The needs of Festival Hydro and the Shareholder must be anticipated and adequately provided for in determining what level of dividend can be sustained from year to year without depleting necessary cash reserves or reducing service delivery capabilities.

iv. Financial Policies

Equity Position

Festival Hydro has established the following financial goals to ensure the on-going financial strength and viability of the Company:

Return on Equity (ROE)

Festival Hydro's objective is to earn a return on equity equal to or greater than the ROE allowed by the Ontario Energy Board (OEB) on it's deemed equity.

Capital Structure

Festival Hydro's debt to equity will be structured according to the deemed debt to equity ratio prescribed by the OEB in order to maximize returns.

Interest Rate Paid on Municipal Debt

Festival Hydro will pay interest to the municipal shareholder at the 2002 OEB deemed interest rate prescribed by the OEB, subject to funds availability.

Liquidity Ratio

Liquidity Ratios required to meet Banking Covenants

The following liquidity ratios must be met to fulfill the obligations of the banking covenants:

A Ratio of Funded Debt to Total Capital of not greater than 0.65:1 and

Will not make principal or interest payments on shareholders loans owing by the Borrower to its shareholders, unless the Borrower is in compliance with all terms and conditions of this Agreement and of the Security at the time of any such payment and unless the making of any such payment will not cause the Borrower to breach of any of the terms and conditions of this Agreement and of this Security

FHI shall not use the proceeds of the $10,000,000 revolving demand facility provided by RBC to FHI under the RBC Credit Agreement to pay any principal or interest owing to OILC under or in connection with the OILC Credit Agreement, and any such payment shall be deemed to be an Event of default under the RBC Credit Agreement.

The borrower shall seek the approval of OICP where the resulting Debt to Equity ratio of the borrower relating to any new debt issue exceeds 75:25 at any time, such ratio will otherwise be tested and calculated as of the end of the fiscal year as applicable

The borrower shall not undertake any new debt issuance where the resulting Debt Service Coverage Ratio of the Borrower falls below 1.30x at any time without first seeking the approval of OIPC, such ratio will otherwise be tested and calculated as of the end of each Fiscal Year as applicable

Performance Ratios and Efficiency Measures

Each year the Company participates in the MEARIE Utility Performance Management survey. The report produced from the survey contains a number of performance ratios categorized under the headings of: customer ratios, financial ratios, efficiency ratios, system reliability ratios and resource management ratio. This report is used as reference tool by Senior management to compare our results to the other LDCs taking part in the survey. Selected ratios are shared with the Board members on an annual basis and are used in setting Senior Management annual goals and objectives.

In addition, the OEB published Comparator and Cohort data will be used by Senior Management to compare our results to other LDCs and to investigate situations where Festival Hydro is significantly different from similar sized LDCs.

Financial Reporting

Annual audited financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), and in accordance with accounting principles prescribed by the OEB in the Accounting Procedures Handbook (APH). Festival Hydro's significant accounting policies are published annually in Note 1 to the audited financial statements.

In addition to the annual financial statements, financial results in the form of a Balance sheet, Income statement and Statement of cash position are prepared quarterly along with a year-to-date commentary. The statements are reviewed by the Audit Committee in detail and forwarded to the Board for review and approval.

Annual Operating Budget Process

In November of each year, senior management prepares an Operating budget and Cash flow statement for the forthcoming year. The budget is based on previous year's results and incorporates anticipated changes for the forthcoming year (for example, growth projections, rate application changes, union contract changes, etc). In addition, a Five-year forecast of Income and Cash position is created based on expected growth trends and other anticipated changes over the five year period. The annual Operating budget & Cash flow statement, and the Five -year forecast are presented to the Audit Committee for detailed reviewed and forwarded to the Board for final review and approval.

iv. Donation Policy

Festival Hydro will not make any cash donation towards any organization – Charitable or Other with the following exceptions:

For donations to programs that provide assistance to the distributor's customers paying their electricity bills; Board approval is required.

For donations towards an organization in memory of the death of an employee's family member; Senior Management's approval is required.

For donations to support electrical education and safety programs. Senior Management's approval is required.

Festival Hydro will not make a cash donation towards any organization (except for a Stratford General Hospital annual donation of $50,000, starting in 2011) – charitable or other but will allow the use of company equipment or facilities when an employee volunteers their own time; Senior Management's approval is required.

