

HEARST POWER DISTRIBUTION COMPANY LTD.

2015 Cost of Service Application

EB-2014-0080

Submitted on: March 5, 2015

**Corporation de distribution électrique de Hearst
Hearst Power Distribution Company Limited
925 rue Alexandra Street, S.P./P.O. Bag 5000
Hearst, Ontario
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March 5, 2015
Ontario Energy Board P.O.
Box 2319 27th Floor
2300 Yonge Street Toronto,
Ontario M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary
Regarding: EB-2014-0080 - 2015 Cost of Service Application

Dear Ms. Walli,

Hearst Power Distribution Ltd is pleased to submit to the Ontario Energy Board its 2015 Cost of Service Application. This application is being filed pursuant to the Board's e-Filing Services. Two hard copies of the Application will be delivered to the Board over the next few business days.

We would be pleased to provide any further information or details that you may require relative to this application.

Yours truly,

Jessy Richard
Directeur Général/General Manager

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EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS

EB-2014-0080

Table of Contents

1	I.	Executive Summary	3
2		Ex.1/Tab 1/Sch.1 – Management Discussion	
3		Ex.1/Tab 1/Sch.2 - Proposed Revenue Requirement	
4		Ex.1/Tab 1/Sch.3 - Budget and Accounting	
5		Assumptions	
6		Ex.1/Tab 1/Sch.4 - Load Forecast Summary	
7		Ex.1/Tab 1/Sch.5 - Rate Base and Capital Planning	
8		Ex.1/Tab 1/Sch.6 - Overview of Operation Maintenance	
9		and Administrative Costs	
10		Ex.1/Tab 1/Sch.7 - Statement of Cost of Capital	
11		Parameters	
12		Ex.1/Tab 1/Sch.8 - Overview of Cost Allocation and	
13		Rate Design	
14		Ex.1/Tab 1/Sch.9 - Overview of Deferral and Variance	
15		Account Disposition	
16		Ex.1/Tab 1/Sch.10 - Overview of Bill Impacts	
17	II.	Customer Engagement	22
18		Ex.1/Tab 2/Sch.1 - Overview of Customer Engagement	
19		Ex.1/Tab 2/Sch.2 - Customer Satisfaction Survey	
20		Ex.1/Tab 2/Sch.3 - Educational publications	
21	III.	Financial Information	28
22		Ex.1/Tab 3/Sch.1 - Historical Financial Statements	
23		Ex.1/Tab 3/Sch.2 - Reconciliation between Financial	
24		Statements and Results Field	
25		Ex.1/Tab 3/Sch.3 - Prospectus and Recent Debt/Share	
26		issuance update	
27		Ex.1/Tab 3/Sch.4 - Annual Report	
28		Ex.1/Tab 3/Sch.5 – Tax Status	
29	IV.	Materiality Threshold	32
30		Ex.1/Tab 4/Sch.1 - Materiality Threshold	
31	V.	Administration	33
32		Ex.1/Tab 5/Sch.1 - Legal Application	
33		Ex.1/Tab 5/Sch.2 - Statement of Publication	

- 1 Ex.1/Tab 5/Sch.3 - Proposed Issues List
- 2 Ex.1/Tab 5/Sch.4 - Operating Environment
- 3 Ex.1/Tab 5/Sch.5 - Corporate Organization
- 4 Ex.1/Tab 5/Sch.6 - Corporate Governance
- 5 Ex.1/Tab 5/Sch.7 - Accounting Standards for
- 6 Regulatory and Financial Reporting
- 7 Ex.1/Tab 5/Sch.8 - Statement of Deviation of Filing
- 8 Requirements
- 9 Ex.1/Tab 5/Sch.9 - Accounting Treatment of Non-Utility
- 10 Related Business
- 11 Ex.1/Tab 5/Sch.10 - Board Directive from Previous
- 12 Decisions
- 13 Ex.1/Tab 5/Sch.11 - Conditions of Service
- 14 Ex.1/Tab 5/Sch.12 - Letter of Comment

Executive Summary

Ex.1/Tab 1/Sch.1 – Management Discussion

About the Utility

The Town of Hearst in Northeastern Ontario has a mainly French-speaking population of approximately 5,090. Hearst is home to two major forestry industries that contribute significantly to the local economy. These are located within HPDC's service area. HPDC's sales greatly rely on these industries. The two (2) clients represent approximately 26 to 30% of HPDC's yearly electricity sales. However, as manufacturers, they are dependent on lumber markets in Canada and the US, which can have major positive or negative impacts on the well-being of both companies. This last decade, the local forestry industry was challenged by cost pressures and turmoil in the US housing market (an important consumer of the region's forestry products), which adversely affected employment in this sector and resulted in a decrease in population and a shortage of skilled workers locally.

The principal economic driver of the local economy is the forest industry but the Town of Hearst also provides business activities and employment opportunities in many other sectors such as tourism, educational services, health care, business and secondary industrial support services, transportation, warehousing and construction.

HPDC receives power from Hydro One Networks Inc. ("Hydro One") and the IESO. HPDC delivers power to its 2,850 customers via three feeders from a high voltage transformer station, which is owned by Hydro One. The utility covers an area of 93 square km and maintains 57 km of overhead lines and 11 km of underground lines.

HPDC earns its revenues by delivering electric power to the homes and businesses within its service territory. The rates charged for electric power and the performance standards that the energy delivery system must meet are regulated by the Ontario Energy Board. The utility's last cost of service was filed in 2010. HPDC's distribution revenues have increased modestly since 2010, at a rate less than inflation due to rate increases authorized by the OEB through rate applications pursuant to the OEB's 3G IRM.

HPDC's customer base is not increasing; in fact it has been slowly decreasing over the last decade. This can be mainly attributed to the Town's significant population decline, which is

exacerbated by the Town's distance from urban cities (approx. 1,000 km north of Toronto) and the preference of younger generations to live closer to big cities, despite local job opportunities and labour shortages.

HPDC does not have a formal "business plan", as it has neither the financial and human resources to build an elaborate business plan, nor to implement it. Therefore, HPDC uses financial, capital and asset management analysis as well as regulatory requirements to set targets, build strategies and make decisions for the future.

Goals, Objectives and Plan for the Future

HPDC strives to create long-term value for its shareholder, which benefits its customers. HPDC is both a community asset and an investment for its shareholder, the Corporation of the Town of Hearst. As a community asset, HPDC's goal is to provide a safe, effective, efficient and reliable service to its customers at the lowest possible rates.

In October 2014, a second customer service and billing clerk was hired to assist the two existing HPDC administrative employees in meeting the Board's new expectations. As a small utility, a third office employee significantly aids HPDC in meeting the new filing requirements and expectations of its regulators. HPDC plans to offset the additional employee cost by making better and more profitable financial investments with its savings, and by maintaining and further developing partnerships with other utilities to achieve cost sharing, as well as operational and regulatory effectiveness.

While achieving cost-effectiveness, HPDC continues to reach or exceed customer service targets as shown in the 2014 customer survey and in the utility's 2013 scorecard: scoring above targets in **Customer Focus**, **Operation Effectiveness** and **Public Responsiveness**.

As per the 2013 HPDC scorecard:

Customer Focus: HPDC is exceeding the industry standard in all customer service categories rated. In October 2014, billing accuracy statistics started to be documented and currently show a 99.98% billing accuracy up to Dec 31, 2014. Customer Survey results also highlights an overall good if not excellent performance from the utility.

1 **Operation Effectiveness:** All public safety concerns are being addressed as identified,
2 including the replacement of porcelain lightning arrestors in our distribution system. In recent
3 years, HPDC received a Cost Control Efficiency Assessment rating of “1”, as well as cost per
4 customer that ranges from 419\$ to 414\$ from 2010 to 2013. HPDC expects the same
5 Operation Effectiveness overall results in future years.

6
7 **Public Responsiveness:** Conservation and demand management statistics are increasing, and
8 as of Dec 31st 2013, HPDC achieved 49% of its cumulative energy savings target and expects
9 to close 2014 around 80%. The delay of two major lighting retrofit projects, from 2014 to 2015,
10 caused HPDC to fall short of fully achieving its OPA set target. As for Renewable Generation
11 Connection, the utility was able to connect 100% of the REG on-time including a 10 MW solar
12 generator but since the Hydro One transformer station is transmission constrained and not
13 capable of accepting any additional REG load, no new load can be connected.

14
15 **Financial Ratios:** HPDC achieved well above its regulated rate of return on deemed equity of
16 9.85% in 2013. This was largely due to the deferral of smart meters but also due to an economic
17 increase in the wood industry sector. HPDC's 2015 proposed rates are based on an OEB
18 prescribed return on equity which will insure that the utility continues to provide a safe and
19 rewarding work environment for its employees; that the utility continues to safely and efficiently
20 deliver electricity to its customers and to build shareholder value, all at the lowest rate possible.

21
22 As detailed in this application, HPDC plans to revamp its distribution system with the
23 replacement of over 100 poles in the next five years, as well as investing in public safety and
24 system reliability. All of HPDC's decision-making processes are focused on its goal of providing
25 a safe, effective, efficient and reliable service to its customers at the lowest possible rates.

Ex.1/Tab 1/Sch.2 - Proposed Revenue Requirement

HPDC proposes to recover through distribution rates a revenue requirement of \$1,186,876.

Table 1.0 below shows a comparison of the 2010 Board Approved Revenue Requirement versus the 2015 Test Year proposed Revenue Requirement.

The increase in the utility's 2015 Base Revenue Requirement from the last Board Approved Revenue Requirement is \$66,990 which represents a 6% increase. OM&A expenses have increased by 18% since 2010 mainly due to higher Maintenance and Operations costs as well as a new customer service and billing employee. The Depreciation Expenses have also increased by 26% mainly due to the inclusion of smart meters in the 2015 Test Year. The increase in OM&A is being offset by the decrease of 70% in PILs and a 218% increase in Revenue Offset. OM&A Expenses, Depreciation Expenses, PILs are discussed at Exhibit 4 and reasons for the change in Revenue Offsets are discussed at Ex.3/Tab 4.

Table 1.0: 2015 Proposed Revenue Requirements vs Last Board Approved

Particular	Board Approved	2015	Var \$	Var %
OM&A Expenses	\$923,667	\$1,087,287	\$163,60	18%
Amortization Expense	\$108,336	\$136,509	\$28,173	26%
Total Distribution Expenses	\$1,032,013	\$1,223,796	\$191,783	19%
Regulated Return On Capital	\$145,674	\$178,737	\$33,363	23%
Grossed up PILs	\$11,106	\$3,329	-\$7,777	-70%
Service Revenue Requirement	\$1,188,793	\$1,405,862	\$217,069	18%
Less: Revenue Offsets	-\$68,907	-\$218,986	-\$150,079	218%
Base Revenue Requirement	\$1,119,886	\$1,186,876	\$66,990	6%

Ex.1/Tab 1/Sch.3 - Budget and Accounting Assumptions

Budget Process

In early 2014 the previous General Manager of 3 years left the utility and a new General Manager was hired. The planning and rationale for the capital work that was completed prior to the hiring of the new General Manager were for the most part undocumented. The new General Manager has put considerable efforts into document internal process. The utility has reviewed the budget process of other utilities and has since then adopted its own process described below.

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

- revenue forecasts;
- operating, maintenance and administration ("OM&A"); and
- capital costs under the RRFE categories
 - System access
 - System renewal
 - System service
 - General plant

HPDC's budget is prepared annually by management and is reviewed and approved by the HPDC Board of Directors. The budget is prepared before the start of each fiscal year, and is approved in the first meeting of January. Once approved, it does not change and provides a plan against which actual results may be evaluated.

The OM&A costs presented at Exhibit 4 are the result of a business planning and work prioritization process that ensures that the most appropriate, cost effective solutions are put in place. The budgeting process used to determine the OM&A budget involves the following steps.

- Detailed expenses for prior 2-3 years are provided to the managers. Current year to date actual expenses are also provided. Managers are required to update current year forecast to aid in development of full year forecast estimates.
- Outside expenses for all department budgets are built based on analysis including previous years actual information, current year forecast, known changes in external costs, and changes in departmental activities or responsibilities in response to new legislation/regulations/industry activities;

- 1 • Variances in spending from prior years must be explained and documented, both at the
- 2 time of creating forecast and on a monthly basis as actuals are compiled;
- 3 • Review the headcount of the department for accuracy and outline any changes such as
- 4 vacancies, retirements etc;
- 5 • The General Manager prepares a total labor budget by department using projected wage
- 6 and benefit cost. Overtime and account distribution are based on previous years actual.
- 7

8 The General Manager compiles all forecasted OM&A expenditures to compare the total
9 projected expenditures and review year over year variances.

10 The forecasted capital budget is influenced, among other factors, by HPDC's capacity to finance
11 capital projects. Also, the availability of the workforce to complete a planned capital project is
12 equally influential. All proposed capital projects are assessed within the framework of its capital
13 budget priority as outlined in Distribution System Plan at Exhibit 2 (Capital Expenditures by
14 Project). Topics included in the budget process include:

- 15
- 16 • Customer Demand and Capacity;
- 17 • Renewal;
- 18 • Reliability;
- 19 • Regulatory Requirements;
- 20

21 The Distribution System Plan presented at Ex.2/Tab 6/Sch.1 supports the capital and
22 maintenance programs needed to maintain and enhance the reliability of HPDC's distribution
23 system.

24 **Budget Approval**

25 On an annual basis, HPDC reviews capital projects identified for potential implementation and
26 attempts to prioritize each project based on guidelines defined in the asset management
27 strategy - and in the Asset Lifecycle Optimization Policies (presented as appendices to the
28 Distribution System Plan at Ex.2/Tab 6/Sch.1) on a relative basis. After examining all
29 recommended projects they are listed in order from higher to lower priority and then moved
30 forward based on appropriate financial parameters. The responsibilities of General Manager are
31 listed below.

- 1 • It is the responsibility of the General Manager to coordinate the development of the
- 2 operating budget, capital budget, forecast processes and pro-forma financial statements.
- 3 • The Operations/Maintenance Supervisor is responsible for preparing its operating
- 4 budget, capital budget, and rolling forecasts.
- 5 • The General Manager is responsible for presenting and recommending the budget to the
- 6 Board of Directors for approval.
- 7 • It is the responsibility of the Board of Directors, on behalf of the shareholder, to approve
- 8 the budget.
- 9

10 **Inflation**

11 Staff and management salaries are adjusted yearly to reflect inflation and cost of living. The cost
12 of living is based on an inflation rate of 2% as published by the Bank of Canada. The Bank of
13 Canada is a well-known, reliable and widely used source in establishing inflation rates, not to
14 mention the prescribed interest rates approved by the OEB. The Central Bank's system
15 provides a clear measure of the effectiveness of monetary policy, and increases the
16 predictability of inflation.

Ex.1/Tab 1/Sch.4 - Load Forecast Summary

The load forecast presented at Exhibit 3 is based on a methodology which predicts class specific consumption using a multiple regression analysis that relates historical monthly wholesale kWh usage to monthly historical heating degree days and cooling degree days. Neither the employment levels, monthly full-time employment levels for the local Economic Region, the number of peak days nor the number of days in the month yielded meaningful results in predicting HPDC's load. Therefore, these were excluded as explanatory variables.

After testing numerous combinations and scenarios, the utility created two customer specific variables in order to yield more significant results. The use of a "winter" variable and a "shut down" variable helped produce a more robust load forecast. More detailed model statistics can be found at Ex.3/Tab 1/Sch.7-8.

Weather normalized values are determined by using the regression equation with a 10-year average monthly degree days (2003-2013). The 10-year average is consistent with recent years' weather and has been used in other electricity distribution rate applications and has been accepted by the Board.

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

The 2015 Final Load Forecast is presented at the next page. Details of the methodology and CDM adjustments are presented at Ex.3/Tab 1-3.

Table 1.1 - Load Forecast

<u>Customers or Connections</u>				
Customer Class Name	2010 Board Appr	Test Year 2015	Variance \$	Variance %
Residential	2,322	2,273	-49	-2%
General Service < 50 kW	391	467	76	20%
General Service > 50 to 1499 kW	38	40	2	5%
Intermediate	3	2	-1	-39%
Sentinel Lighting	10	13	3	30%
Street Lighting	922	951	29	3%
TOTAL	3,686	3,746	60	2%
<u>Metered kWh (CDM Adjusted)</u>				
Customer Class Name	2010 Board Appr	Test Year 2015	Test Year 2015	Test Year 2015
Residential	27,043,280	24,257,123	-2,786,157	-10%
General Service < 50 kW	12,897,126	10,891,433	-2,005,693	-16%
General Service > 50 to 1499 kW	20,927,356	22,260,744	1,333,388	6%
Intermediate	24,623,194	20,565,227	-4,057,967	-16%
Sentinel Lighting	31,710	16,617	-15,093	-48%
Street Lighting	1,144,089	430,600	-713,489	-62%
TOTAL	86,666,755	78,421,746	-8,245,009	-10%
<u>kW CDM Adjusted</u>				
Customer Class Name	2010 Board Appr	Test Year 2015	Test Year 2015	Test Year 2015
Residential	0	0	0	0%
General Service < 50 kW	0	0	0	0%
General Service > 50 to 1499 kW	58,015	63,249	5,234	9%
Intermediate	70,701	60,563	-10,138	-14%
Sentinel Lighting	87	50	-37	-43%
Street Lighting	3,190	4,451	1,261	40%
TOTAL	131,993	128,313	-3,680	-3%

Ex.1/Tab 1/Sch.5 - Rate Base and Capital Planning

A Rate Base is the value of property on which a utility is permitted to earn a specified rate of return in accordance with rules set by the OEB. The Rate Base underlying HPDC's revenue requirement includes a forecast of net fixed assets, plus a working capital allowance defined as 13% of the sum of the cost of power and controllable expenses. Controllable expenses include operations and maintenance, billing and collecting and administration expenses. HPDC's proposed 2015 Rate Base is \$1,186,876. Table 1.2 and 1.3 below shows a comparison of the 2010 Board Approved Revenue Requirement versus the 2015 Test Year proposed Revenue Requirement.

Table 1.2 - Rate Base

Particulars	Board Appr 2010	Test Year 2015	Var \$	Var %
Capital Assets in Service:				
Gross Fixed Assets (average)	\$3,873,122	\$5,071,133	\$1,198,011	31%
Accumulated Depreciation (average)	-\$3,053,718	-\$3,628,273	-\$574,555	19%
Average Balance	\$819,404	\$1,442,860	\$623,456	76%
Working Capital Allowance	\$1,173,406	\$1,316,443	\$143,037	12%
Total Rate Base	\$1,992,810	\$2,759,303	\$766,493	38%

Table 1.3 - Working Capital Allowance

Expenses for Working Capital	Board Appr 2010	Test Year 2015	Var \$	Var %
<u>Eligible Distribution Expenses:</u>				
3500-Distribution Expenses - Operation	\$95,218	\$143,864	\$48,646	51%
3550-Distribution Expenses - Maintenance	\$284,565	\$408,504	\$123,939	44%
3650-Billing and Collecting	\$230,079	\$279,492	\$49,413	21%
3700-Community Relations	\$5,000	\$8,000	\$3,000	60%
3800-Administrative and General Expenses	\$308,815	\$247,428	-\$61,387	-20%
Total Eligible Distribution Expenses	\$923,677	\$1,087,287	\$163,610	18%
3350-Power Supply Expenses	\$6,899,032	\$9,039,200	\$2,140,168	31%
Total Expenses for Working Capital	\$7,822,709	\$10,126,487	\$2,303,778	29%
Working Capital factor	15.00%	13.00%	-2.00%	-13%
Total Working Capital	\$1,173,406	\$1,316,443	\$143,037	12%

The proposed Rate Base for the 2015 Test Year of \$2,759,303 reflects an increase of \$766,493 from the 2010 Board Approved. The increase suggests a prudent and reasonable investment in the distribution assets and is necessary in order to meet obligations towards its distribution

system such as maintaining its asset at a high electrical safety standards. The increase in Rate Base also reflects the inclusion of smart meters into Rate Base.

As described in HPDC's Distribution System Plan ("DSP"), the utility's capital expenditures are reasonable and as a result there are few identifiable separate "projects" in excess of the materiality threshold to be reported on.

The major contributors to the increase in Rate Base is the inclusion of smart meters into 2015 fixed assets, the "Pole Replacement Program", "Building Renovations" and the purchase of a bucket truck in 2012 and the purchase of 2 pickup trucks.

The utility is not proposing to recover any costs from any rate class renewable energy connections/expansions, smart grid, and regional planning initiatives.

Table 1.4 presented below summarizes the historical capital additions since the utility's last Cost of Service and also forecasts 5 years of planned capital investments.

Table 1.4 - Capital Expenditure Summary

	Historical (Actual)				Forecast (planned)					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
Category	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
System Access					33	11	12	13	14	15
System Renewal	18	13	22	20	64	86	95	100	105	110
System Service		5		7	2	19	21	6	6	7
General Plant	5	27	242	32	80	60	48	39	51	67
Capital Contributions					-33	-11	-12	-13	-14	-15
Change in WIP										
Total	23	45	264	59	146	165	164	145	162	184

Ex.1/Tab 1/Sch.6 - Overview of Operation Maintenance and Administrative Costs

The increase of approximately \$163K in OM&A spending from its 2010 Cost of Service to the 2015 Test Year can be attributed to several factors. Operation and Maintenance costs are for the most part aimed at HPDC's distribution system and its protective equipment, along with general maintenance on overhead and underground assets. The costs related to operations accounts for approximately \$48K of the increase while costs associated with maintenance run at approximately \$127K. The increase in overall Operation and Maintenance is offset by a reduction of 65K in administrative costs.

Table 1.5 - Summary of Recoverable OM&A Expenses

	Board Approved	2015	Var \$	Var %
Operations	\$95,218	\$143,864	\$48,646	51%
Maintenance	\$284,565	\$412,504	\$127,939	45%
Billing and Collecting	\$230,079	\$279,492	\$49,413	21%
Community Relations	\$5,000	\$8,000	\$3,000	60%
Administrative and General	\$308,815	\$243,428	-\$65,387	-21%
Total	\$923,677	\$1,087,287	\$163,610	18%

A summary of cost drivers are itemized below

Operations:

- Increase in Overhead distribution lines and feeders
- Reallocation of account 5645 "Employee pension and benefits" cost to associated operations accounts

Maintenance:

- Increase in maintenance of poles, towers and fixtures
- Increase in overhead conductors and devices.
- Reallocation of account 5645 "Employee pension and benefits" cost to associated maintenance accounts

Billing and Collecting:

- Increase in customer billing (new employee)
- Decrease in meter reading
- Reallocation of account 5645 "Employee pension and benefits" cost to associated billing and collecting accounts

1 Community Relations:

- 2 • Increase in advertising expenditures

3 Administrative and General:

- 4 • Decrease in outside services employed.

- 5 • In the 2010 Board Approved budget, an amount of 90,500\$ was allocated
6 for Employee pension and benefits but since the amount is always
7 redistributed at year end, in the proper labor accounts as per the work
8 completed (ex: Maintenance of O/H Conductors and devices), Employee
9 pension and benefits cost is 0\$ for 2015.

10
11 The derivation of HPDC's revenue requirement and the derivation of the revenue
12 sufficiency can be found at Exhibit 6 and specifics surrounding the OM&A costs are
13 presented throughout Exhibit 4.

Ex.1/Tab 1/Sch.7 - Statement of Cost of Capital Parameters

HPDC has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, December 11, 2009 in determining the cost of capital. In calculating the cost of capital, HPDC has used the deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the OEB letter of November 15, 2012, for the allowed return on equity and where appropriate for debt. HPDC's cost of capital for 2015 has been calculated as 6.48%, as shown in the table 1.5 below. Table 1.6 Show the deemed Interest Expense (\$76,091) and the Return on Deemed Equity (\$102,646) which is included in the utility's Revenue Requirement.

Table 1.6 – Overview of Capital Structure

Particulars	Cost Rate
	(%)
Debt	
Long-term Debt	4.77%
Short-term Debt	2.16%
Total Debt	4.60%
Equity	
Common Equity	9.30%
Preferred Shares	
Total Equity	9.30%
Total	6.48%

Table 1.6 – Overview of Capital Structure

Debt				
Long-term Debt	56.00%	\$1,545,210	4.77%	\$73,707
Short-term Debt	4.00%	\$110,372	2.16%	\$2,384
Total Debt	60.0%	\$1,655,582	4.60%	\$76,091
Equity				
Common Equity	40.00%	\$1,103,721	9.30%	\$102,646
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$1,103,721	9.30%	\$102,646
Total	100.0%	\$2,759,303	6.48%	\$178,737

HPDC understands that the OEB will most likely update the ROE for 2015 at a later date; HPDC commits to updating its Capital Structure accordingly and as new information becomes available.

Ex.1/Tab 1/Sch.8 - Overview of Cost Allocation and Rate Design

The main objectives of a Cost Allocation study is to provide information on any apparent cross-subsidization among a distributor's rate classifications and to eventually be used in future rate applications.

HPDC has prepared and is filing a cost allocation information filing consistent with the utility's understanding of the Directions, the Guidelines, the Model and the Instructions issued by the Board back in November of 2006 and all subsequent updates.

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

HPDC has used the updated Board-approved Cost Allocation Model and followed the instructions and guidelines issued by the Board to enter the 2014 data into this model. Two of the classes' revenue to cost ratios ended up outside the Board range. For those two classes, the utility proposes a multi-year reallocation to reduce the impact on the bills. The table below shows the utility's proposed Revenue to Cost reallocation based on an analysis of the proposed results from the Cost Allocation Study vs the Board imposed floor and ceiling ranges.

Table 1.7 - Proposed Allocation

2015 Reallocation of Costs				Proposed multiple year allocation for classes outside of the range	
Customer Class Name	Calculated Revenue to Cost Ratio	Proposed Revenue to Cost Ratio	Variance	2016	2017
Residential	0.95	0.96	-0.02		
General Service < 50 kW	1.09	1.07	0.02		
General Service > 50 to 4999 kW	2.05	1.60	0.45	1.20	
Intermediate	0.43	0.65	-0.22	0.80	
Sentinel Lights	0.75	0.80	-0.05		
Street Lighting	1.13	1.13	0.00		

Distribution revenue is derived through a combination of fixed monthly charges and volumetric charges based either on consumption (kWh's) or demand (kW's). Revenues are collected from

1 6 customer classes including: Residential, General Service less than 50 kW, General Service
2 greater than 50 kW, Intermediate, Sentinel (USL) and Street Lighting.
3 Fixed rate revenue is determined by applying the current fixed monthly charge to the number of
4 customers or connections in each of the customer classes in each month. Variable rate revenue
5 is based on a volumetric rate applied to meter readings for consumption or demand volume.
6 Existing volumetric rates include a component to recover allowances for transformer ownership.
7 Commodity Charges and deferral and variance rate riders, along with HPDC specific other
8 adders and rate riders added to the distribution rates to arrive at a final all-encompassing bill.

Ex.1/Tab 1/Sch.9 - Overview of Deferral and Variance Account Disposition

HPDC proposes to dispose of a credit of \$491,834 related to Group 1 and Group 2 Variance/Deferral Accounts. This credit includes carrying charges up to and including April 30, 2015. HPDC also proposes to dispose of the following;

- a net debit balance of \$16,009 (\$5,027 +\$10,625) recorded in account 1568 being the Lost Revenue Adjustment Mechanism Variance Account and
- a credit of \$41,479 being the balance of account 1576 for accounting changes under CGAAP,
- to dispose of a debit of \$51,087 for the Net Book Value of Stranded Meters

Group 1 and Group 2 DVA balances are proposed to be disposed of over 1 years. Both Stranded Meters Rate Rider and Smart Meter Disposition riders are proposed to be disposed over 4 years to minimize their effects on the bill impacts.

HPDC has followed the OEB's guidance as provided in the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

As of December 31, 2013, HPDC recorded principal balances in the following Board-approved deferral and variance accounts.

Table 1.8 - Account and Balances sought for disposition/recovery

		Amounts from Sheet 2
LV Variance Account	1550	29,891
Smart Metering Entity Charge Variance Account	1551	2,738
RSVA - Wholesale Market Service Charge	1580	(133,451)
RSVA - Retail Transmission Network Charge	1584	154,454
RSVA - Retail Transmission Connection Charge	1586	70,257
RSVA - Power (excluding Global Adjustment)	1588	(145,007)
RSVA - Global Adjustment	1589	14,598
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	(152,852)
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	(324,681)
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	(49,637)
Total of Group 1 Accounts (excluding 1589)		(548,288)
Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	35,936
Other Regulatory Assets - Sub-Account - Other ⁴	1508	1,696
Retail Cost Variance Account - Retail	1518	0
Misc. Deferred Debits	1525	4,223
Total of Group 2 Accounts		41,855
LRAM Variance Account	1568	16,009
Total Balance Allocated to each class (excluding 1589 and 1586)		(506,432)
Total Balance Allocated to each class from Account 1589		14,598
Total Balance Allocated to each class (including 1589 and excluding 1586)		(491,834)
Accounting Changes Under CGAAP Balance + Return Component	1576	(42,905)
Total Balance Allocated to each class for Accounts 1575 and 1576		(42,905)

Ex.1/Tab 1/Sch.10 - Overview of Bill Impacts

A summary of the bill impacts by class is presented below. Detailed explanations of the bill impacts are presented at Exhibit 8.

Table 1.9 - Account and Balances sought for disposition/recovery

Class	Current Board Approved	Proposed 2015 Rates	Bill Impact
Residential	\$39.46	\$40.09	1.60 %
General Service < 50 kW	\$46.75	\$47.83	2.31 %
General Service > 50 to 4999 kW	\$469.07	\$473.35	0.91 %
Intermediate	\$6,629.41	\$6,914.46	4.30 %
Sentinel Lights	\$13.91	\$13.35	-3.98 %
Street Lighting	\$13.90	\$14.77	6.22 %
TOTAL			

The bill impacts vary by customer class, ranging from a decrease of 3.98% for the Sentinel Lights Class to increases of 1.60% for the Residential Class, 2.31% for the GS< 50 and and 0.91% for GS>50 respectively. The Intermediate class has increased by 4.30%. Finally, the bills for the Street Lighting class is increasing by 6.22%.

The impact also includes the rate riders to dispose of the significant balances owed to ratepayers that have accumulated in certain variance accounts. An increase in rates for retail transmission service and wholesale market service also contribute to the utility's distribution rates. Lastly, the expiry of many rate riders which are schedule to expire in May of 2015 help reduce the overall bill impacts.

HPDC notes that the utility, its shareholder and all of HPDC's customers will be affected by the outcome of this Application.

Detailed Bill Impacts by rate class are presented at Ex.8/Tab 1/Sch.14.

Customer Engagement

Ex.1/Tab 2/Sch.1 - Overview of Customer Engagement

In response to the requirement of the RRFE, HPDC has started engaging in new Customer Engagement Initiatives. It is HPDC's view that effective customer engagement opens up new opportunities for utilities by creating a dialogue where before there had been none.

It is important to HPDC and its Shareholder that its employees support and give back to their community, and as such the utility participates in several community projects and events (at no cost to ratepayers) such as:

- Christmas Lights: As the main contributor to this popular annual holiday celebration, the volunteer crew from HPDC assists with wiring, set-up and removal of Christmas lights throughout the town of Hearst.
- Canada Day: HPDC, in partnership with the Town of Hearst, also helps the coordination and operation of the festivities of Canada Day which runs for a period of one week at the end of June. The volunteer crew assists with energizing the big tent which is setup downtown Hearst to host music and entertainment, as well as to offer lunches and kids' activities.
- Financial Assistance Program: HPDC provides support through partnerships with the province's Low-income Energy Assistance Program (LEAP). Both of these emergency financial assistance programs are designed to help low-income customers who have difficulty making their electricity bill payments.
- Educational Publications: The utility has recently launched a new program which aims at educating the customers on segments of the bill. Bi-monthly, the utility publishes through newspaper, an article which gives information and updates on the industry and/or explains how costs/rates are determined. The utility is also working to publish on their website information about the industry, the regulator and the rate making process.
- Conditions of Service; as a collaborative project with other French utilities in Ontario, HPDC is working on translating its conditions of service.

1 HPDC also conducted a customer satisfaction survey with its residential class. The survey was
2 developed in-house through a collaborative effort of, Hearst Power Distribution Company
3 Limited Inc. Hydro Hawkesbury Inc., Hydro 2000 Inc., Cooperative Hydro Embrun, Renfrew
4 Hydro and Ottawa River Power Corporation ("the Group"). The Group was also assisted with
5 Tandem Energy Services Inc. in developing the survey.

6
7 The main purpose of the collaborative effort was to minimize the cost of the survey by the
8 sharing of intellect and resources. HPDC conducted its survey during the first 2 weeks of
9 September. A report of the survey results is presented at the next page.

10
11 HPDC is of the opinion that Utilities have a higher chance of successfully engaging their
12 customers when they think about what will please those customers. It is critical for utilities to
13 understand what really has meaning to their customers and how their customers form an
14 opinion of the utility. Effective customer engagement addresses each of these through
15 presenting meaningful information in an accessible manner.

16
17 Reaching out to customers through CDM programs; Engaging in CDM programs help
18 encourage customers to become more knowledgeable and concerned about how they use, and
19 what they spend, on energy.

20
21 Successful utilities are becoming more customer-centric by investing in new capabilities,
22 programs, and technologies that allow them to market and communicate more effectively and
23 efficiently. Table 1.10 below details the utility's customer engagement efforts.

24
25 The utility did not reach out to inform its customers of the proposals being considered for
26 inclusion in the application and the value of those proposals to customers i.e. costs, benefits,
27 and the impact on rates. The utility discussed various options with its Board of Director and
28 none appealed to the utility. The idea of a Town Meeting was explored but the based on history,
29 there is usually very little interest from the customer in attending such meeting. The utility is
30 working on revamping its website to include information on the rate process and the utility
31 capital investments. Unfortunately, this was not done in time to seek feedback from the
32 customer.

1

Table 1.10 - Customer Engagement Activities (Appendix 2-AC)

Provide a list of customer engagement activities	Provide a list of customer needs and preferences identified through each engagement activity	Actions taken to respond to identified needs and preferences. If no action was taken, explain why.
E-Billing - Online account services	Customer needs online access to their consumption data, invoice and details, as well as their historical data.	HPDC created the E-billing account service which provides access to customer invoices in electronic copies and consumption data, current and historical. Customers may also leave feedback using links provided in their individual web accounts, which assists HPDC in enhancing its online portal.
CDM and SaveOnEnergy programs - Inform and assist customer on IESO conservation and demand management programs	Customers express the need for consultation and assistance with these programs. Greater details and conditions of RetroFit and SaveOnEnergy programs were requested.	Marketing of programs through HPDC's online website and newspaper ads, as well as group and one-on-one consultations. Burman Energy was contracted to assist and simplify with application process for conservation programs.
Bi-annual customer survey - Identify customer needs and opinions	Customers were given a possibility to express their needs and opinions by completing an online or hard copy survey. Fifteen percent (15%) of HPDC's residential customers responded to the survey. The results identified an overall good or better performance.	As the survey identified possible areas where HPDC could improve, the following actions were taken: - Educational publications on various energy subjects; - Build database of customers opinions and establish trends; - Promote and inform on HPDC's various services offered; - Facilitate access to customer energy data and behind the meter services.
Christmas lights and Canada Day festivities	HPDC customers seek to have lights during Christmas time, and assistance for Canada Day festivities and entertainment. Customers are looking for HPDC to participate and give back to the community.	HPDC volunteer crew sets up Christmas lights, and provides assistance during Canada Day festivities.
Financial assistance program (LEAP)	Low-income customers need assistance to pay for higher costs of heating during winter months.	HPDC continues to promote verbally, through educational publications as well as on their website, on emergency financial assistance programs that are designed to help low-income customers having difficulty making their electricity bill payments.
Educational publications	Customers need to be kept informed on the fast changing electrical sector.	Bi-monthly written educational publications on various electrical subjects via newspapers and the online portal were established to keep customers educated & informed, and provide some background on the complex electrical sector.

2

1 **Ex.1/Tab 2/Sch.2 - Customer Satisfaction Survey**

2 HPDC's Customer satisfaction survey is presented at the next page.

3

4 **Ex.1/Tab 2/Sch.3 - Educational publications**

5 HPDC's Educational Publications for 2015 are presented following the Customer Satisfaction

6 Survey results. Please note that these publications are in French as 85% of Hearst's population

7 is Francophone.



2014 Customer Satisfaction Survey

Hearst Power Distribution Company Limited
925 Alexandra Street, Hearst, ON P0I

Executive Summary

As part of a commitment to provide customers with reliable and quality utility services that meet current and future needs, Hearst Power Distribution Company Limited ("HPDCL") surveyed its customers in September of 2014. The 2014 survey is the first survey conducted by the utility. The utility intends on conducting the survey on a bi-annual basis in an effort to monitor and assess residential and commercial customer knowledge, perceptions and satisfaction regarding utility services.

Survey Objectives

In 2014, the objectives included measuring:

- Utility's overall performance.
- Reliability.
- Billing and Payment Options
- Quality of service provided by customer care.
- Quality of service provided by field employees.
- Customer awareness and usage of the department's online services.
- Customer support for greater use of renewable energy.
- Customer opinions regarding how aggressively sustainable practices should be pursued.
- Cost of Electricity
- Overall Performance

Survey Methods

The survey was developed in-house through a collaborative effort of, Hearst Power Distribution Company Limited Inc. Hydro Hawkesbury Inc., Hydro 2000 Inc., Cooperative Hydro Embrun, Renfrew Hydro and Ottawa River Power Corporation ("the Group"). The Group was also assisted with Tandem Energy Services Inc. in developing the survey.

The main purpose of the collaborative effort was to minimize the cost of the survey by the sharing of intellect and resources.

The Group briefly contemplated using a 3rd party company to conduct the survey however, the costs, which were estimated at approximately \$20,000 or \$9 per customer, were felt to be unjustifiable by the Group and its Board of. Another disadvantage of a 3rd party survey was that the surveys are administered by telephone to 400 random residential customers. The Group felt that all its customer should have equal opportunity to complete the survey, rather than a random sample. Lastly, the duration of the 3rd party survey was estimated at 18 minutes which the utilities felt was too long.

The survey was also sampled with a select group of customers before it was published. Based on the comments received by the sample group, the survey was further revised to adopt the recommendations of the customer.

Developing an in-house survey gave the group more control and flexibility surrounding the delivery of the survey. The group approached a select number of customers for their opinion on the method in which they would prefer to be approached by the surveyors (e.g. written survey, online survey or phone survey). The customer's least preferred method was a phone survey. Based on this feedback, 3 of the 6 utilities opted to send the survey as a bill insert and the other 3 utilities opted to post the survey on their website.