The Board can recommend to the Shareholder, a request for approval, a payment of a cash charitable donation as per the Declarations of the Shareholder.

v. Purchasing Policy

The purchasing of goods and services fall into one of four categories:

Tenders – are used for non-stock items or service contracts valued at $30,000 or more[1]. A Tender can only be issued by the President, Vice-President, or Secretary-Treasurer. Tender packages will typically be sent directly to at least six (6) vendors known to specialize in the item or service, however, a Request for Tender may be advertised if there are an insufficient number of known vendors. A period of at least two (2) weeks is required for the vendors to review the tender package and respond. Receipt of tenders must be in sealed envelopes clearly marked as to the contents. Tenders will be opened at the time of closing by the President, Vice-President, Secretary-Treasurer, or designate. Unless otherwise specified by the Board of Directors, bidders are not permitted to attend the tender opening. The tenders will be evaluated by one or more suitable employees, and a recommendation prepared for approval by the Board of Directors. For specialized goods or services, it is permitted to have the tenders evaluated by an external third party such as an engineering consultant. Following award of the tender by the Board of Directors, the successful bidder will be immediately notified by the appropriate manager, and a purchase order initiated via a material requisition. The remaining bidders will be notified in writing of the name of the successful bidder and the award price – if appropriate.

Quotations – are used for purchases above $2500 that do not fit the tender category. Quotations may be issued by any Manager. The Request for Quotation package will typically be sent to at least three (3) vendors known to specialize in the item or service; however, there are some items and services with fewer than three (3) vendors. A period of two (2) weeks for evaluation and response is recommended for items that are usually made to order, or for service contracts such as line construction. Shorter periods are acceptable for "off the shelf" items or routine services. Quotations are normally accepted in hardcopy, fax, or email format but their contents must be kept confidential until the closing date. Sealed quotations are recommended for purchases above $25,000. The quotations will be reviewed by the appropriate employee(s) after the closing date, and a recommendation made to the appropriate manager. Approval by the President is required for quotes valued above $50,000 for stock items, and above $10,000 for non-stock items or service contracts. Approval by the Vice-President or Secretary-Treasurer is required for quotes valued above $10,000 for stock items, and above $2500. for non-stock items or service contracts. Approval by the appropriate Manager is required for quotes above $2500 for stock items. Once approval has been obtained, the successful bidder will be immediately notified by the appropriate manager, and a purchase order initiated via a material requisition. The remaining bidders will be notified in writing of the name of the successful bidder and the award price – if appropriate. For routine purchases of items or services such as office supplies, computer support, low value stock items, safety equipment, cleaning supplies, lawn restoration, vacuum excavation, vehicle supplies and vehicle servicing, it is acceptable to request pricing once, then use the same low bidder(s) for a fixed period of time, generally not exceeding two (2) years. For routine purchases of higher value stock items, formal supplier alliances may be formed with the approval of the President.

Standard Purchases – are purchases between $125 and $2500, and are accomplished by issuing a purchase order via a material requisition with approval by manager.

Local Purchase Orders – are used for purchases under $125. These may be issued by any employee but require the approval of a Manager (with the exception of the Mechanic).

Recurring Invoices – are monthly fees typically for services that have been awarded via a quotation or a tender. These invoices are to be approved for payment by the appropriate Manager.

Signing Authority may be delegated if necessary to avoid delays in the purchasing process. This delegation should be documented in a memo or email to the affected parties.

1 Exceptions to the Tender category are payments relating to Income Tax, Employment Insurance, OHIP, OMERS, Employment Benefits, GST, IMO (monthly invoices), OEFC (debt retirement),
Hydro One (Transmission Charges), Energy Retailers, City of Stratford.
2 Exceptions to the Quotation category include charges such as utility bills, postage,
training, accommodations, company meals, customer requests for contractor of choice, contractor on site as part of a related contract or quotation, transformer repairs, scrap transformers, and situations of dire emergency (i.e. storm trouble) when time is of essence.

Not allow unnecessary exposure of the organization, its board, or staff to claims of liability.

g. Communication of Organizational Performance and Counsel to the Board

With respect to providing information and counsel to the board, the CEO will not permit the board to be uninformed about matters essential to carrying out its policy duties. The CEO will:

Not fail to keep the board up to date on organizational performance.

Not fail to provide the board with all requested reports by the deadline assigned.

Not withhold from the board any information relevant to the organization or internal or external changes that could materially influence the performance of the organization.

Not fail to inform all communication from any lawyer acting on behalf of the organization where someone is or may be taking action against the organization.

Not withhold any operational matter from the board that is being hindered by current board policy.

Not present information in an unnecessarily complex or lengthy format.

h. Communication to Staff

The CEO will not allow staff to be uninformed about information important to the carrying out of their duties. The CEO will:

Not fail to make staff aware of board policies.

i. Temporary Executive Responsibilities

The CEO will ensure pertinent staff are informed about the organization’s issues to protect the organization with respect to the loss or unavailability of the CEO. The CEO will:

Not be absent from the workplace without recommending an acting CEO replacement and providing the replacement with all information necessary to carry out his or her duties.

Not have fewer than two other executives familiar with board and CEO issues and processes in order to protect the organization from sudden loss of service by the CEO.