In Hearst's case, a written survey was sent along with the customer bills, to all 2,274 customers. The utility established that the desired sampling margin of error (confidence interval) was to be no greater than (+/-) 5 percentage points at a 95% confidence level. With those parameters, the recommended sample size was determined to be 329. The utility received 340 responses to its survey which represents 15%.

CONTENTS

Executive Summary	2
1. Socio-demographics	4
2. Customer views on Reliability	7
3. Billing Services and Payment Options	9
4. Customer Services	11
5. Customer Services - Field Employees	13
6. Customer awareness and usage of the department's online services	15
7. Customer views on Renewable Energy	17
8. Customer views on Sustainability	19
9. Customer views on Cost of Electricity	21
10. Customer views on Overall Performance	22
11. Recommendations	25

1. Socio-demographics

The pros and cons of including socio-demographic questions in a survey were considered. Some of the benefits include; knowing the demographic characteristics of your respondents will help you in determining how close the sample replicates the population. Furthermore, if sample sizes are large enough, it enables you to differentiate between different sub-groups. For example, if your service area is prominently "high-income", the response to "electricity costs" may be significantly different than if you have a service area that is mainly "low-income". Another example is that "rental properties" generally include utilities. For that reason, tenants tend to worry less about reducing electricity costs and conservation. Questions such as "age group" can also be useful. A family with teenagers tend to use a lot more electricity than a retired couple for example. Understanding your customers also helps in establishing means of communications between the utility and its customers.

On the other hand, you need a substantial sample to draw any statistically meaningful conclusions. If you have a smaller sample at your disposal, differentiating between certain socio-demographic sub-groups might be meaningless. Also, adding socio-demographic questions lengthens your survey significantly and research shows that the longer a survey, the higher the dropout rate. Lastly, some respondents may be put off by socio-demographic questions and feel that these questions compromise the anonymity of the survey or experience these questions as an invasion of their privacy.

The Group ultimately decided that including socio-demographic questions would be insightful to the utility. Since this information will most likely not change in future years, the Group will most likely exclude these questions in future surveys.

The results of Hearst’s socio-demographic section of the survey are presented below.

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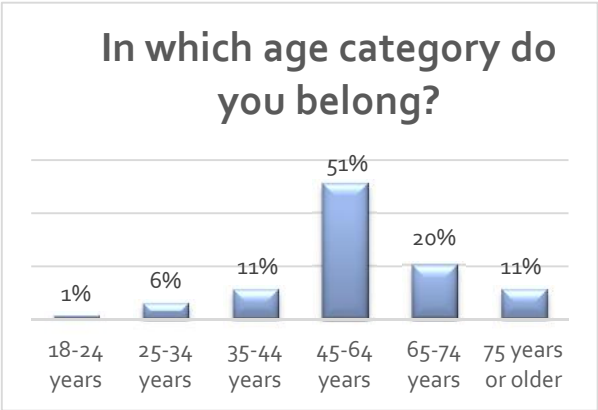


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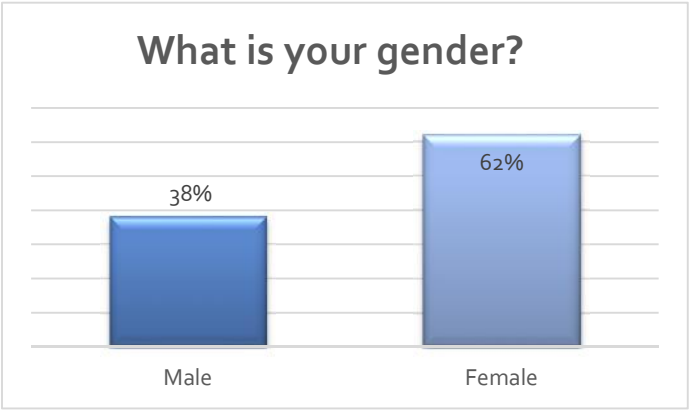


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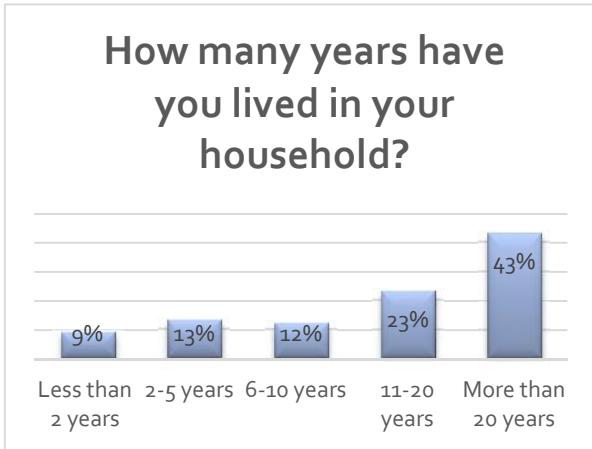


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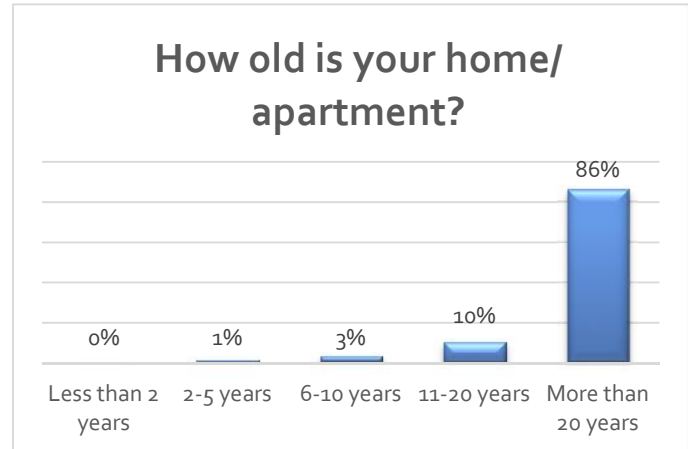


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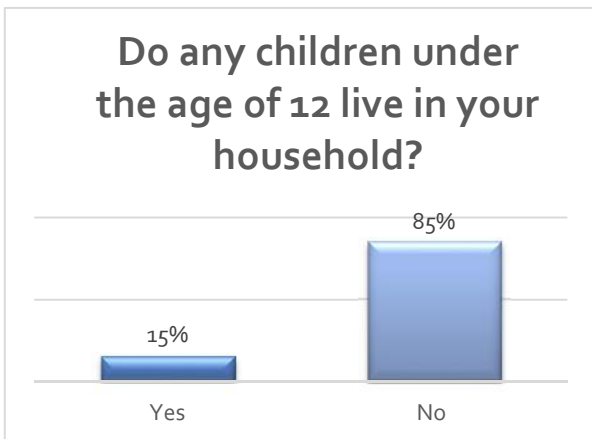


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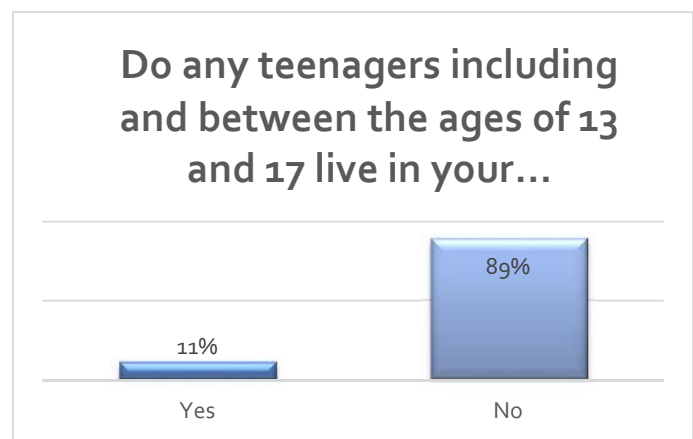


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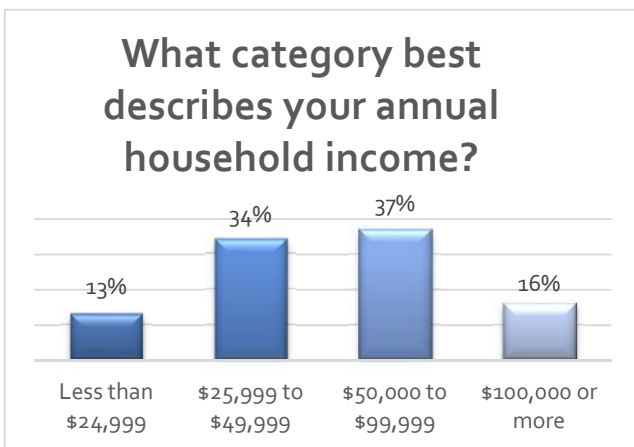


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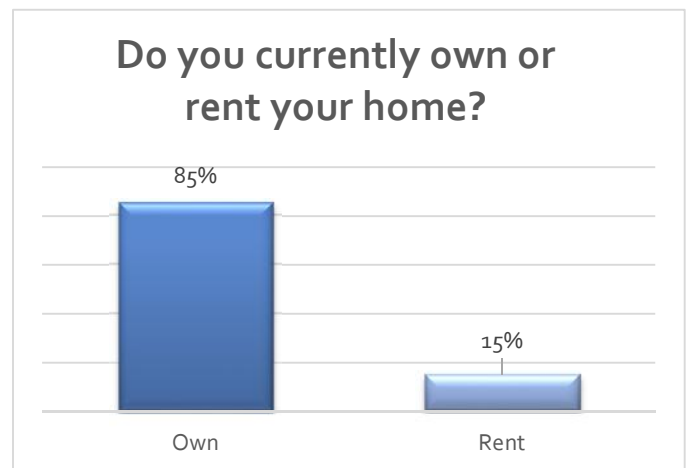


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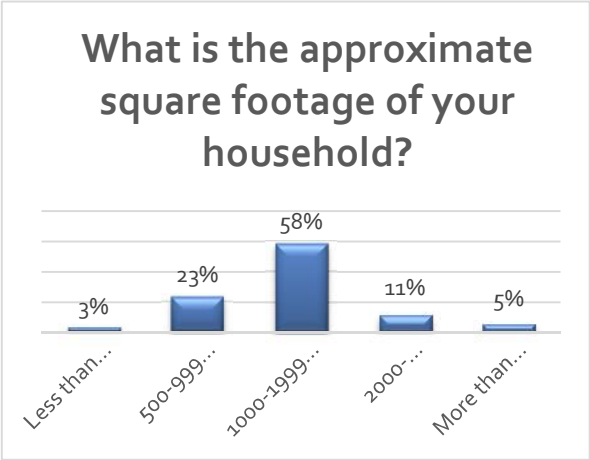
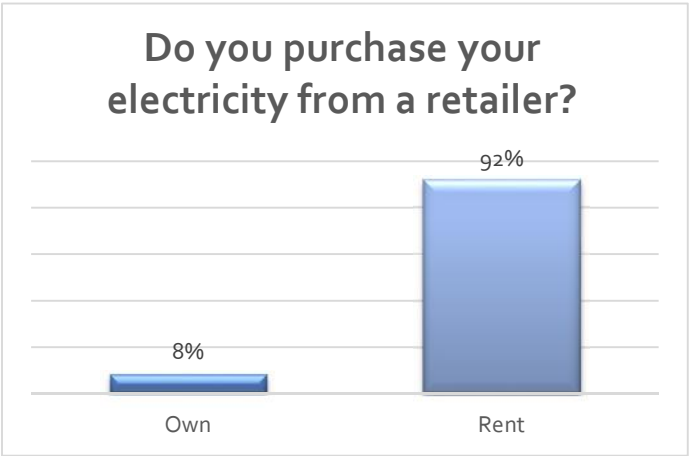


table 1.10



2. Customer views on Reliability

Overall Reliability of the Utility is rated highly by its residents. In 2014, 96% all residential customers rated overall Reliability as consistent while only 4% rated it as not being consistent. In terms of restoring power after a power outage, 29% of the respondents rated the utility as excellent and 29% rate the utility as good. Only 8% rated the utility fair and none rated it as poor.

32% rated the utility’s ability to minimize the number of power outages as excellent, 52% rate it is as good, 15% as fair and 1% as poor. The results of the reliability section of the survey are presented below.

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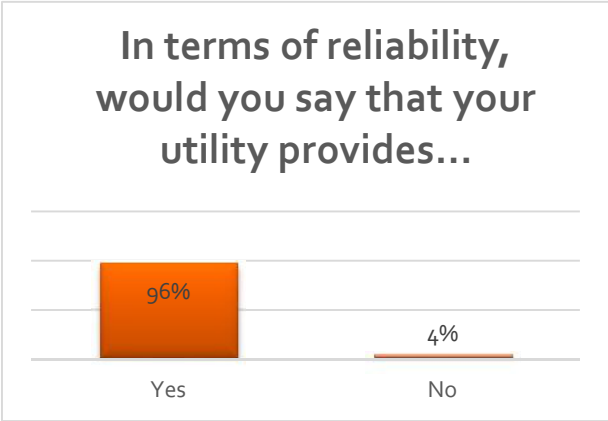


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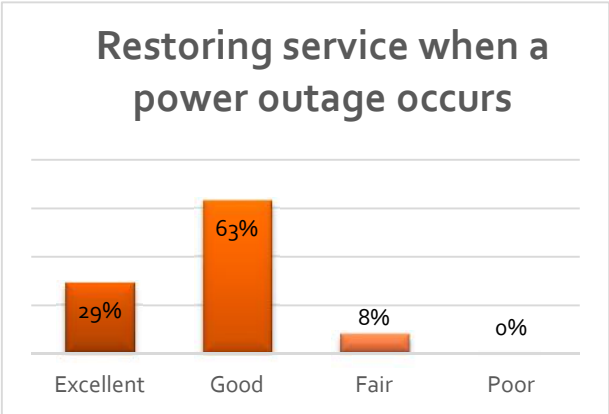


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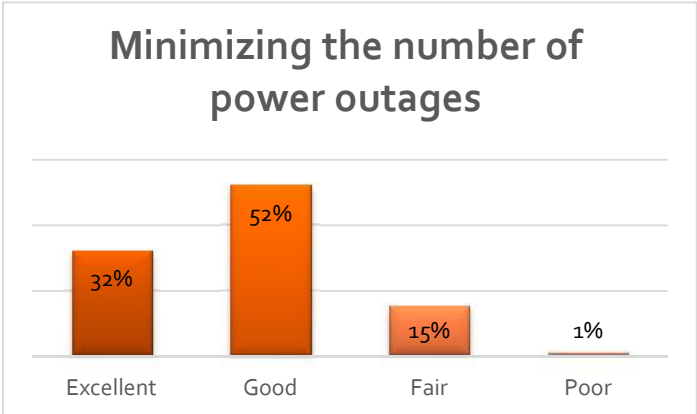


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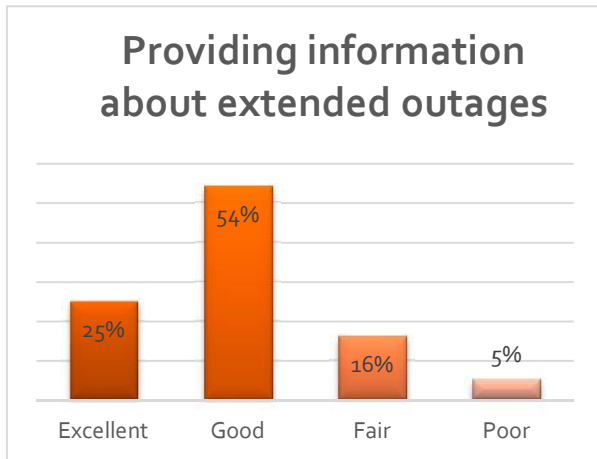


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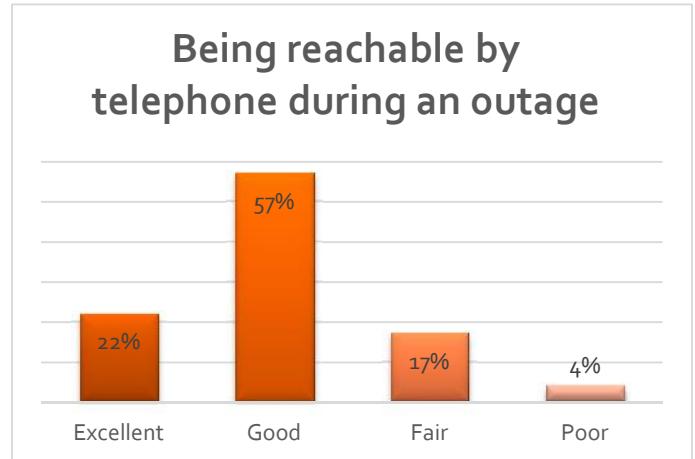


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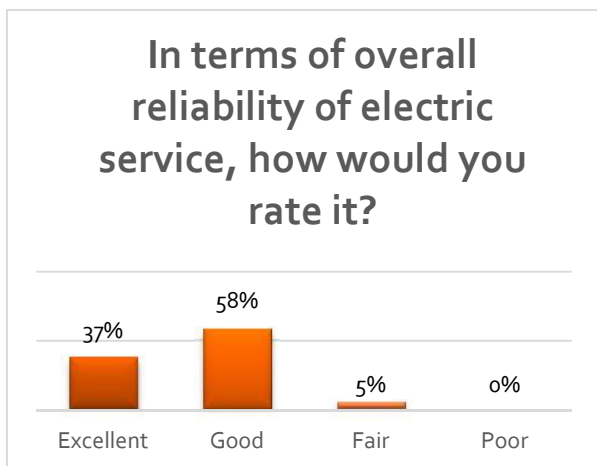
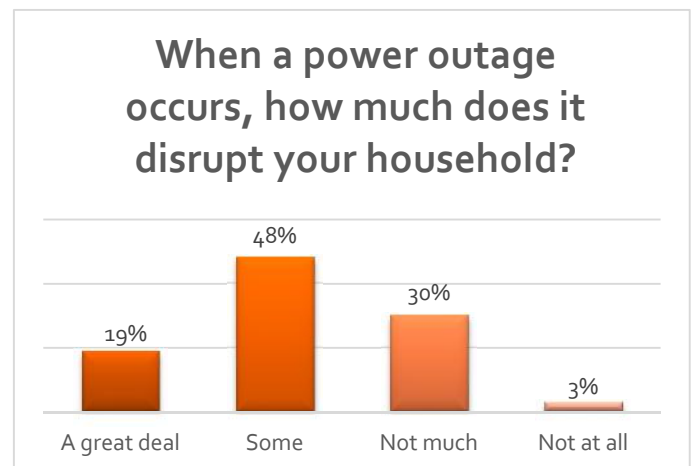


table 2.6



3. Billing Services and Payment Options

Residential customers continue to give high ratings to utility billings. In 2014, residential and commercial customers rated payment options above good. The average ratings for ease of understanding utility bills was also above good for residential. The average ratings for ease of understanding utility bills is also above good.

Residential customers rated accuracy of billing above good. Residential customer ratings for payment options were overall very positive.

HPDCL offers its customers alternative payment options in addition to mailing payment or dropping it off at the utility’s office. The alternative payment options include:

- Paying online using a credit card
- Paying by automatic withdrawal from checking or savings account

In 2014, more than nine out of ten residential customers (92%) were aware of at least one alternative payment option with awareness being highest for automatic withdrawal from checking or savings accounts (51%). Awareness for the option of dropping off payment at the utility’s offices was second highest 45%, followed by online payment by credit card (33%).