Not fail to provide a report at least annually identifying who she/he would recommend as the Interim CEO, if one became necessary, and explaining the leadership development activities being undertaken to build operational leadership strength within the organization.

j. Fraudulent Behaviour

The CEO will not fail to maintain, communicate to the board and staff, and follow procedures for reporting fraudulent or dishonest conduct.

k. Internal Controls

The CEO will not fail to develop and maintain effective information and communication systems that assist the organization in effectively carrying out and evaluating progress on its strategic plan and adherence to policies.

l. Treatment of Customers

With respect to interactions with customers, the CEO will not cause or allow conditions, procedures, or decisions which are unsafe, undignified, unnecessarily intrusive, or which fail to provide appropriate confidentiality or privacy.

8. Communications & Shareholders Relations

a. Interests of the Owners

The board is responsible to make decisions in the best interests of the ownership as a whole. The accountability to the owners supersedes any conflicting loyalty.

b. Communication with the Owners

The board is the link between the organization's operations and the owners.

Communication directed to the Board by individual members or sub-committees of council be directed through City Council or Finance & and Labour Relations Committee to the Chair of the Board in writing, and that a member of the Board (usually the Chair) or other members of the Board as appropriate attend all Festival Hydro Finance & Labour Relations Committee meetings together with the President or his designate.

The board will regularly inform the owners of progress towards goals and critical challenges that are facing the organization.

c. Organizational Image

The board is responsible to contribute to the positive image of the organization in the eyes of the owners and the general public.

d. Media Communication Policy – Employees and Directors

Festival Hydro Inc. is committed to providing accurate and current information to its customers whether the information is an update on industry activity, promotional information or updates during upset circumstances. In order to facilitate this commitment, there is a need for protocols to ensure consistent information is forwarded to the media (television/radio/print).

During regular business hours, all employees are to direct inquiries from the media to senior management consisting of the President, COO, Vice-President of Engineering & Operations or CFO.

In the absence of senior management during regular business hours determine whether the direct inquiry is urgent. If the inquiry is not urgent, reply that one of the senior management team will return the call as soon as possible. If the inquiry is urgent, the manager involved may answer the inquiry. If unsure of your position, take a contact telephone number discuss the issue with your fellow managers and return the call.

After regular business hours for example, during upset conditions all on-call line personnel are to contact the Operations Manager by cell phone. The Operations Manager will in turn contact senior management to provide an official response to the media. For non urgent inquiries on-call line personnel are to instruct individuals to contact the office when the office opens and request to speak to the President, COO, Vice-President of Engineering & Operations or CFO.

All Board members are to direct inquiries from the media to the Chairperson or Vice Chairperson if the Chairperson is unavailable. If the Chairperson is unsure of your position, take a contact telephone number discuss the issue with the President and return the call.

The President will discuss inquiries from the media with the Chairperson on issues that are of a more “sensitive nature”.

e. The Business Strategy Committee

The Business Strategy Committee is a joint committee of Shareholder council and staff members and Festival Hydro directors and staff. This committee gives strategic leadership and direction to Festival Hydro board and management on any material business structure change.
This committee has minimum representation of (with additions at the committee discretion):
Shareholder – Mayor, Finance Chair, CAO.
Festival Hydro – Board Chair, Finance Chair, President.

Strategic Priorities and Indicators of Success - Strategic Direction from February 2013 meeting:

Remain a Stand Alone LDC – continue to manage risks / threats / changes to achieve strategic goals of safety, ROE, dividend policy, capital expenditure policy, etc.

Decision Criteria

1. Customer Service - decision must be seen as adding long term value to customer
2. Staff – without the right people in the right jobs we can't achieve any goals
3. Capital Expenditure policy – Cannot impact our ability to maintain infrastructure and allow for growth
4. Shareholder/community support – must continue to serve the needs of the shareholder beyond return on investment
5. Future growth opportunities– in revenue, skills, resources
6. Culture – We want to maintain a positive, engaged workforce
7. ROE – both now and in the future; keep pace or even get ahead of where we are now.
8. Dividend policy – must be comparable to existing.
9. Geography – closer is better for many aspects although some like administration can be done from a distance.

c. Finance & Audit Subcommittee (Terms of Reference)

The Finance &Audit Subcommittee is delegated as responsible for all financial and auditing aspects of the Corporation. Specifically it has within its mandate the consideration of the following matters:

- Review annual operating and capital budgets and make recommendations for approval to Board.
- Review bi-monthly operating results (revenues, expenditures, cash flow, etc.) comparing with operating budget and prior year actual's.
- Review capital expenditures and compare with capital budget.
- Review financial data related to business acquisitions/arrangements and make appropriate recommendations to Board.
- Review policies and procedures such as Travel, Purchasing Tenders, etc. as required relating to financial matters.
- Review audited financial statements for board approval. Prepare and /or review audit policies and procedures.
- Review tenders and/or contracts for board approval.
- Review leases.
- Review significant non-budgeted capital and operating expenditures for recommendation to the board.
- Review and act upon other financial matters as required.
- Suggest criteria's for financial ratio's, such as Debt to Equity, Current Ratio, Cash Position.