Table 3.0

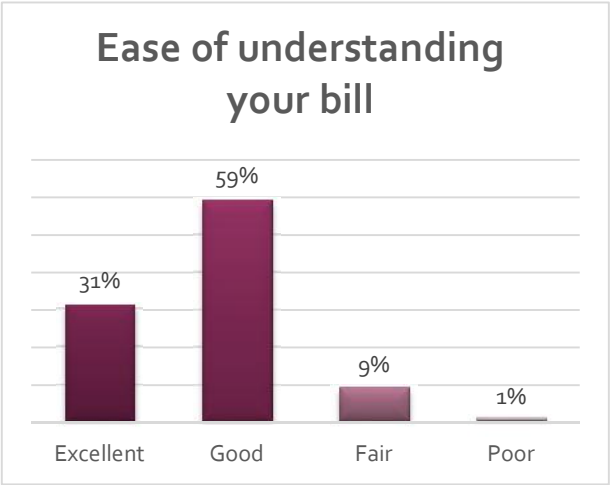


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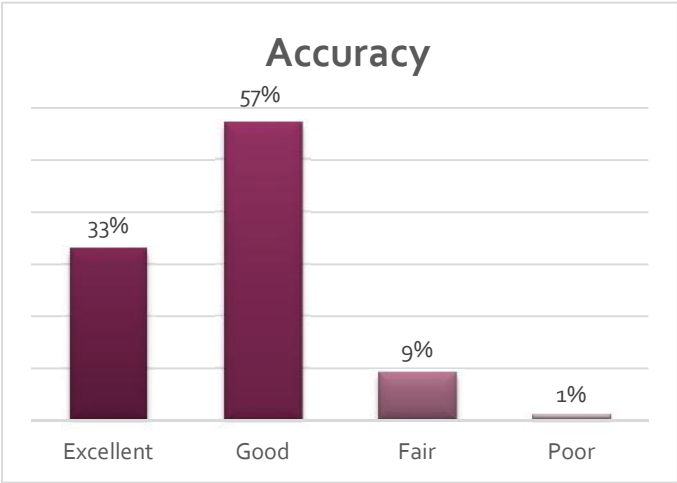


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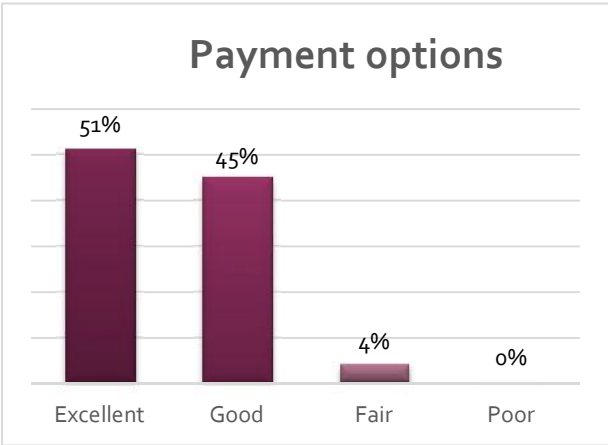
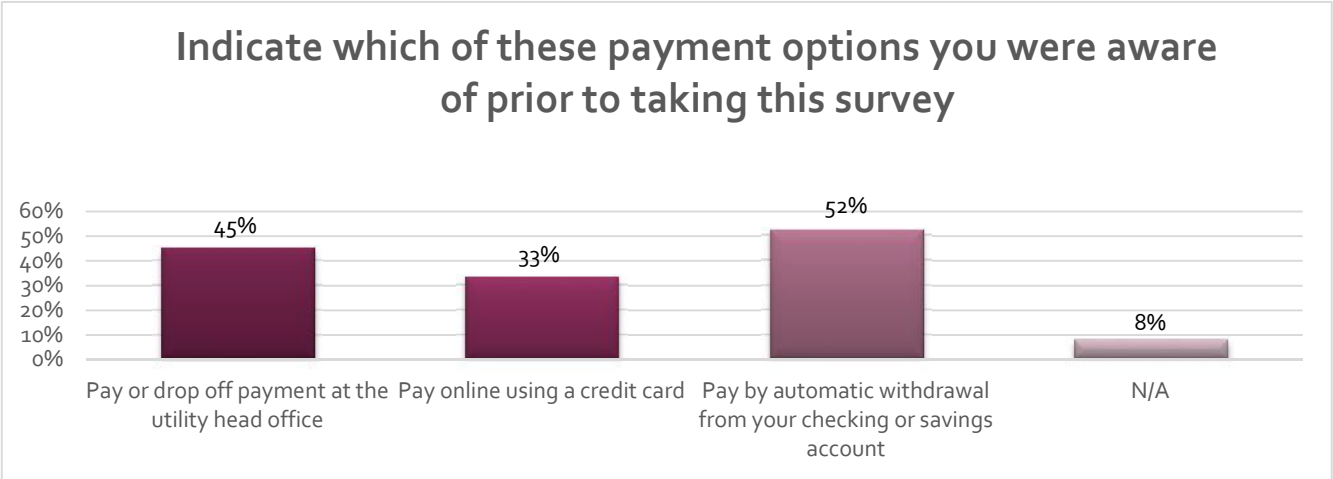


Table 3.3

table 3.4



4. Customer Services

In 2014, nearly one-quarter of the residential customers (24%) had contacted the Customer Care Center during the past 12 months with inquiries related to the utility. Among residential customers who contacted the Customer Service Representative, 76% said that their information needs had been met.

Customers who had contacted the Customer Care Center were then asked to rate the customer care representative on specific service attributes: courtesy, knowledge, time and resolution. Residential customers who had contacted the Customer Care Center gave the customer care representative an overall average rating that was well above good in all categories. Specifics of each attribute are shown in the tables below.

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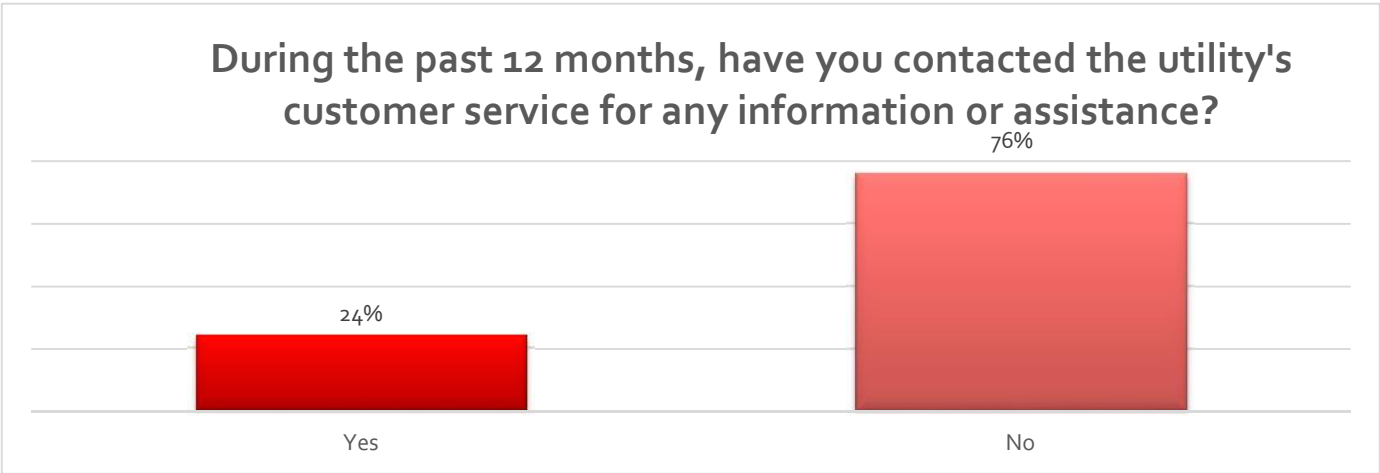


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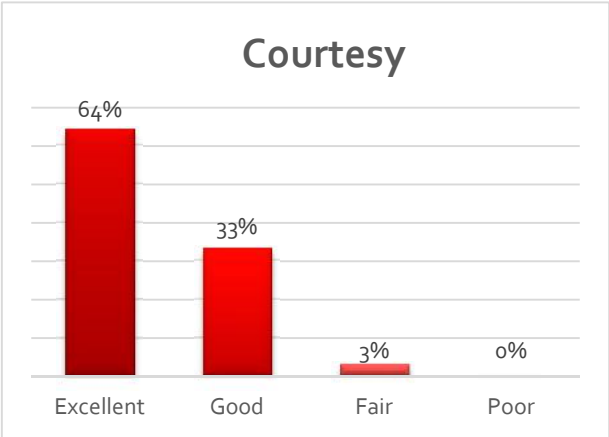


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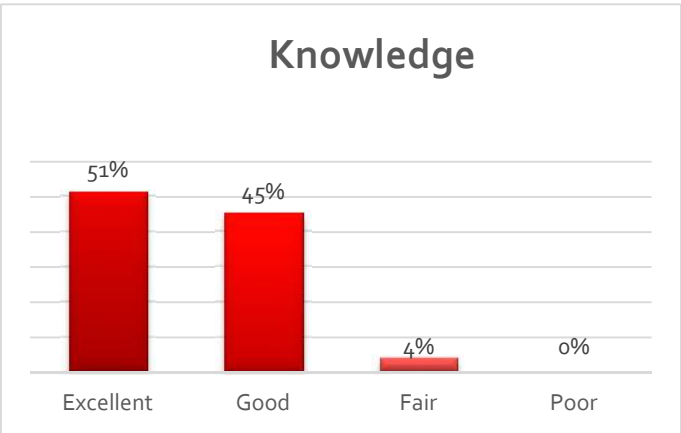


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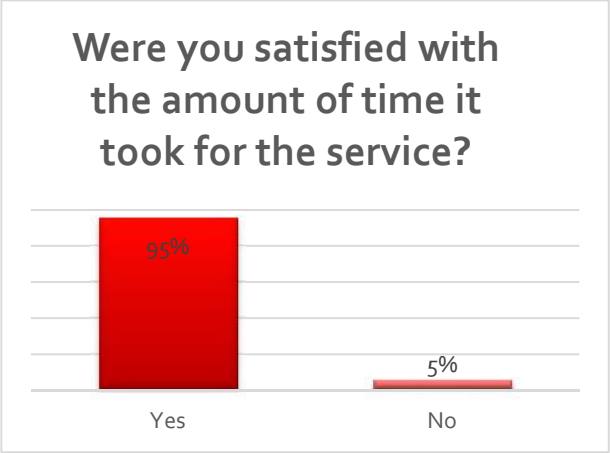


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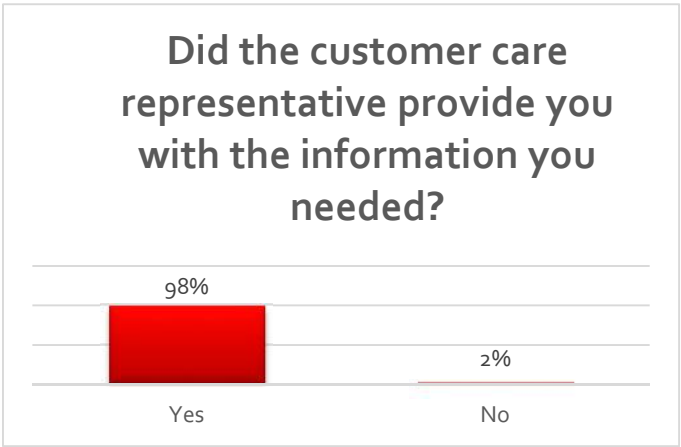


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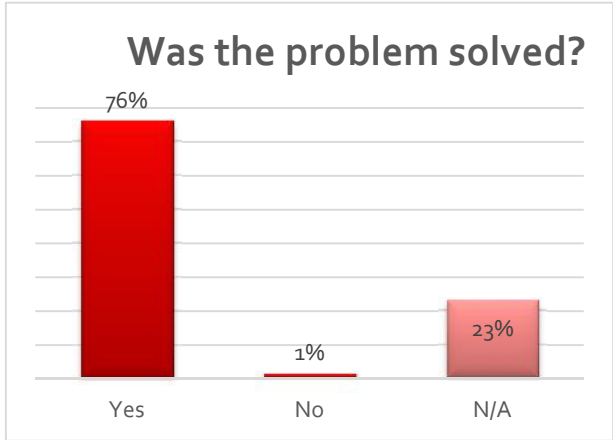
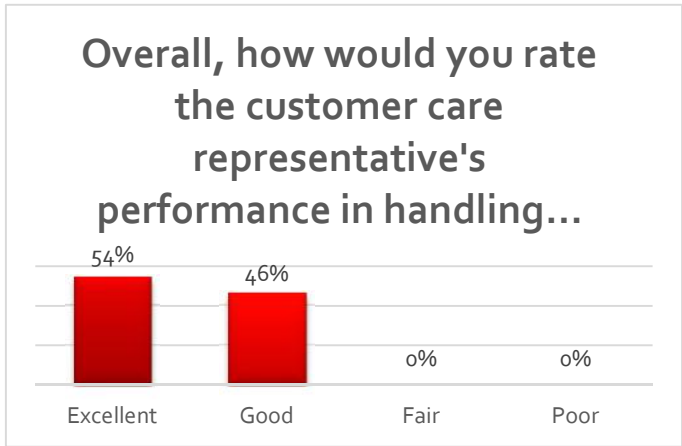


table 4.6



5. Customer Services - Field Employees

In 2014, the majority of customers had no contact with a field employee during the past 12 months, with only 10% of residential customers reporting any type of contact.

Residential customers who had contact with a field employee gave overall performance an average rating between good and excellent. 62% rated the field employees as excellent and 38% as good. Courtesy and Knowledge of field employees was also rated, on average, between good and excellent by residential customers. With an average rating above good, ability to handle request was in line with all other service attributes.

Table 5.0



Table 5.2

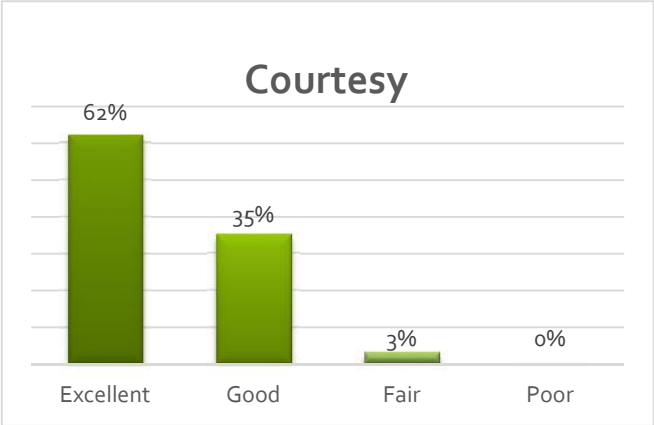


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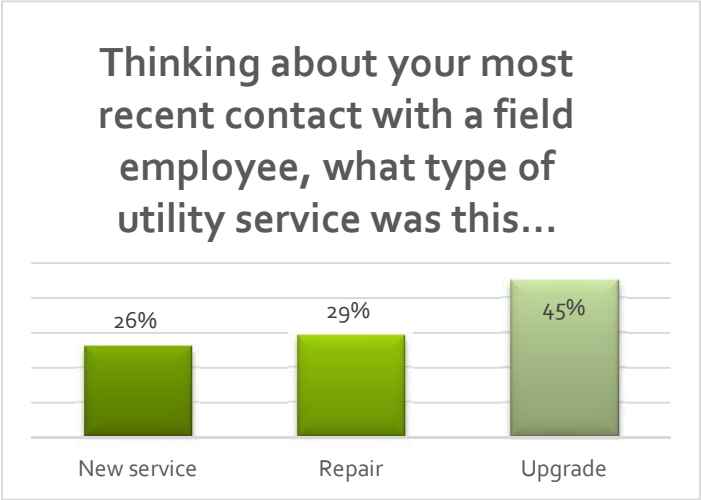


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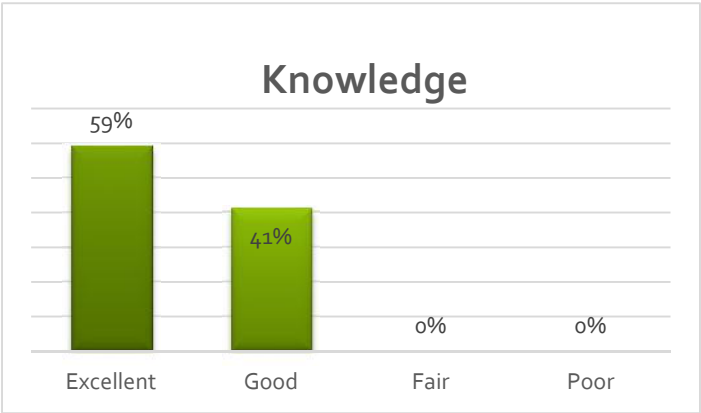


Table 5.4



table 5.5



6. Customer awareness and usage of the department's online services

Residential customers were asked about their awareness of five different online services offered by the Utility: access account profile, view payment history, view consumption history, obtain copies of past bills, and e-bill service where the customer receives an email with a link to an electronic, online copy of their bill. In 2014, the majority of residential customers (76%) were not aware of at least one online service. This is an area where the utility plans on improving. (See recommendations at section 11 of this report)

In 2014, residential awareness of access account profile was 14%, View payment history achieved residential customer awareness of 9%. View consumption history had residential customer awareness of 8%. In 2014, awareness of obtain copies of past bills achieved residential customer awareness of 8%. Residential customer awareness of e-bill service was 16%.

In 2014, 17% of residential customers had used at least one online service or HPDCL web site for utility related information during the past 12 months.

The majority of residential customers (86%) indicated that, other than bill inserts, they had not received any communications from the utility during the past 12 months.