The Subcommittee meets upon the direction of its Chair, depending on the need for such meetings and reports to the Board of Directors.

As a standing agenda matter, the Subcommittee receives a report from Senior Management on any of the above-noted areas which require discussion at each meeting.

d. Human Resources & Risk Management Subcommittee Terms of Reference

The ***Human Resources*** is delegated as responsible for all Senior Management, Union Contract and Stakeholder communication. Specifically, it has within its mandate the consideration of the following matters:

Periodic evaluation of President and reporting of findings and the President to conduct periodic evaluation of VP Engineering & Operations and Secretary Treasurer and reporting of findings
Beginning of the hiring process and arranging of interviews of potential candidates for Senior Management.
Comparison and setting of Remuneration for Senior Management.
Setting of guidelines for Union Negotiations and other non-union staff.
Communication with customers regarding policy's and procedures with customers.
To appoint and develop the senior management team, and to offer recommendations in regard to Union negotiations and communications with customers.
Personnel policy review as required

And ***Risk Management*** is responsible for matters related to all aspects of the Corporation's operations and facilities. Specifically, it has within its mandate the consideration of the following matters:
Environmental compliance and management, including development and implementation of policies and procedures.
Health and safety compliance and management, including development and implementation of policies and procedures.
Insurance and related liability issues for the Corporation, its employees, officers and directors.
Corporate conduct, including issues related to conflict of interest, business conduct, confidentiality and related issues.
Regulatory compliance in regard to other areas of risk, including the Ontario Energy Board, human rights legislation, etc.
Risk issues in relation to properties and operation of activities.
Legal actions, orders or other actual or potential liabilities to the Corporation.
Incidents, emergencies or other events which may generate risk.
Other matters involving risk to the Corporation as required.

The Subcommittee meets upon the direction of its Chair, depending on the need for such meetings and reports to the Board of Directors.

As a standing agenda matter, the subcommittee receives a report from Senior Management on any of the above-noted areas which require discussion at each meeting.

e. **Executive Committee** – is responsible for:

Board renewal with recommendation to the Shareholder.

Board evaluation on an annual basis.

Company and Board Policy direction.

Shareholder relations.

f. Suggested Guidelines for Shareholder, Board and Management Roles and Responsibilities

	Shareholder	**Board**	**Management**
Leadership & Stewardship	➢ Elect directors ➢ Appoint auditors	➢ Central role in strategic leadership and stewardship. ➢ Select, recruit, oversee, evaluate and compensate senior management.	➢ Develop and implement corporate objectives, priorities and strategies. ➢ Select and recruit senior management team.
Empowerment & Accountability	➢ Empower board. ➢ Accountable to electorate.	➢ Delegate sufficient authority to President (and committees) ➢ Be accountable to shareholder.	➢ Empower all human resources. ➢ Be accountable to board.
Communication & Transparency	➢ Communicate expectations to board and president. ➢ Receive and review corporate and auditors reports.	➢ Have central role in ensuring comprehensive corporate communications plan. ➢ Speak with one voice. ➢ Evaluate and share information needs of board.	➢ Creatively use diverse communication methods to disseminate accurate information in a timely manner. ➢ Receive direction and counsel from board.
Service & Fairness	➢ As investors, support efficient and transparent capital markets. ➢ Make social and ethical investments to promote corporate social responsibility.	➢ Balance diverse expectations of shareholder and other stakeholders. ➢ Champion integrated social responsibility as part of overall mission of company.	➢ Ensure and establish strong relationships with key suppliers and customers. ➢ Foster culture of service excellence, with internal and external service standards.
Accomplishment & Measurement	➢ Allocate resources – especially capital. ➢ Approve fundamental changes affecting corporation. ➢ Use corporate performance results.	➢ Oversee corporate performance. ➢ Approve specified decisions of management. ➢ Use performance measures and verify their integrity.	➢ Allocate resources (including capital) among competing strategies and projects. ➢ Approve majority of decisions affecting corporation. ➢ Develop performance indicators.
Learning & Growth	➢ Reward learning culture with investment. ➢ Contribute to sustainable growth strategy.	➢ Foster climate of continuous learning and growth. ➢ Be committed to director renewal and development. ➢ Lead strategic vision for sustainable growth.	➢ Develop lifelong learning culture and promote personal development. ➢ Contribute to and implement sustainable growth strategy.

Source: The Conference Board of Canada

g. Joint Health Safety & Risk Management Policy

Festival Hydro Inc. believes that minimizing and managing environmental risk, and protecting the health and safety of its employees and the communities in which it operates, is integral to all business plans and the overall success of the company.

Accordingly, the Company is committed to a diligent and sustained effort to meet and/or exceed the objectives outlined in its Environmental, Health & Safety and Risk Management Policy. Compliance with applicable legislation is understood to be the minimum requirement, and Festival Hydro Inc. will pursue the adoption of industry best practices regarding health & safety, risk management, and environmental stewardship.

Specifically, the Company will:

Mandate the completion of any project will not jeopardize the health and safety of ANY employee.

Implement environmental, health, safety, emergency response policies, hazard identification, risk management programs and practices, with the goal of preventing accidents and incidents, and achieving ZERO lost time injuries.

Continually review, evaluate, and audit our policies and practices to constantly improve our performance and pursue industry best practices;

Design, operate, decommission and evaluate its facilities to minimize risk to health, safety and the environment;

Train and equip employees with the understanding, skills and facilities to achieve an accident free and healthy workplace and to fulfill their environmental obligations;

Require its employees and contractors to follow practices consistent with health, safety and environmental procedures; and comply with applicable legislation, regulations, rules and guidelines;

Encourage conservation and pollution prevention measures, and provide information and training for the safe handling, use, transport, and disposal of materials and waste;

Communicate openly and on a timely basis with employees, the public, governments, and other stakeholders on activities involving the environment and health & safety;

Encourage employees to report hazards and "near-miss" incidents, and respond by taking appropriate action;

Conduct environmental, health, safety and emergency response audits, and implement action plans called for by these audits;

Report on an annual basis our performance regarding the environment, health & safety and emergency preparedness.

Festival Hydro Inc. takes responsibility for the implementation of this policy through the commitments and actions of each employee.

Each employee is obligated, as part of an internal responsibility system to immediately act on any reported, identified or detected health, safety, environmental or risk situation and diligently report the details to management by accurately completing an "Incident Report".

h. Workplace Harassment

1. **Policy on Sexual Harassment**

Every employee of Festival Hydro Inc. has a basic right to a workplace free from sexual harassment by the employer, management personnel, or by other employees. The Board of Directors recognizes its moral and legal responsibility to provide a workplace, which demonstrates mutual respect for one another as employees and as individuals, and is thereby free from harassment.

The above policy is not meant to inhibit relationships based on mutual consent or normal social contact between employees.

2. **Definitions and Explanations**

Sexual Harassment is any sexual oriented practice that endangers an individual's continued employment, negatively affects his or her work performance, or undermines the individual's personal dignity.

There are two main types of Sexual Harassment, both of which are prohibited by the Ontario Human Rights code:

I. **Quid Pro Quo Harassment** occurs when an employee is subjected to or threatened with prejudicial treatment or reprisal by a person in power as a consequence of having rejected a sexually motivated advance.

II. **Poisoned Work Environment or Atmosphere** occurs when a harasser engages in a course of vexatious comment or conduct of a sexual nature that is actually known, or ought reasonably to have been known, to be unwelcome.

The Poisoned Work Environment type of harassment usually involves a pattern or a course of conduct such as one or more of the following: Touching or patting, sexually suggestive remarks, innuendo or jokes, leering or starting in some situations, sexually suggestive gestures, the display of pictures of graffiti, persistent sexual advances from a co-worker, lewd or suggestive remarks, comments about a person's sexual attractiveness or unattractiveness, frequent inquiries about the nature or extend of a person's sex life, verbal threats or abuse with sexual overtones, and sexual assaults.

Not considered to be harassment is conducts which is simply in bad taste, jokes that do not offend, normal discussion and social contact, and social involvement that is mutually voluntary between employer and employee.

3. **Responsibilities**

I. **Managers** have the following responsibilities:

- establishing and maintaining a work environment free from sexual harassment for each employee, and for eliminating sexual harassment if it occurs in the unit:
- treating complaints seriously and with the utmost confidentiality;
- investigating sexual harassment complaints in the department and documenting complaints and investigations carefully;
- taking appropriate action when the supervisor has knowledge of sexual harassment in any part of the company;
- providing support for the complaining employee;
- explaining to the complaining employee the investigation process to be followed.
-

II. **Employees** have the following responsibilities:

- Reporting concerns about being subjected to harassment to their immediate supervisor or other appropriate person;
- Reporting witnessed sexual harassment to their immediate supervisor or other appropriate person.

4. **Procedures**

Persons who believe they have been sexually harassed have several options to follow:

I) Confront the harasser personally or in writing informing that person that the behaviour is unwelcome and must stop. A witness, or informing someone else that the situation has been dealt with and the manner with which it has been dealt.

II) Consider informing others in the department; sometimes peer pressure can be a deterrent.

III) Report the problem to their immediate supervisor, or alternatively to one of the following: the next level of management, or a union representative, if appropriate.

IV) In the extreme, any employee has access to the Human Rights Commission, which will receive and investigate complaints of Sexual Harassment.

There will be a thorough, prompt, fair and unbiased investigation by management of all complaints of sexual harassment. Usually the person making the complaint, witnesses who are willing to testify, if any, and the alleged harasser will be interviewed separately. Both the person making the complaint and the alleged harasser will be informed of their rights to have counsel present. The person accused of harassment will be informed in detail of the allegations, which have been made. Investigations by management and the information gathered are considered to be confidential and will only be released in accordance with law or with the written consent of the employee making the complaint.