In 2014, residential customers gave the department an average rating slightly above good (67%) for overall communications performance. More than eight out of ten customers (91%) rated performance as good (67%) or excellent (24%), with 8% rating it as fair and only 1% rating it poor.

table 6.o

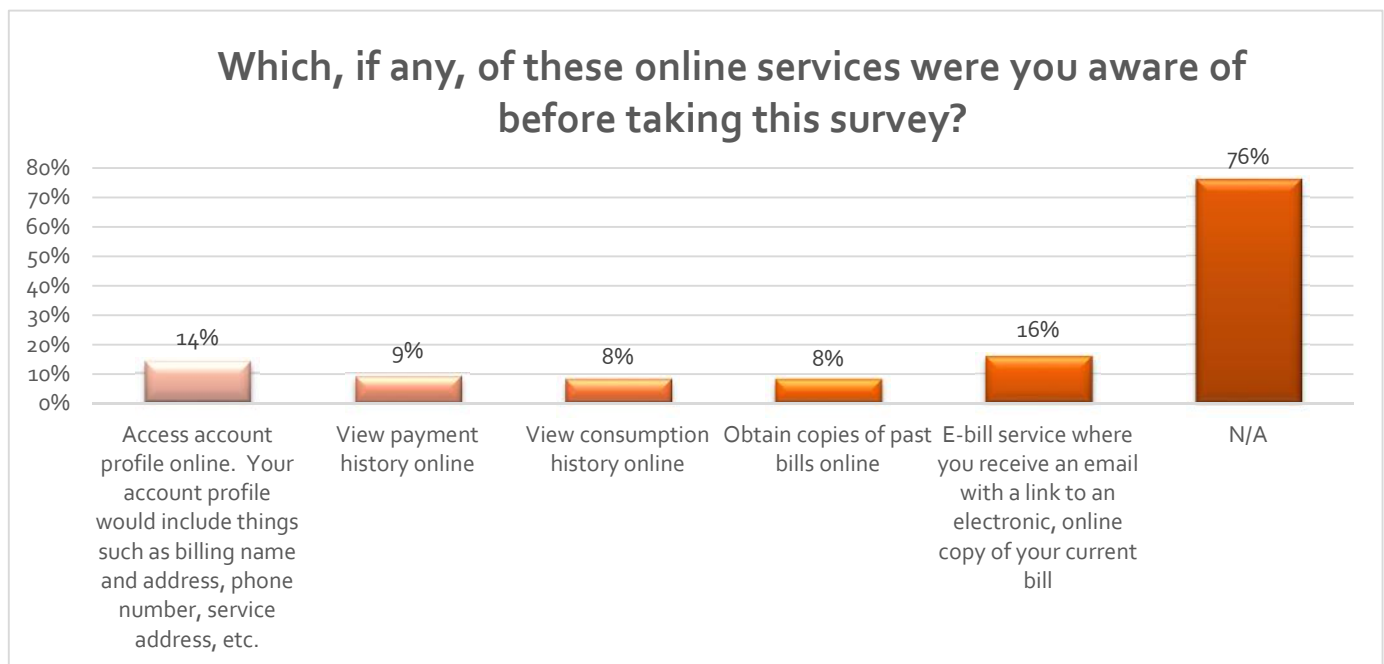


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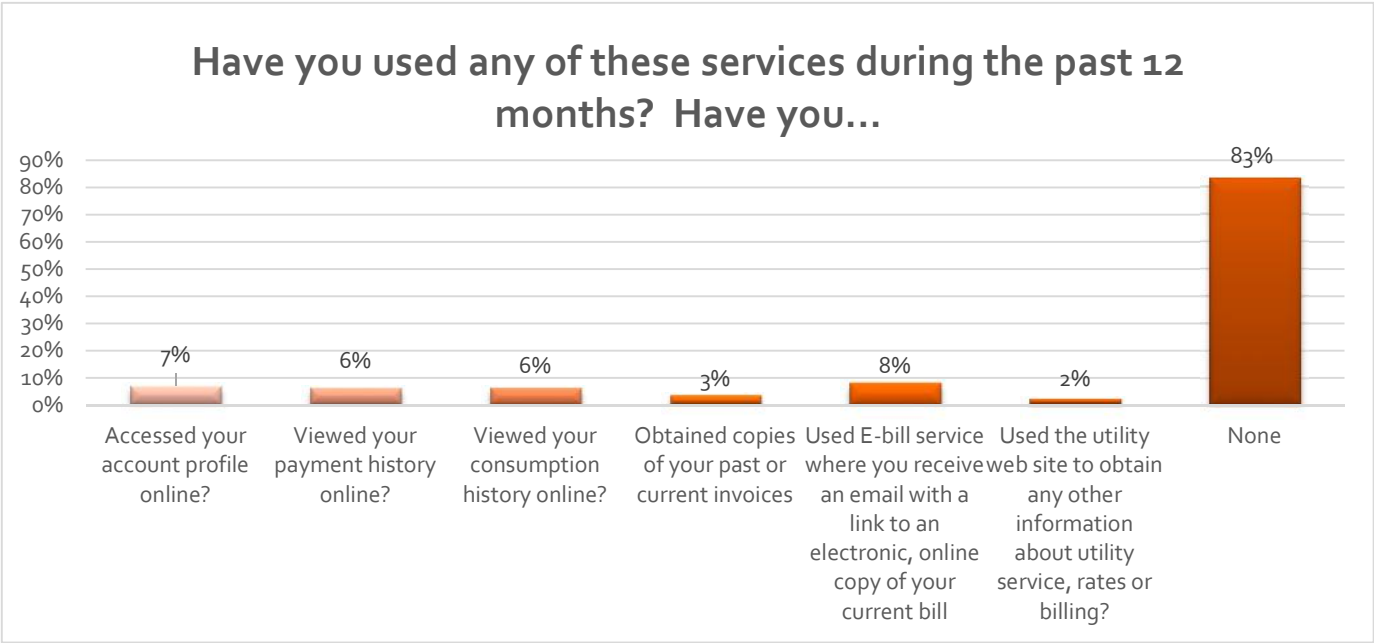


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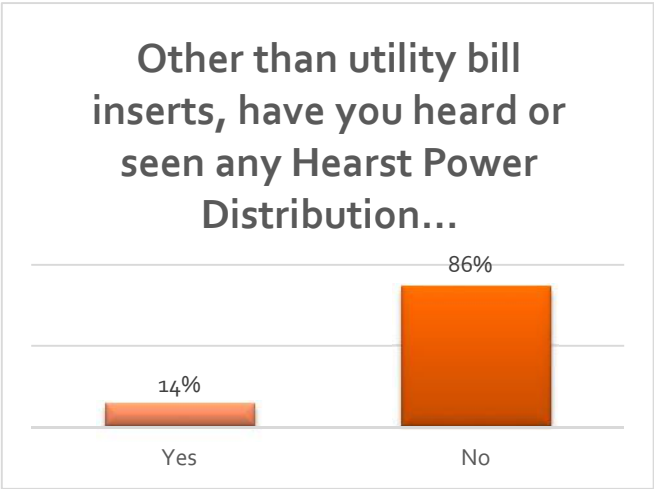
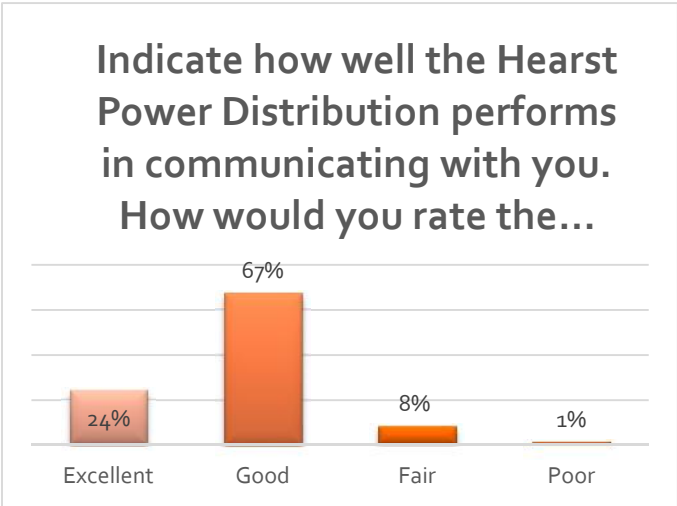


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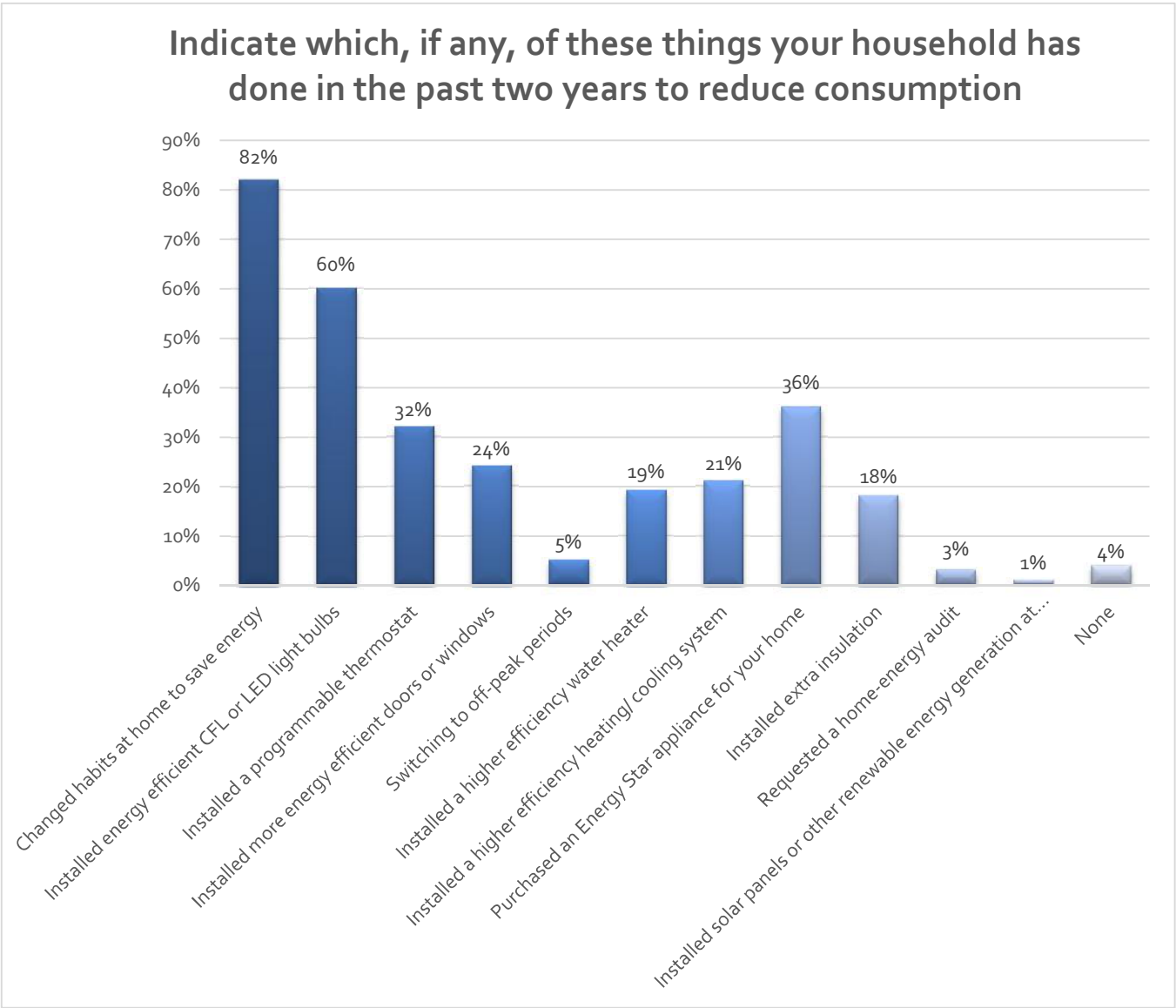


7. Customer views on Renewable Energy

Residential and commercial customers were asked which specific conservation actions they had taken during the past two years. Nearly all respondents had done something to reduce consumption of electricity.

The vast majority of residential customers had changed habits at home to save energy (82%) or installed CFL or LED light bulbs (60%). A majority indicated they had purchased an Energy Star appliance for their kitchen or laundry (36%). Small percentages indicated they had requested a home energy audit (3%) and installed solar panels or other renewable energy generation (1%). Other energy reduction actions mentioned by sizeable percentages are listed in the chart below.

table 7.o



In 2014, residential customer support for greater use of renewable energy sources was substantial. 83% indicated that they would support greater use of renewable energy sources, but only if it did not increase their monthly electric bill. Only 9% would support greater use of renewable energy sources if it increased their monthly bill by no more than 5%. Only 3% would support greater use of renewable energy sources if it increased their monthly bill by no more than 10% and only 1% would support greater use of renewable energy sources if it increased their monthly bill by no more than 15%. 4% of customers were opposed to the concept of conservation.

35% of residential respondents indicated that the utility was a leader in promoting energy conservation.

table 7.1

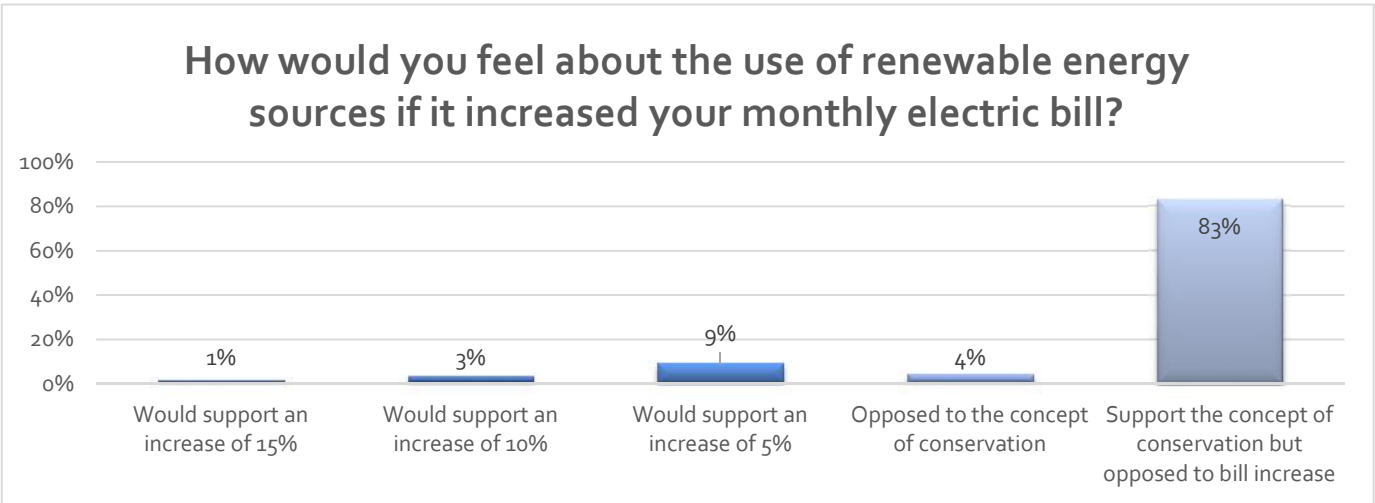
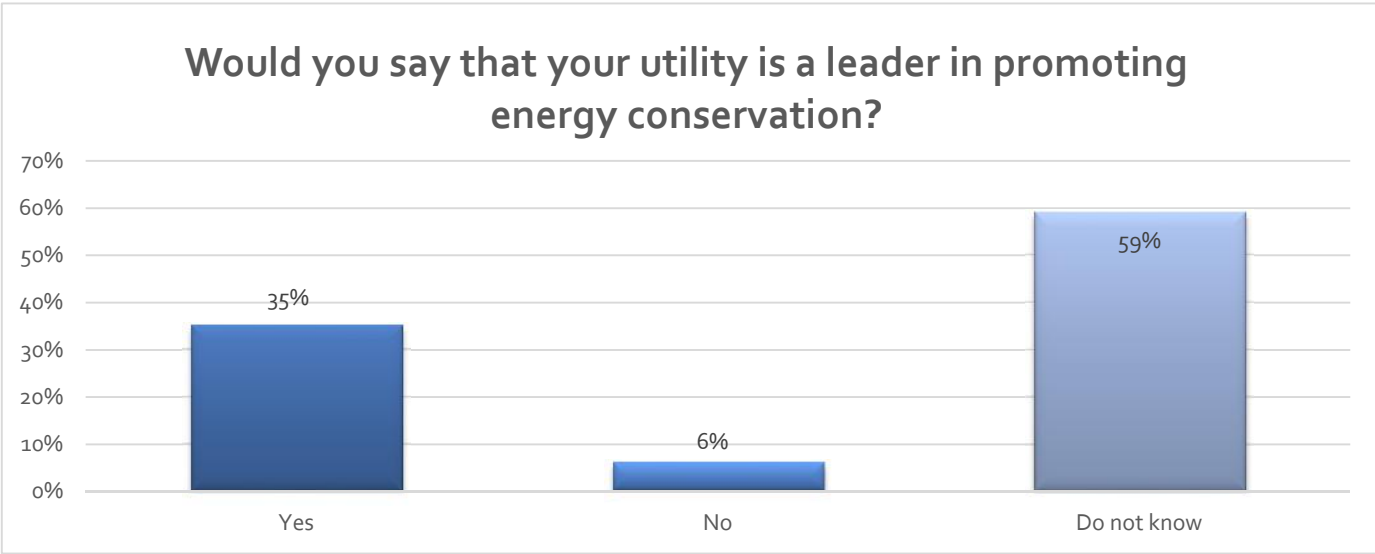


table 7.2



8. Customer views on Sustainability

The definition of Sustainable Practices is living your life in a way that uses resources in a responsible way. HPDCL customers were asked how aggressively sustainable practices should be pursued by the Utility and the Ontario Government. On average, residential customers thought that the utility should pursue sustainability somewhat aggressively– 20% very aggressively, 36% somewhat aggressively, 16% not too aggressively and 2% not at all.

In 2014, residential customers also believed, on average, that the Ontario Government (other than utilities) should pursue and promote sustainable practices aggressively. Among residential customers, 33% said sustainable practices should be pursued and promoted somewhat aggressively 37% very aggressively. Nearly one out of five (18%) said sustainable practices should be pursued not too aggressively (11%) or not at all (3%).

When it comes to household pursuit of sustainable practices, residential customers expressed similar expectations. 48% of residential customers said households in Hearst should pursue sustainable practices somewhat aggressively and 23% very aggressively. Only 9% said sustainable practices should be pursued not too aggressively and 2% not at all.

58% of respondents indicated that HPDCL provided them with the tools needed to help manage their electricity.

Table 8.o

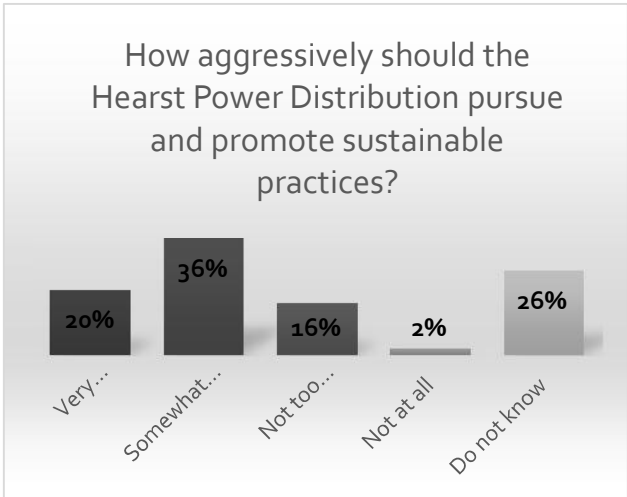


table 8.1

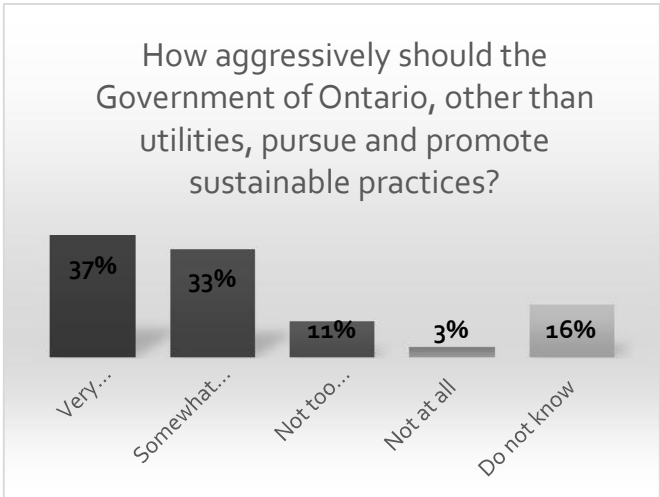


Table 8.2

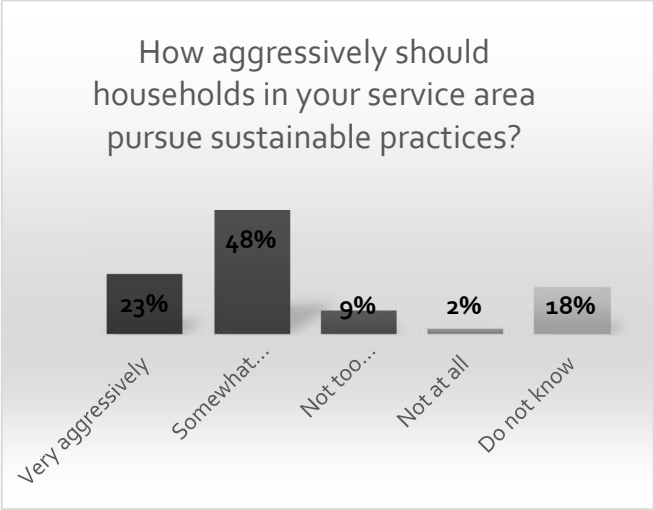
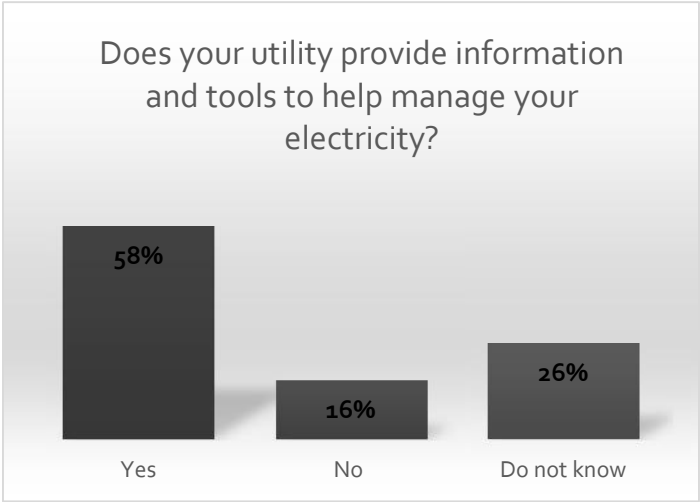


table 8.3



9. Customer views on Cost of Electricity

HPDCL’s residential customers were asked to what extent the cost of electric service places a strain on their household budget. The cost of electric service is viewed as placing a strain on household budgets. Only 5% of the residential customers thought that the cost of electricity did not place a great deal of strain on their household budget, while 34% thought it placed a great deal of strain. The majority of residential customers (44%) considered the financial strain to be some (33%) or not much (17%). The majority of HPDCL’s customers did however think that the utility provided good value for the service provided.