Investigations, which validate a complaint of sexual harassment, will result in appropriate discipline of the employee(s) found responsible. Discipline will reflect the seriousness of the conduct, the frequency of behaviour after the harasser had known, or reasonably ought to have known, that the conduct was unwelcome, and the victim's reaction to the offending behaviour. Discipline may take one or more of the following forms: verbal reprimand, referral to counselling , suspension, demotion, and dismissal.

The employee making the complaint will be informed of the outcome of the investigation and any action taken.

Workplace Harassment Policy

Festival Hydro Inc. and International Brotherhood of Electrical Workers Local 636, recognize that Festival Hydro Inc. has had a Sexual Harassment Policy for a number of years, however, we would like to re-emphasize that harassment of any kind is not acceptable in the workforce.

Therefore in addition to our original policy the Board and International Brotherhood of Electrical Workers Local 636 have signed the attached to show our mutual commitment in deterring this type of behaviour at the workplace.

"The Human Rights Code, administered by the Ontario Human Rights Commission, applies to all persons in the province. Every person has a right to equal treatment with respect to employment, without discrimination because of race, ancestry, place of origin, disability, colour, ethnic origin, citizenship, creed, sex (which includes discrimination because a woman is or may become pregnant), record of offenses, marital status includes an injury where benefits were claimed or received under the Workers' Compensation Act). On the same grounds, every employee has a right to freedom from harassment in the workplace.

Harassment is defined as engaging in a course of vexatious comment or conduct that is known or ought reasonably to be known to be unwelcome.

Freedom from sexual harassment of an employee in the workplace refers to such harassment by his or her employer or by another employee and to sexual solicitation or advance made by a person in a position to grant or deny a benefit or advancement, where such attention is unwelcome and the person making the advances known or should known that it is unwelcome.

Every employee has a right to be free from a reprisal or a threat of a reprisal for rejecting a sexual solicitation or advance where the reprisal is made or threatened by a person in a position to grant or deny a benefit or advancement.

Every employee has a right to enforce his or her rights or to refuse to infringe the rights of another person by filing a complaint with the Human Rights Commission".

P.2.5 Hiring of Relatives

Adopted: May 9, 1994
Amended:
Reaffirmed: April 13, 2004
Related Documents:
☑ Council Policy ☐ Administrative Policy

Purpose:
The purpose of this policy is to provide rules with respect to hiring and promotion which are intended to avoid conflicts of interest or have the potential for creating an adverse effect on supervision, safety, security or morale.

Statement:
The immediate relatives of supervisory administrative personnel shall not be employed where such employment would be within the same department.
In the event that through
a) marriage between staff members, or
b) a staff member's promotion to supervisory of director level,
a conflict with this policy is created, then a review by the Clerk-Administrator and Director of Personnel will take place to find a solution that is consistent with the purpose of this policy and relevant to the provisions of the Ontario Human Rights Code as well as being acceptable to the parties concerned.

Definitions:
For purposes of this policy the following definitions apply:

Immediate Relative: Parent, spouse, children, sister, brother, sister-in-law, brother-in-law, father-in-law, mother-in-law, son-in-law, daughter-in-law.

Administrative Personnel: Employees who are in a managerial or supervisory position.

Spouse: Spouse shall mean the person to whom an employee is married or with whom the employee is living in a conjugal relationship outside marriage.

Notes:
1) This policy will not be retroactive. Any conflict which existed prior to City Council's approval of this policy are exempt.
2) This policy does not apply to any portion of the City where the hiring decision is made by a separate board ie: Police Services, Library, Archives etc.

Electricity Distribution Licence

ED-2002-0513

Festival Hydro Inc.

Valid Until

October 20, 2023

Original signed by

Theodore Antonopoulos
Manager, Electricity Rates
Ontario Energy Board
Date of Issuance: October 21, 2003
Date of Last Amendment: October 24, 2013

Ontario Energy Board	Commission de l’énergie de l’Ontario
P.O. Box 2319	C.P. 2319
2300 Yonge Street	2300, rue Yonge
27th Floor	27e étage
Toronto, ON M4P 1E4	Toronto ON M4P 1E4

LIST OF AMENDMENTS

Board File No.	Date of Amendment
EB-2006-0126	September 1, 2006
EB-2009-0026	March 12, 2009
EB-2009-0352	December 1, 2009
EB-2010-0215	November 12, 2010
EB-2011-0138	September 6, 2011
EB-2012-0204	July 5, 2012
EB-2012-0457	March 14, 2013
EB-2013-0184	July 11, 2013
EB-2013-0282	October 24, 2013

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1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Conservation and Demand Management**" and "**CDM**" means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

"**Conservation and Demand Management Code for Electricity Distributors**" means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**Licensee**" means Festival Hydro Inc.