Table 9.0

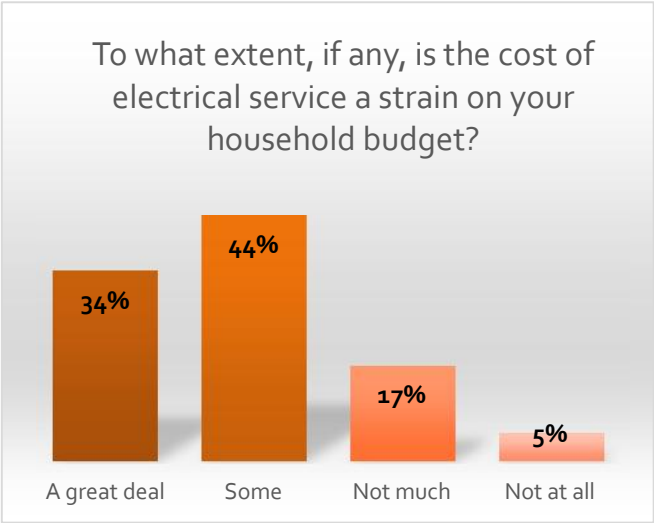
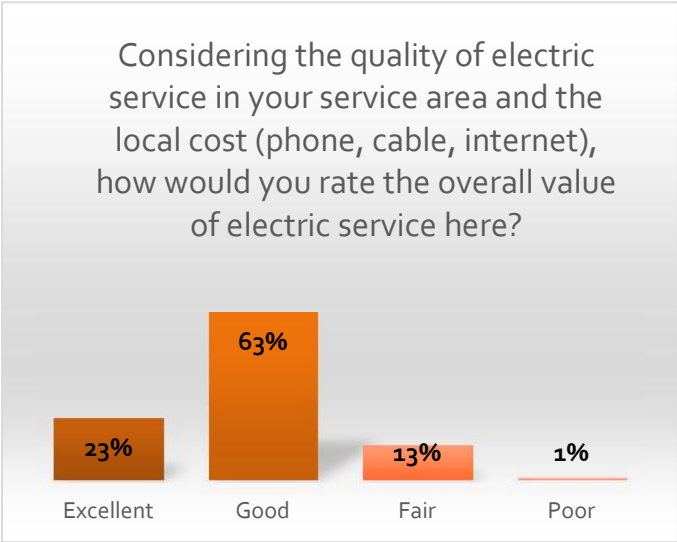


table 9.1



10. Customer views on Overall Performance

Overall performance of the Utility was rated highly by its residents. In 2014, 57% all residential customers rated overall performance as good, (40%) rated the utility’s performance as excellent. A very small percentage (3%) rated overall performance as fair, while none rated it as poor.

99% of the respondents thought that the utility was a well-respected company within the community. The respondents felt the same about the approachability of the utility. 96% of the respondents believed that the utility has a high standard of ethics. Lastly 99% of the respondents believed that the utility should remained a municipally owned entity.

Table 10.0

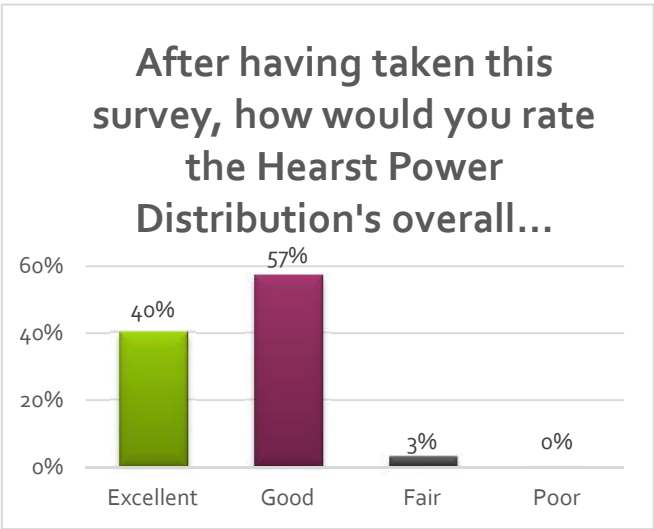


table 10.1



Table 10.2



table 10.3

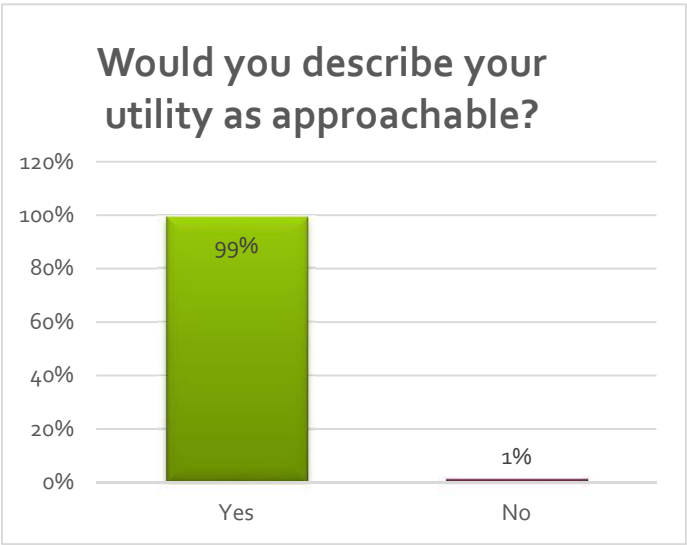


table 10.4

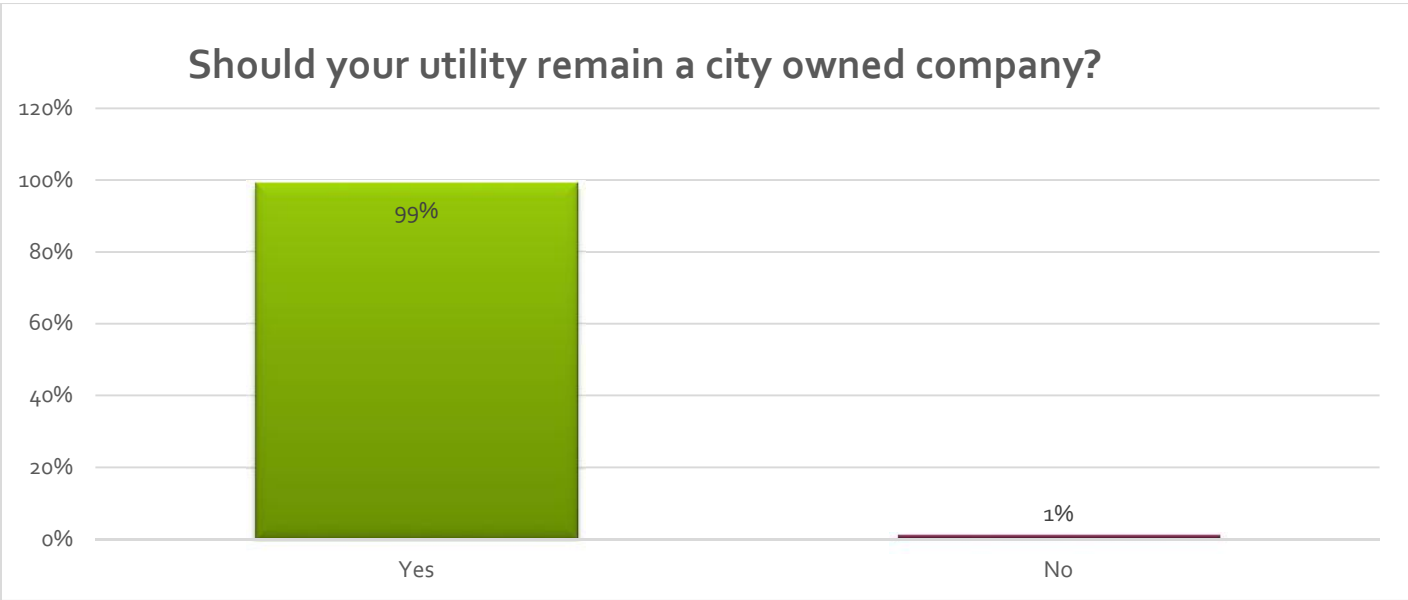


Table 10.5

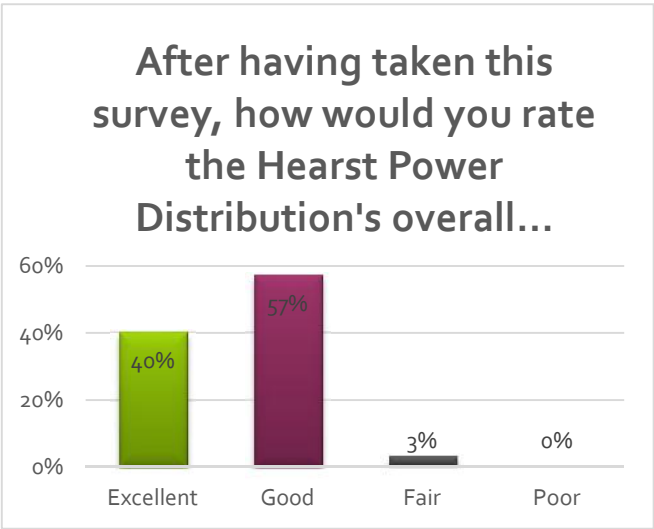


table 10.6



Table 10.7

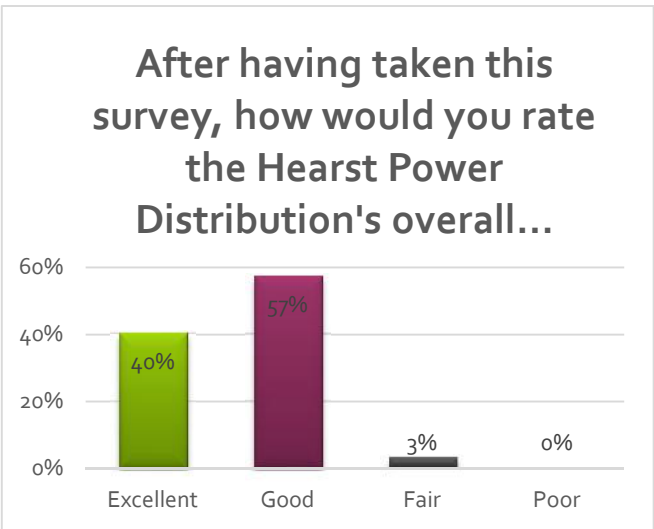
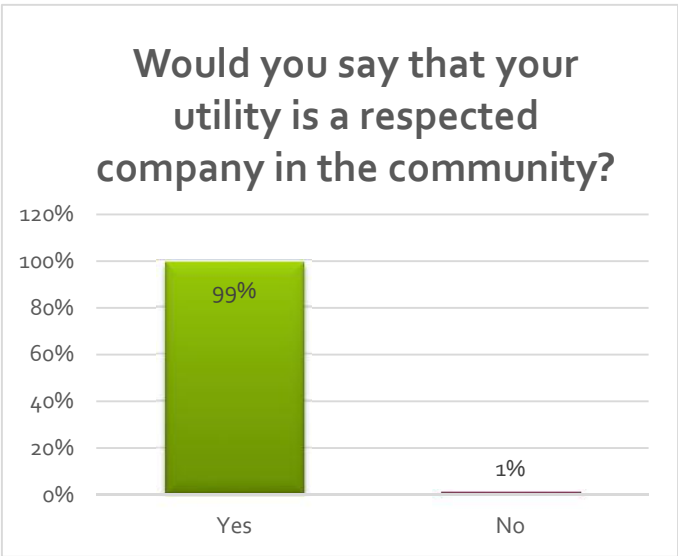


table 10.8



11. Recommendations

Customer views on Reliability

Add what can Hearst do to improve in this area.

Billing Services and Payment Options

Add what can Hearst do to improve in this area.

Customer Services

Add what can Hearst do to improve in this area.

Customer Services – Field Employees

Add what can Hearst do to improve in this area.

Customer awareness and usage of the department’s online services

Add what can Hearst do to improve in this area.

Customer views on Renewable Energy

Add what can Hearst do to improve in this area.

Customer views on Sustainability

Add what can Hearst do to improve in this area.

Customer views on Cost of Electricity

Add what can Hearst do to improve in this area.

Customer views on Overall Performance

Add what can Hearst do to improve in this area.



CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

CHRONIQUE INFO : LE RAJUSTEMENT GLOBAL (GLOBAL ADJUSTMENT)

Le rajustement global est un ajustement mensuel qui assure que le prix du marché de l'électricité correspond plus adéquatement au coût de production de l'électricité. C'est un frais que les abonnés doivent payer en sus du prix du marché de l'électricité, pour couvrir la différence avec les tarifs versés à certains producteurs. En 2014, ce frais a constitué environ 70% du total de la facture des abonnés.

LE TAUX DU RAJUSTEMENT GLOBAL EST CONSTITUÉ DES ÉLÉMENTS SUIVANTS :

- les écarts entre le prix du marché et les tarifs payés aux producteurs réglementés sous contrats (ex : panneaux solaires, parcs éoliens, etc.);
- les programmes d'économie d'énergie (« SaveOnEnergy »);
- les coûts pour la gestion de la demande (importation et exportation d'électricité).

Par conséquent, sa valeur fluctue grandement et peut être positive ou négative. Depuis 2006, le rajustement global a toutefois été un frais plutôt qu'un crédit. En décembre dernier, la vérificatrice générale de l'Ontario, Bonnie Lysyk, a constaté que le rajustement global avait augmenté de 1200% entre 2006 et 2013, alors que le prix courant de l'électricité avait plutôt diminué de 46%.

LE RAJUSTEMENT GLOBAL EST FACTURÉ À TOUS LES CLIENTS COMME SUIVIT :

- Si vous achetez votre électricité selon les prix réglementés par la province, le rajustement global est déjà inclus dans les tarifs d'électricité.
- Les clients qui ont signé un contrat avec un détaillant (« Retailer ») d'électricité doivent payer leur contribution au rajustement global, en plus des frais d'électricité selon leur contrat. Les coûts pour le rajustement global apparaîtront sur une ligne distincte sur la facture d'électricité.
- Le rajustement global figure sur une ligne séparée de la facture des clients dont la demande mensuelle est supérieure à 50 kW.

La Corporation de distribution électrique de Hearst s'engage à répondre à vos questions concernant le rajustement global ou tout autre frais figurant sur votre facture d'électricité. SVP contacter nos bureaux pour recevoir de plus amples informations.

ÉPREUVE

Prière de remettre à :
Annie

Publicité pour le **5 mars** 2015

Dimension: **4** col. X **85** l.a. = **340**

BIEN VÉRIFIER VOTRE ANNONCE
ET CORRIGER TOUS LES MOTS
de cette épreuve.
NOUS DÉCLINONS TOUTE RESPONSABILITÉ.

Communiquez avec Marlène Bélanger

Tél. : 705-372-1233, poste 229 • Téléc. : 705-362-5954



☐ Nouvelle épreuve

☐ Approuvée

Signature: _____

198,60 \$ + TVH



CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

COMPTEURS INTELLIGENTS

Ne vous inquiétez pas, les compteurs intelligents installés à Hearst ne posent aucun risque. Suite au rappel des compteurs intelligents problématiques par le Ministère de l'Énergie de l'Ontario (Sensus 3.2 avec dispositif de déconnexion à distance) en janvier 2015 et suite aux incidents reportés en Saskatchewan, la Corporation de distribution électrique de Hearst aimerait rassurer ses clients que ce modèle de compteur n'est pas installé ni utilisés à Hearst.

Nous aimerions saisir l'occasion pour informer notre clientèle des nombreux avantages d'utiliser les compteurs intelligents. Ces instruments sont beaucoup plus fiables et fournissent une lecture beaucoup plus précise, permettant une facturation plus exacte et moins coûteuse dû à l'élimination des lectures manuelles. La disponibilité d'information précise permet aux consommateurs de gérer leur consommation beaucoup plus efficacement.

Nous vous invitons à communiquer avec nous pour de plus amples informations concernant les compteurs intelligents.

Merci,

Corporation de distribution électrique de Hearst
Hearst Power Distribution Company Limited
925 rue Alexandra Street, S.P./P.O. Bag 5000
Hearst, Ontario P0L 1N0
Tél. : 705-372-2815
Télec. : 705-362-5902
service@hearstpower.com

ÉPREUVE

Prière de remettre à :
Jesse

Publicité pour le **12 février** 2015
Dimension: **2** col. X **85** l.a. = **170**

BIEN VÉRIFIER VOTRE ANNONCE
ET CORRIGER TOUS LES MOTS
de cette épreuve.
NOUS DÉCLINONS TOUTE RESPONSABILITÉ.

Communiquez avec Marlène Bélanger

Tél. : 705-372-1233, poste 229 • Téléc. : 705-362-5954



☐ Nouvelle épreuve

☐ Approuvée

Signature: _____

91,80 \$ + TVH

Financial Information

Ex.1/Tab 3/Sch.1 - Historical Financial Statements

The following attachments are presented in this next section.

- Attachment 1 Year ended 31 December, 2010
- Attachment 2 Year ended 31 December, 2011
- Attachment 3 Year ended 31 December, 2012
- Attachment 3 Year ended 31 December, 2013

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Directors of Hearst Power Distribution Company Limited/
Corporation de Distribution Électrique de Hearst

We have audited the accompanying financial statements of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst, which comprise the statement of balance sheet as at December 31, 2010 and the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licenced Public Accountants
March 21, 2011

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

Statement of Income	1
Statement of Retained Earnings and Contributed Capital	2
Balance Sheet	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 13

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2010

	Budget	2010 Actual	2009 Actual
SERVICE REVENUE			
Electricity	\$ 5,133,713	\$ 5,038,273	\$ 4,737,262
Wholesale market services, transmission and connection	1,182,667	1,153,323	1,182,668
	<u>6,316,380</u>	<u>6,191,596</u>	<u>5,919,930</u>
COST OF SALES			
Electricity	5,133,713	5,045,664	4,752,324
Wholesale market services	1,182,667	1,177,985	1,134,136
	<u>6,316,380</u>	<u>6,223,649</u>	<u>5,886,460</u>
GROSS MARGIN	-	(32,053)	33,470
DISTRIBUTION REVENUE	910,271	780,679	812,167
INTEREST INCOME	72,500	40,906	50,630
OTHER REVENUE	72,833	129,302	66,903
	<u>1,055,604</u>	<u>918,834</u>	<u>963,170</u>
EXPENDITURES DISTRIBUTION, OPERATION AND MAINTENANCE			
Lines and feeders	248,284	320,477	292,299
Transformers	68,960	58,271	63,420
Meters	8,830	5,829	7,165
	<u>326,074</u>	<u>384,577</u>	<u>362,884</u>
ADMINISTRATION AND FINANCE			
Meter reading, billing and collecting	177,841	184,815	204,010
General administration	362,781	251,700	301,095
Interest on long-term debt	-	-	204,000
	<u>540,622</u>	<u>436,515</u>	<u>709,105</u>
AMORTIZATION	140,000	101,176	103,155
TOTAL EXPENDITURES	<u>1,006,696</u>	<u>922,268</u>	<u>1,175,144</u>
INCOME (LOSS) BEFORE PAYMENTS IN LIEU OF TAXES	48,908	(3,434)	(211,974)
PAYMENTS IN LIEU OF TAXES (RECOVERY)			
Current	-	(5,650)	10,588
Future	-	(4,000)	(70,100)
	<u>-</u>	<u>(9,650)</u>	<u>(59,512)</u>
NET INCOME (LOSS)	\$ 48,908	\$ 6,216	\$ (152,462)

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

**STATEMENT OF RETAINED EARNINGS
AND CONTRIBUTED CAPITAL**

YEAR ENDED DECEMBER 31, 2010

	2010	2009
RETAINED EARNINGS		
BALANCE, BEGINNING OF YEAR	\$ 2,661,678	\$ 2,814,140
NET INCOME (LOSS)	6,216	(152,462)
BALANCE, END OF YEAR	\$ 2,667,894	\$ 2,661,678
CONTRIBUTED CAPITAL		
BALANCE, BEGINNING AND END OF YEAR	\$ 206,640	\$ 206,640

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

BALANCE SHEET

DECEMBER 31, 2010

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,441,762	\$ 3,785,308
Unbilled revenue	843,361	774,346
Accounts receivable (note 3)	460,307	530,520
Income taxes recoverable	10,726	30,766
Inventory	108,393	117,358
Prepaid expenses	12,090	9,431
Future income taxes	99,900	95,900
	<u>5,976,539</u>	<u>5,343,629</u>
PROPERTY AND EQUIPMENT (note 4)	774,061	850,472
OTHER ASSETS (note 5)	<u>11,730</u>	<u>13,003</u>
	<u>\$ 6,762,330</u>	<u>\$ 6,207,104</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,343,967	\$ 829,086
Other regulatory assets and liabilities (note 7)	623,779	412,524
Due to Town of Hearst	151,723	345,779
Demand loan (note 8)	1,700,000	1,700,000
Customers' deposits	<u>58,327</u>	<u>41,397</u>
	<u>3,877,796</u>	<u>3,328,786</u>
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (note 9)	10,000	10,000
RETAINED EARNINGS	2,667,894	2,661,678
CONTRIBUTED CAPITAL	<u>206,640</u>	<u>206,640</u>
	<u>2,884,534</u>	<u>2,878,318</u>
	<u>\$ 6,762,330</u>	<u>\$ 6,207,104</u>

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net income (loss)	\$ 6,216	\$ (152,462)
Items not requiring cash:		
Amortization	101,176	103,155
Future income taxes recovery	(4,000)	(70,100)
	103,392	(119,407)
Changes in:		
Unbilled revenue	(69,015)	98,623
Accounts receivable	70,213	(45,186)
Income taxes recoverable/payable	20,040	(3,807)
Inventory	8,965	1,898
Prepaid expenses	(2,659)	3,572
Accounts payable and accrued liabilities	514,881	(622,378)
Other regulatory assets and liabilities	211,255	(313,420)
Due to Town of Hearst	(194,056)	187,649
Change in customers deposits	16,930	(5,422)
	679,946	(817,878)
INVESTING ACTIVITIES		
Purchase of property and equipment	(23,492)	(25,677)
Decapitalization of smart meters stranded costs	-	45,081
	(23,492)	19,404
INCREASE (DECREASE) IN CASH POSITION	656,454	(798,474)
CASH POSITION, BEGINNING OF YEAR	2,085,308	2,883,782
CASH POSITION, END OF YEAR (note 10)	\$ 2,741,762	\$ 2,085,308

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. NATURE OF BUSINESS

The corporation, incorporated under the Ontario Business Corporations Act, owns all the electrical distribution system in the territory of the Corporation of the Town of Hearst and is responsible for the distribution of the electrical power on this territory.

RATE REGULATED ENTITY

The Ontario Energy Board (OEB) has regulatory oversight of electricity matters in the Province of Ontario. Among other duties, the Board has the authority to issue distribution licences along with conditions pertaining to accounting records and filing requirements for rate setting purposes.

All energy has to be purchased through Independent Electricity System Operations (IESO) in a weighted average basis whereas the price paid for the electricity is based on the market price adjusted for the peak periods of demand.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles for municipal electrical utilities in Ontario as required by statutes. Except for the principle of disposal of property and equipment and the principles explained under the heading regulation, all principles employed are in accordance with Canadian generally accepted accounting principles.

REVENUE RECOGNITION

Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

INVENTORY

Inventory is valued at the lower of cost and net realizable value. Most of the inventory is used for own purposes and is eventually added to the property and equipment. Cost is determined on the average cost basis.

FUTURE INCOME TAXES

Income taxes are provided, at current rates, for all items included in the statement of income regardless of the period in which such items are reported for income tax purposes. The principal item which results in timing differences between financial and tax reporting purposes is amortization. Future income taxes are adjusted for changes in income tax rates.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

REGULATION

The entity has to follow regulatory accounting treatments that differ from Canadian generally accepted accounting policies for enterprises operating in non regulated environment.

Transition costs: certain costs to set up the company have been deferred in accordance with OEB guidelines. These costs have been increased for the prescribed OEB rate of return with an offsetting interest income credit.

Pre-market opening energy variance: this asset represents the utility's cost of power based on time-of-use rates and the amounts billed to non time-of-use customers. These costs have been increased for the prescribed OEB rate of return with an affecting interest income credit.

Other regulatory assets: OEB has allowed the deferral of their annual costs assessments. These costs will be subject to recovery starting in 2011 subject to OEB approval.

Retail services and settlement variances: the net difference between the amount paid in the year to IESO and Hydro One and the amount billed to customers and retailers, based on Board-approved rates is recorded by journal entry in the following variance accounts.

- a) Power Charges
- b) Wholesale Market Service Charges;
- c) Retail Transmission Network Service Charges;
- d) Retail Transmission Connection Service Charges;
- e) Provincial Benefit / Global Adjustment;

Smart meters: Effective May 1, 2006, the OEB has allowed the corporation to defer capital expenditures, operating expenditures, amortization expense and revenues relating to smart meters. Total expenditures deferred at December 31, 2010 amounted to \$ 654,323 (2009 - \$ 537,315). The company has deferred these items in accordance with the criteria set out in the AP Handbook.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that 'seed' funding equivalent to \$ 1.00 (since May 1st, 2010) and \$ 0.25 (from May 25th, 2009 to April 30th, 2010) per customer per month be included in the company's distribution rates commencing July 1, 2009. Revenue has been reduced by the amount for smart meters funded in rates, and have been deferred and netted against smart metering capital costs incurred commencing in 2009 in accordance with the AP Handbook. Accordingly, total smart meter customer revenues, in 2010 of \$ 75,890 (2009 - \$ 43,159) were deferred.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Carrying charges which amounted to \$ 4,600 at December 31, 2010 (2009 - \$ 1,218) are calculated monthly on the opening balance of the smart meter variance account using a specific interest rate as outlined by the OEB.

The balance of the smart meter variance account at December 31, 2010 is \$ 584,251 (2009 - \$ 495,374).

PROPERTY AND EQUIPMENT

Amortization of property and equipment is provided on a straight-line basis over the following periods. In the year of acquisition, only half of the following rate is used:

Building and fixtures	50 years
Underground lines and feeders	25 years
Transformers	25 years
Meters	25 years
Office equipment	10 years
Automotive equipment	5 years
Computer equipment	5 years
Other equipment	10 years
Land rights	10 years

When property and equipment are disposed, the proceeds of disposition are recorded as a reduction to the appropriate property and equipment accounts. Consequently, gains and losses on disposals are brought into income over the depreciable lives of the remaining property and equipment.

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 20 years.

INCOME TAXES

A municipal electric utility is exempt from tax under subsection 149 (1) of the Income Tax Act. Under the Electricity Act of 1998, municipal electric utilities have to make payments in lieu of taxes (PILS) to the province. These payments are generally equivalent to the income taxes that would be otherwise due if the municipal electric utility would have been taxable as a small business corporation under the Income Tax Act.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

CUSTOMERS DEPOSITS

Customers' advance deposits are cash collections from customers to mitigate the financial risk of non-payment of energy bills. Security deposits are refunded on customers account when a customer is deemed to have maintained a good payment history during the relevant time period set out in the customer security deposit policy.

EMPLOYEE FUTURE BENEFITS

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. Since the corporation is only a contribution to the plan and all the actuarial costs/benefits are assumed by the province, only its yearly contributions/adjustments required by the province are recorded as expenses in the income statement.

FUTURE ACCOUNTING STANDARDS

International Financing Reporting Standards (IFRS):

As required by the Canadian Accounting standards Board, Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2012. The company has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the impact of the company's future financial position and results of operations is not reasonably determinable or estimable.

USE OF ESTIMATES

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

3. ACCOUNTS RECEIVABLE

	2010	2009
Electrical energy	\$ 357,313	\$ 452,377
Others	104,731	79,384
	462,044	531,761
Allowance for doubtful accounts	(1,737)	(1,241)
	\$ 460,307	\$ 530,520

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2010 Net	2009 Net
Land	\$ 7,600	\$ -	\$ 7,600	\$ 7,600
Building and fixtures	214,579	83,020	131,559	135,581
Underground lines and feeders	2,026,703	1,631,962	394,741	445,062
Transformers	555,151	468,711	86,440	85,193
Meters	132,180	83,150	49,030	52,623
Office equipment	48,128	36,370	11,758	15,228
Automotive equipment	486,435	474,481	11,954	21,014
Computer equipment	214,871	180,111	34,760	45,310
Other equipment	137,085	91,406	45,679	42,141
Land rights	4,232	3,692	540	720
	\$ 3,826,964	\$ 3,052,903	\$ 774,061	\$ 850,472

5. OTHER ASSETS

	Cost	Accumulated Amortization	2010 Net	2009 Net
Organisation costs	\$ 25,471	\$ 13,741	\$ 11,730	\$ 13,003

6. BANK INDEBTEDNESS

The corporation has an approved line of credit of \$ 300,000, at prime, secured by a general security agreement on all of the company's assets.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

7. OTHER REGULATORY ASSETS AND LIABILITIES

	2010	2009
Special purpose charge asset	\$ (17,483)	\$ -
Other regulatory assets	(28,700)	(28,499)
Miscellaneous deferred debits	(4,191)	(4,185)
LV variance account	(70,465)	(72,399)
Smart Meter capital and recovery	(411,289)	(425,600)
Smart Meter OM&A variance	(172,961)	(69,774)
Deferred payments in lieu of taxes	(11,603)	(8,273)
Contra asset - deferred payments in lieu of taxes	11,603	8,273
Conservation and demand management expenditures and recoveries	27,163	18,866
Qualifying transition costs	(31,897)	(31,740)
Pre-market opening energy variance	(396)	(396)
RSVA - all categories	1,276,759	959,009
Recovery of regulatory assets balances	55,200	54,823
Other regulatory liabilities	12,419	12,419
HST/OVAT Contra Account	(10,380)	-
	\$ 623,779	\$ 412,524

8. DEMAND LOAN

	2010	2009
The Corporation of the Town of Hearst, promissory note, interest at the lesser of 12 % or a part of the net income for the year, payable on a monthly basis, no fixed capital repayment	\$ 1,700,000	\$ 1,700,000

9. CAPITAL STOCK

	2010	2009
AUTHORIZED		
Unlimited number of preference shares, dividends at the discretion of the directors, non voting		
Unlimited number of common shares		
ISSUED		
10,000 common shares	\$ 10,000	\$ 10,000

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

10. STATEMENT OF CASH FLOW

CASH POSITION

Cash position consists of cash on hand, balances with banks and the demand loan with the Town of Hearst and is comprised of the following balance sheet amounts:

	2010	2009
Cash	\$ 4,441,762	\$ 3,785,308
Demand loan	<u>(1,700,000)</u>	<u>(1,700,000)</u>
	\$ 2,741,762	\$ 2,085,308

INTEREST AND INCOME TAXES

Cash payments were made for the following items:

	2010	2009
Interest	\$ 1,407	\$ 1,318
Payments in lieu of taxes (recovered)	<u>(25,690)</u>	<u>14,070</u>
	\$ (24,283)	\$ 15,388

11. EMPLOYEE FUTURE BENEFITS

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. During the year, the company contributed \$25,460 to the plan (2009 - \$26,405). As this is a defined benefit plan, these contributions are the company's pension benefit expenses. No pension liability for this type of plan is included in the company's financial statements.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

12. RELATED PARTY TRANSACTIONS

During the year, the company incurred the following related party transactions with its sole shareholder, the Corporation of the Town of Hearst and its affiliated Hearst Power Sales and Services Company Limited.

	2010	2009
Corporation of the Town of Hearst		
Service revenue	\$ 529,721	\$ 510,089
Rent expense	8,917	8,733
Clerical and answering services expense	30,063	27,256
Interest on long term debt	-	204,000
Year end balances were as follows:		
Due to Town of Hearst	\$ 151,723	\$ 345,779
Demand loan payable	1,700,000	1,700,000
Hearst Power Sales and Services Company Limited		
Service revenue	\$ 23,411	\$ -
Rent revenue	1,000	-
Administrative revenue	1,530	-

These transactions are in the normal courses of operations and are measured at the exchange amount which is received and paid on similar terms as those of unrelated parties.

13. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this guarantee if the company fails to make a payment required by a default notice issued by the IESO. In this regard, the company has obtained a letter of guarantee as security in the amount of \$ 334,919 from the RBC Royal Bank.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2011



Collins Barrow

Gagné Gagnon Bisson Hébert
Chartered Accountants / Comptables Agréés

Eric G. Gagnon Professional Corporation
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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Hearst Power Distribution Company Limited/
Corporation de Distribution Électrique de Hearst

We have audited the accompanying financial statements of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst, which comprise the balance sheet as at December 31, 2011, and the statements of income, retained earnings and contributed capital and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal 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.

Auditor's 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.

INDEPENDENT AUDITOR'S REPORT, (CONT'D)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the management'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 management's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licenced Public Accountants
April 11, 2012

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

FINANCIAL STATEMENTS

DECEMBER 31, 2011

Statement of Income	1
Statement of Retained Earnings and Contributed Capital	2
Balance Sheet	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 18

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2011

	2011 Budget	2011 Actual	2010 Actual
SERVICE REVENUE			
Electricity	\$ 5,448,569	\$ 5,777,995	\$ 5,038,273
Wholesale market services, transmission and connection	1,268,657	1,311,799	1,153,323
	<u>6,717,226</u>	<u>7,089,794</u>	<u>6,191,596</u>
COST OF SALES			
Electricity	5,448,569	5,742,956	5,045,664
Wholesale market services	1,268,657	1,312,472	1,177,985
	<u>6,717,226</u>	<u>7,055,428</u>	<u>6,223,649</u>
GROSS MARGIN	-	34,366	(32,053)
DISTRIBUTION REVENUE	1,169,881	1,020,727	780,679
INTEREST INCOME	43,400	51,965	40,906
OTHER REVENUE	70,997	121,231	129,302
	<u>1,284,278</u>	<u>1,228,289</u>	<u>918,834</u>
EXPENDITURES			
DISTRIBUTION, OPERATION AND MAINTENANCE			
Transformers	43,636	58,514	58,271
Meters	4,800	17,173	5,829
Lines and feeders	260,774	344,799	320,477
	<u>309,210</u>	<u>420,486</u>	<u>384,577</u>
ADMINISTRATION AND FINANCE			
Meter reading, billing and collecting	173,346	193,049	184,815
General administration	315,007	255,578	251,700
Interest on long-term debt	99,790	135,000	-
	<u>588,143</u>	<u>583,627</u>	<u>436,515</u>
AMORTIZATION	185,807	96,847	101,176
	<u>1,083,160</u>	<u>1,100,960</u>	<u>922,268</u>
INCOME (LOSS) BEFORE PAYMENTS IN LIEU OF TAXES	201,118	127,329	(3,434)
PAYMENTS IN LIEU OF TAXES			
Current (recovery)	-	16,566	(5,650)
Future (recovery)	-	107,100	(4,000)
	<u>-</u>	<u>123,666</u>	<u>(9,650)</u>
NET INCOME	<u>\$ 201,118</u>	<u>\$ 3,663</u>	<u>\$ 6,216</u>

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED CAPITAL

YEAR ENDED DECEMBER 31, 2011

	2011	2010
RETAINED EARNINGS		
BALANCE, BEGINNING OF YEAR	\$ 2,667,894	\$ 2,661,678
NET INCOME	3,663	6,216
BALANCE, END OF YEAR	\$ 2,671,557	\$ 2,667,894
CONTRIBUTED CAPITAL		
BALANCE, BEGINNING AND END OF YEAR	\$ 206,641	\$ 206,641

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

BALANCE SHEET

DECEMBER 31, 2011

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,038,161	\$ 4,441,762
Unbilled revenue	838,525	843,361
Accounts receivable (note 4)	618,415	460,307
Payment in lieu of taxes	4,160	10,726
Inventories	114,558	108,393
Prepaid expenses	12,608	12,090
Payment in lieu of future taxes	-	99,900
	<u>5,626,427</u>	<u>5,976,539</u>
PROPERTY AND EQUIPMENT (note 5)	724,465	774,061
OTHER ASSETS (note 6)	<u>10,457</u>	<u>11,730</u>
	<u>\$ 6,361,349</u>	<u>\$ 6,762,330</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 8)	\$ 778,773	\$ 1,343,966
Other regulatory assets and liabilities (note 9)	636,847	623,779
Due to Town of Hearst	292,407	151,723
Demand loan (note 10)	1,700,000	1,700,000
Payment in lieu of future taxes	7,200	-
Customers' deposits	<u>57,924</u>	<u>58,327</u>
	<u>3,473,151</u>	<u>3,877,795</u>
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (note 11)	10,000	10,000
RETAINED EARNINGS	2,671,557	2,667,894
CONTRIBUTED SURPLUS	<u>206,641</u>	<u>206,641</u>
	<u>2,888,198</u>	<u>2,884,535</u>
	<u>\$ 6,361,349</u>	<u>\$ 6,762,330</u>

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Net income	\$ 3,663	\$ 6,216
Items not involving cash:		
Amortization	96,847	101,176
Payment in lieu of future taxes	107,100	(4,000)
	207,610	103,392
Changes in:		
Unbilled revenue	4,836	(69,015)
Accounts receivable	(158,108)	70,213
Payment in lieu of taxes	6,566	20,040
Inventories	(6,165)	8,965
Prepaid expenses	(518)	(2,659)
Accounts payable and accrued liabilities	(565,193)	514,882
Other regulatory assets and liabilities	13,068	211,254
Due to Town of Hearst	140,684	(194,056)
Customers' deposits	(403)	16,930
	(357,623)	679,946
INVESTING ACTIVITY		
Purchase of property and equipment	(45,978)	(23,492)
CHANGE IN CASH POSITION	(403,601)	656,454
CASH POSITION, BEGINNING OF YEAR	4,441,762	3,785,308
CASH POSITION, END OF YEAR	\$ 4,038,161	\$ 4,441,762

STATEMENT OF CASH FLOWS (note 12)

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. STATUS AND NATURE OF OPERATIONS

Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst, incorporated under the Ontario Business Corporations Act, owns all the electrical distribution system in the territory of the Corporation of the Town of Hearst and is responsible for the distribution of the electrical power on this territory. The company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998.