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**Net Annual Peak Demand Energy Savings Target**" means the reduction in a distributor's peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

"**Net Cumulative Energy Savings Target**" means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

"**OPA**" means the Ontario Power Authority;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Provincial Brand**" means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**regulation**" means a regulation made under the Act or the Electricity Act;

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

b) the Distribution System Code;

c) the Retail Settlement Code; and

d) the Standard Supply Service Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

7.1 The Licensee shall connect a building to its distribution system if:

a) the building lies along any of the lines of the distributor's distribution system; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

a) the building is within the Licensee's service area as described in Schedule 1; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

b) publish information which will make its customers aware of and help them to use its dispute resolution process;

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;

d) give or send free of charge a copy of the process to any person who reasonably requests it; and

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

17.1 This Licence shall take effect on October 21, 2003 and expire on October 20, 2023. The term of this Licence may be extended by the Board.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 6.230 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 29.250 GWh (collectively the “CDM Targets”), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

a) the delivery of Board approved CDM Programs delivered in the Licensee’s service area (“Board-Approved CDM Programs”);

b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee’s service area under contract with the OPA (“OPA-Contracted Province-Wide CDM Programs”); or

c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee’s service area.

21.4 The Licensee shall comply with the rules mandated by the Board’s Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee’s own brand or marks.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The former Village of Brussels as of September 2001, now in the Municipality of Huron East.

2. The former Police Village of Dashwood as outlined on a map dated January 1, 2001 included as part of the application, now in the Municipality of Bluewater and the Municipality of South Huron.

3. The former Village of Hensall as of September 1998 including an illuminated sign on London Road outside the village boundary, now in the Municipality of Bluewater.

4. The Town of St. Marys as of December 1996.

5. The former Town of Seaforth as of October 1998 excluding the residential customer at 234 Main Street and including the site of the Fall Fair at 122 Duke Street outside the town boundary, now part of the Municipality of Huron East.

6. The Municipality of the City of Stratford as of February 2002, and

7. The former Village of Zurich as of September 1998 including the following customers outside the village boundary, now in the Municipality of Bluewater:

    - the ball diamond at 23 East Street,
    - the residential customers at #'s 37893, 37896, 38107, 38110 (2 units), 38111, 38114, 38116, 38117, 38119 Hensall Road, and
    - the bowling alley at 38120 Hensall Road.

8. The Municipality of the City of Stratford as at February 2002, and Lot 3, Concession 2 in the Township of Perth East, Ellice Ward, Part 1 of Plan 44R-4354 (City of Stratford Recreation Complex).

9. Part of PIN 53272-0127 (LT) specifically Parts 3, 4, 5, 6, 7, and 8 being Part Lot C, Concession 3 in the City of Stratford.

10. Part of PIN 53272-0062 (LT) specifically Parts 12, 13, 14, 15, 16 and 17 being Part Lot 4, Concession 3 in the City of Stratford.

11. Part of Lot 6, Concession 1 in the City of Stratford, County of Perth.

12. Part of Lots 3 & 4 and all of blocks S, U & V, Concession 2 (Geographic Township of Ellice), Registered Plan No. 11, City of Stratford, County of Perth.

13. 42909 and 42971 Huron Road, Seaforth.

14. Part of Lot 5, Concession 2 (Geographic Township of Ellice), Registered Plan No. 11, City of Stratford, County of Perth.

15. Part of Lots 3 & 4, Concession 2 (Geographic Township of Ellice), Registered Plan No. 11, City of Stratford, County of Perth.

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

2. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for RPP customers with eligible time-of-use meters as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on April 30, 2012.

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998.*

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

Statement of deemed transmission assets

Festival confirms that it has a transmission asset (i.e. an asset operating at greater than 50 kV) in its distribution system that has previously been deemed by the Board as a distribution asset in Festival's 2013 IRM process (EB-2012-0124). Further, Festival confirms that it is seeking approval in this Application for one transformer station located on Wright Blvd. in Stratford operating at 230-27.6kV.

Accounting standard used in application

Historical financial results are presented using the CGAAP method of presentation. As directed by the Board, Festival has provided 2014 bridge year on both a CGAAP basis and a MIFRS basis. The 2015 test year is presented on a MIFRS basis only.

The main area impacted by the change in presentation is to amortization of Capital Assets and the capitalization of overhead costs. No other substantial change is expected to be required for Festival on the conversion to MIFRS.

Attachment 1 of 1

OEB Appendix 2-YA

File Number:	EB 2014 0073
Exhibit:	1
Tab:	6
Schedule:	15
Attachment:	1
Date:	25-Apr-14

Appendix 2-YA
Summary of Impacts to Revenue Requirement from Transition to MIFRS

Revenue Requirement Component	2015 New Policies	2015 Old Policies	Difference	Reasons why the revenue requirement component is different under MIFRS versus CGAAP
Closing NBV 2014 (includes TS)	$ 53,888,314	$ 52,044,750	$ 1,843,564	faster depreciation rates under old policies
Closing NBV 2015 (includes TS)	$ 53,412,762	$ 53,680,422	-$ 267,660	faster depreciation rates under old policies
Average NBV	$ 53,650,538	$ 52,862,586	$ 787,952	
Working Capital	$ 9,450,461	$ 9,485,257	-$ 34,796	difference in OM&A expenses
Rate Base	$ 63,100,999	$ 62,347,843	$ 753,156	
Return on Rate Base	$ 3,941,627	$ 3,894,581	$ 47,046	difference in rate base
			$ -	
OM&A, PILS, LEAP	$ 5,144,251	$ 4,876,591	$ 267,660	more overhead costs capitalized under old policies
Depreciation (no allocated depreciation)	$ 2,522,288	$ 3,645,907	-$ 1,123,619	faster depreciation rates under old policies
			$ -	
			$ -	
Less: Revenue Offsets	-$ 755,699	-$ 755,699	$ -	
			$ -	
			$ -	
			$ -	
Insert description of additional item(s) and			$ -	
Total Base Revenue Requirement	$ 10,852,467	$ 11,661,380	-$ 808,913	

For modified IFRS applications, the applicants must provide a summary of the dollar impacts of modified IFRS to each component of the revenue requirement (e.g. rate base, operating costs, etc.), including the overall impact on the proposed revenue requirement. Accordingly, the applicants must identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting.

Statement of deviation from Filing Requirements

There are no deviations from the filing requirements.

Statement of change in methodologies

The pro-forma projections for the 2015 test year were prepared in accordance with Festival's usual process, including the directives and assumptions described in E1/T2/S3, with the following exceptions:

1) Rates for Distribution and Sales of Electricity are assumed to be constant for the entire calendar year.

2) Amortization reflects the half-year rule for capital additions.

3) No amount for Provincial Sales Tax ("PST") was included in the 2015 test year. Festival will cease deferral of PST amounts actually paid.

4) Regulatory costs have been normalized over a five year period.

5) Indirect capital costs are now expensed due to the transition to International Financial Reporting Standard

Accounting treatment of non-utility business

Festival participates in the generation of solar energy, but has not included any operating revenues or costs relating to this business in this application.

Previous Board directives

Festival's last rebasing application occurred for rates effective May 1, 2010 under proceeding EB-2009-0263. Within the Decision and Order dated April 1, 2010, the following directions were made by the Board:

The Board directed Festival to:

- Adopt a billed energy forecast of 600.0GWh – **completed and rates adjusted**
- Use a deferral account, 1592 PILS and Tax Variances, sub-account HST/OVAT ITC's to track the incremental change due to the shift from PST to the HST and the amounts Festival receives through the incremental ITC. Tracking of these amounts will continue in the deferral account until Festival Hydro's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first – **completed and deferral of PST will be discontinued with this application.**
- Apply the half year rule for test year capital additions – **completed, and half year rule depreciation policy adopted effective 2011 and forward**
- Update its RTS rates to agree to the UTRs approved for Hydro One in the rate order issued January 1, 2010 - **completed**
- As part of its draft Rate Order material, Festival shall identify the microFIT Generator service classification and include the approved service charge in the Tariff of Rates and Charges - **completed**
- Determine the cost of system enhancements to apply the Global adjustment rate rider to only non-RPP customers and provide this information in a future rate application – **addressed in May 1, 2012 Managers summary.**

- Accounting entries to reflect the Board's Decision and Order in this proceeding on the disposition of deferral and variance accounts should be recorded as soon as possible and no later than June 30, 2010 for RRR reporting purposes – **completed prior to June 30, 2010.**

<u>Decision and Order – May 1, 2011</u>

The Board directed Festival to….

- Determine the cost of system enhancements required to implement a separate rate rider that would prospectively apply to non-RPP customers. Festival is required to file its determination of the cost of system enhancements in conjunction with its next rate proceeding – **addressed in May 1, 2012 Managers summary.**

<u>Decision and Order – May 1, 2012</u>

The Board provided no specific direction for Festival to address in a future proceeding in this decision and order.

<u>Decision and Order – November 1, 2012</u>

The Board stated that realized savings from smart meter implementation should be addressed in Festival's next cost of service application – **Festival discussed this in Exhibit 4 of this application.**

Decision and Order – May 1, 2013

The Board provided no specific direction for Festival to address in a future proceeding in this decision and order.

Decision and Order – May 1, 2014

The Board provided no specific direction for Festival to address in a future proceeding in this decision and order.

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

Conditions of service

The current version of Festival Hydro's Conditions of Service is available on Festival's website as www.festivalhydro.com. Rates and charges which are the subject of this rate application are not contained in the Conditions of Service.