2. CHANGE IN ACCOUNTING POLICIES

The Canadian Accounting Standards Board (AcSB) has issued new accounting framework to publicly accountable enterprises. Publicly accountable enterprises are required to adopt International Financial Reporting Standards (IFRS) for reporting purposes for fiscal years beginning on or after January 1, 2011.

In a decision summary released on March 20, 2012, the AcSB decided to provide qualifying entities subject to rate regulation activities the option to defer their adoption of IFRS for the first time for annual financial statements to the period beginning on or after January 1, 2013. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. The company chose the option to defer until the year beginning on January 1, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) per the Canadian Institute of Chartered Accountants Handbook, including policies from the Accounting Procedure Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998 (OEBA).

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REGULATORY ASSETS AND LIABILITIES

The rates of the company's electricity business are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate regulated accounting giving rise to the recognition of regulatory assets and liabilities. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future years. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the company not been regulated. Specific regulatory assets and liabilities are disclosed in note 8.

FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT

Section 3855 establishes standards for recognizing the measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when they become a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets, are measured at fair value.

The Corporation has implemented the following classifications:

Held for trading:	Cash
Loans and receivables :	Unbilled revenue and accounts receivable
Other financial liabilities:	Accounts payable, accrued liabilities, due to Town of Hearst, demand loan and customers deposits

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REVENUE RECOGNITION

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. These revenues are recorded on the basis of regular meter readings and estimates of customer usage. Estimated customer usage from the last meter reading date to the end of the year is included in revenues and in accounts receivable as unbilled revenue.

Other revenues, which include pole rental, customer demand work and other miscellaneous revenues are recognized at the time the service is provided.

POWER PURCHASES

The power bills received from the Independent Electricity System Operator (IESO) and Hydro One are recorded in the period to which it refers and not in the period in which it is received.

Costs for power purchased represent the cost of electricity delivered to customers and the wholesale commodity cost of energy, the IESO and Hydro One wholesale market charges and transmission charges.

UNBILLED REVENUE

At year end, meter readings for the last period are not recorded in the accounting system. The unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Most of the inventory is used for own purposes and is eventually added to the property and equipment. Cost is determined on the average cost basis.

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

PAYMENTS IN LIEU OF CORPORATE TAXES

A municipal electric utility is exempt from tax under section 149 (1) of the Income Tax Act. Under the Electricity Act of 1998, municipal electric utilities have to make payments in lieu of taxes (PILS) to the province. These payments are generally equivalent to the income taxes that would be otherwise due if the municipal electric utility would have been taxable as a small business corporation under the Income Tax Act.

The company follows the asset and liability method of accounting for income taxes. Future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. Any payments in lieu of futures tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of change. Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

PROPERTY AND EQUIPMENT

Amortization of property and equipment is based on the estimated useful life of the asset and is recorded on a straight-line basis over the following number of years. In the year of acquisition, only half of the following rate is used:

Building and fixtures	50 years
Underground lines and feeders	25 years
Transformers	25 years
Meters	25 years
Office equipment	10 years
Automotive equipment	5 years
Computer equipment	5 years
Other equipment	10 years
Land rights	10 years

When property and equipment are disposed, the proceeds of disposition are recorded as a reduction to the appropriate property and equipment accounts. Consequently, gains and losses on disposals are brought into income over the depreciable lives of the remaining property and equipment.

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 20 years.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

CUSTOMERS' DEPOSITS

Customers' advance deposits are cash collections from customers to mitigate the financial risk of non-payment of energy bills. Security deposits are refunded on customer's account when a customer is deemed to have maintained a good payment history during the relevant time period set out in the customer security deposit policy.

EMPLOYEE FUTURE BENEFITS

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. Since the company is only a contributor to the plan and all the actuarial costs/benefits are assumed by the province, only its yearly contributions/adjustments required by the province are recorded as expenses in the income statement.

MEASUREMENT UNCERTAINTY / USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The significant estimates used by management in preparing these financial statements include an allowance for doubtful accounts, unbilled revenue, useful life of assets, payments in lieu of future taxes based on estimate of future tax rates and significant accrual estimates. Actual results could differ from those estimates.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

4. ACCOUNTS RECEIVABLE

	2011	2010
Ontario Power Authority (OPA)	\$ 14,533	\$ -
Electrical energy	478,923	357,313
Related parties	39,020	49,658
Others	88,034	55,073
	620,510	462,044
Allowance for doubtful accounts	(2,095)	(1,737)
	<u>\$ 618,415</u>	<u>\$ 460,307</u>

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2011 Net	2010 Net
Land	\$ 7,600	\$ -	\$ 7,600	\$ 7,600
Building and fixtures	214,579	87,042	127,537	131,559
Underground lines and feeders	2,034,754	1,677,537	357,217	394,741
Transformers	557,917	477,816	80,101	86,440
Meters	137,518	86,703	50,815	49,030
Office equipment	48,128	39,840	8,288	11,758
Automotive equipment	511,563	486,053	25,510	11,954
Computer equipment	214,871	196,184	18,687	34,760
Other equipment	141,775	93,425	48,350	45,679
Land rights	4,232	3,872	360	540
	<u>\$ 3,872,937</u>	<u>\$ 3,148,472</u>	<u>\$ 724,465</u>	<u>\$ 774,061</u>

At December 31, 2011, the net book value of stranded meters related to the deployment of smart meters included in meters was \$45,081 (2010 - \$45,081). In the absence of rate-regulation, capital assets would have been reduced by this amount as of December 31, 2011. Disposition of these costs will be determined in future proceedings of the Ontario Energy Board.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

6. OTHER ASSETS

	Cost	Accumulated amortization	2011 Net	2010 Net
Organization costs	\$ 25,471	\$ 15,014	\$ 10,457	\$ 11,730

7. BANK INDEBTEDNESS

The corporation has an approved line of credit of \$ 300,000, at prime, secured by a general security agreement on all of the company's assets.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade payable	\$ 820,777	\$ 1,350,042
Customer Credit Balances	30,688	32,202
OPA CMD Program	8,399	8,399
IESO - OPG Rebate	213	213
Commodity Taxes	(81,304)	(46,890)
	\$ 778,773	\$ 1,343,966

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

9. OTHER REGULATORY ASSETS AND LIABILITIES

	2011	2010
Special purpose charge asset (a)	\$ 5,938	\$ (17,483)
Other regulatory assets	(1,915)	(28,700)
Miscellaneous deferred debits	(4,201)	(4,191)
LV variance account (b)	(36,646)	(70,465)
Smart Meter capital and recovery (c)	(423,757)	(411,289)
Smart Meter OM&A variance (c)	(264,218)	(172,961)
Deferred payments in lieu of taxes	(11,904)	(11,603)
Contra asset - deferred payments in lieu of taxes	11,904	11,603
Conservation and demand management (CDM) expenditures and recoveries (d)	2,243	27,163
Qualifying transition costs (e)	(32,145)	(31,897)
Pre-market opening energy variance (f)	(396)	(396)
Retail services and settlement variances - all categories (g)	673,587	1,276,759
Recovery of regulatory assets balances	993	55,200
Other regulatory liabilities	12,419	12,419
HST/OVAT Contra Account (h)	(10,379)	(10,380)
Disposition and Recovery of Regulatory (i)	715,324	-
	<u>\$ 636,847</u>	<u>\$ 623,779</u>

REGULATORY ASSETS AND LIABILITIES

The entity has to follow regulatory accounting treatments that differ from Canadian generally accepted accounting policies for enterprises operating in non regulated environment. THE OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(a) Special purpose charge asset

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ('SPC') assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of \$33,091 for its apportioned share of the total provincial amount of the SPC of \$53,695,310 in accordance with the rules set out in Ontario Regulation 66/10 (the 'SPC Regulation'). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The company over recovered from customers which will be repaid in the next rate rebasing.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(b) LV variance account

This variance is used to record the variance arising from low voltage transactions which are not part of the electricity wholesale.

(c) Smart meter

Effective May 1, 2006, the OEB has allowed the corporation to defer capital expenditures, operating expenditures, amortization expense and revenues related to smart meters. Total expenditures deferred at December 31, 2011 amounted to \$811,319 (2010 - \$654,323). The company has deferred these items in accordance with the criteria set out in the AP Handbook.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that 'seed' funding equivalent to \$2.50 (since May 1st, 2012), \$1.00 (since May 1st, 2011) and \$0.25 (from May 25th, 2010 to April 30th, 2011) per customer per month be included in the company's distribution rates commencing July 1, 2010. Revenue has been reduced by the amount for smart meters funded in rates, and have been deferred and netted against smart metering capital costs incurred commencing in 2010 in accordance with the AP Handbook. Accordingly, total smart meter customer revenues, in 2011 of \$137,456 (2010 - \$75,890) were deferred.

Carrying charges which amounted to \$14,112 at December 31, 2011 (2010 - \$5,817) are calculated monthly on the opening balance of the smart meter variance account using a specific interest rate as outlined by the OEB.

(d) Conservation and demand management (CDM)

All approved board CDM program initiatives for the distributor should be recorded in this variance account. All costs incurred for CDM activities and expenditures and the revenue proxy amount equivalent to the distributor's amount approved by the Board.

(e) Qualifying transition costs

Certain costs to set up the company have been deferred in accordance with OEB guidelines. These costs have been increased for the prescribed OEB rate of return with an offsetting interest income credit.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(f) Pre-market opening energy variance

This asset represents the utility's cost of power based on time-of-use rates and the amounts billed to non time-of-use customers. These costs have been increased for the prescribed OEB rate of return with an affecting interest income credit.

(g) Retail services and settlement variances

The net difference between the amount paid in the year to IESO and Hydro One and the amount billed to customers and retailers, based on Board-approved rates is recorded by journal entry in the following variance accounts:

- i) Power charges
- ii) Wholesale market service charges
- iii) Retail transmission network service charges
- iv) Retail transmission connection service charges
- e) Provincial benefit / global adjustments

(h) HST/OVAT Contra Account

This variance is used to record the ITC savings arising from the elimination from the Provincial Sales Tax and the implementation of the HST on July 1, 2010.

(i) Disposition and Recovery of Regulatory

This variance account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to refund or (recover) account balances in rates as part of the regulatory process.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

10. DEMAND LOAN

	2011	2010
Promissory note payable to the Corporation of the Town of Hearst, interest at the lesser of 12 % or a part of the net income for the year, payable on a monthly basis, no fixed capital repayment	\$ 1,700,000	\$ 1,700,000

11. CAPITAL STOCK

	2011	2010
Authorized		
Unlimited number of preference shares, dividends at the discretion of the directors, non voting		
Unlimited number of common shares		
Issued		
10,000 common shares	\$ 10,000	\$ 10,000

12. STATEMENT OF CASH FLOWS

	2011	2010
Interest	\$ -	\$ 1,407
Payments in lieu of taxes (recovered)	-	(25,690)

13. EMPLOYEE BENEFIT PLAN

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. During the year, the company contributed \$27,276 to the plan (2010 - \$25,460). As this is a defined benefit plan, these contributions are the company's pension benefit expenses. No pension liability for this type of plan is included in the company's financial statements.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

14. RELATED PARTY TRANSACTIONS

During the year, the company incurred the following related party transactions with its sole shareholder, the Corporation of the Town of Hearst and it's affiliated Hearst Power Sales and Services Company Limited.

	2011	2010
<i>Corporation of the Town of Hearst</i>		
Service revenue	\$ 678,013	\$ 529,721
Rent expense	9,139	8,917
Clerical and answering services expense	27,097	30,063
Interest on long-term debt	135,000	-
<i>Year-end balances were as follows:</i>		
Accounts receivable - PUC Water	\$ 12,899	\$ 35,228
Other account receivable	910	1,951
Due to Town of Hearst	(292,407)	(151,723)
Demand loan payable	(1,700,000)	(1,700,000)
<i>Hearst Power Sales and Services Company Limited</i>		
Service revenue	\$ 21,131	\$ 23,411
Rent revenue	1,000	1,000
Administration revenue	1,080	1,530
<i>Year-end balances were as follows:</i>		
Due from Hearst Power Sales and Services Company Ltd.	\$ 25,211	\$ 12,480

These transactions are in the normal courses of operations and are measured at the exchange amount which is received and paid on similar terms as those of unrelated parties.

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

15. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this guarantee if the company fails to make a payment required by a default notice issued by the IESO. In this regard, the company has obtained a letter of guarantee as security in the amount of \$334,919 from the Caisse Populaire de Hearst Limitée.

16. SUBSEQUENT EVENT

The company has entered in an agreement to purchase a new vehicle in 2012 for an aggregate cost of \$143,532. The vehicle was paid using current cash flow.

17. CAPITAL DISCLOSURE

The management's objectives when managing capital are:

- (a) To ensure ongoing access to funding to maintain and improve the electricity distribution system
- (b) To respect the capital structure for regulated activities with debt to equity structure recommended by the OEB, which is 60% debt and 40% equity
- (c) To ensure prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity business
- (d) To provide an adequate return to his shareholder

The company defines capital as shareholder's equity and demand loan.

The OEB regulates the amount of interest on debt that may be recovered by the regulated electricity distribution business of the company through its electricity distribution rates. The actual capital structure of the company may differ from the OEB deemed structure.

The company has no external capital requirements.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

18. FINANCIAL INSTRUMENTS

It is management's opinion that the company is not exposed to significant interest, fair value, foreign exchange, market, or concentration risks. The significant risks which the company is exposed to in respect of its financial instruments are credit risk and liquidity risk, each of which is described below:

(a) CREDIT RISK

Financial assets carry credit risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The company is exposed to such risks in its accounts receivable, consisting primarily of payments due from its electricity distribution customers, for a total of \$618,415 (2010 - \$460,307).

The company reduces its exposure to credit risk by performing credit valuations on a regular basis, granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the company is low and is not material.

(b) LIQUIDITY RISK

The company is exposed to liquidity risk through its accounts payable and accrued liabilities, customers' deposits and due to the Town of Hearst of \$1,129,104 (2010 - \$1,554,016). Liquidity risk represents the risk that the company is unable to repay its obligations when they become due to its creditors. The company monitors its exposure to liquidity risk with respect to its operational and investment requirements for financial capital by ensuring that it documents when authorized payments become due, by maintaining an adequate line of credit to repay trade creditors. In the opinion of management the liquidity risk exposure to the company is low and is not material.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ELECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

14. COMMITMENTS

The company has entered into a connection cost agreement with Hydro ONE Networks for a 10mw solar project. Under the terms of this agreement, they will issue two cheques for a total of \$ 1,730,030 after receipt of the two certified cheques from Ontario Solar PV Fields 10 Limited Partnership. This transaction has no financial impact for the company.

15. FINANCIAL INSTRUMENTS

The company's financial instruments consists of cash, accounts receivable, demand loan, accounts payable and accrued liabilities and amounts due to related parties. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION
ÉLECTRIQUE DE HEARST**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2012



Gagné Gagnon Bisson Hébert
Chartered Accountants / Comptables Agréés

Eric G. Gagnon Professional Corporation
Noël G. Cantin CPA, CA
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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Hearst Power Distribution Company Limited/
Corporation de Distribution Électrique de Hearst

We have audited the accompanying financial statements of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst, which comprise the balance sheet as at December 31, 2012, and the statements of income, retained earnings and contributed capital and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal 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.

Auditor's 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.

INDEPENDENT AUDITOR'S REPORT, (CONT'D)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the management'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 management's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Gagné Gagnon Bissan Hébert

Chartered Accountants
Licenced Public Accountants
April 19, 2013

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

FINANCIAL STATEMENTS

DECEMBER 31, 2012

Statement of Loss	1
Statement of Retained Earnings and Contributed Capital	2
Balance Sheet	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 18

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2012

	2012 Budget	2012 Actual	2011 Actual
SERVICE REVENUE			
Electricity	\$ 5,921,456	\$ 6,295,332	\$ 5,777,995
Wholesale market services, transmission and connection	1,395,315	1,348,619	1,311,799
	<u>7,316,771</u>	<u>7,643,951</u>	<u>7,089,794</u>
COST OF SALES			
Electricity	5,997,604	6,297,026	5,742,956
Wholesale market services	1,319,167	1,363,703	1,312,472
	<u>7,316,771</u>	<u>7,660,729</u>	<u>7,055,428</u>
GROSS MARGIN	-	(16,778)	34,366
DISTRIBUTION REVENUE	934,553	1,174,035	1,020,727
INTEREST INCOME	43,400	53,634	51,965
OTHER REVENUE	75,800	159,045	121,231
	<u>1,053,753</u>	<u>1,369,936</u>	<u>1,228,289</u>
EXPENSES			
DISTRIBUTION, OPERATION AND MAINTENANCE			
Transformers	52,960	58,622	58,514
Meters	291,338	8,226	17,173
Lines and feeders	229,366	411,105	344,799
	<u>573,664</u>	<u>477,953</u>	<u>420,486</u>
ADMINISTRATION AND FINANCE			
Meter reading, billing and collecting	175,000	179,762	193,049
General administration	377,341	171,270	255,578
Interest on long-term debt	25,000	300,000	135,000
	<u>577,341</u>	<u>651,032</u>	<u>583,627</u>
AMORTIZATION	185,807	113,785	96,847
	<u>1,336,812</u>	<u>1,242,770</u>	<u>1,100,960</u>
INCOME (LOSS) BEFORE PAYMENTS IN LIEU OF TAXES	(283,059)	127,166	127,329
PAYMENTS IN LIEU OF TAXES			
Current	-	11,108	16,566
Future (recovery)	-	(59,000)	107,100
	<u>-</u>	<u>(47,892)</u>	<u>123,666</u>
NET INCOME	<u>\$ (283,059)</u>	<u>\$ 175,058</u>	<u>\$ 3,663</u>

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

**STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED CAPITAL
YEAR ENDED DECEMBER 31, 2012**

	2012	2011
RETAINED EARNINGS		
BALANCE, BEGINNING OF YEAR	\$ 2,671,557	\$ 2,667,894
NET INCOME	175,058	3,663
BALANCE, END OF YEAR	\$ 2,846,615	\$ 2,671,557
CONTRIBUTED CAPITAL		
BALANCE, BEGINNING AND END OF YEAR	\$ 206,641	\$ 206,641

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

BALANCE SHEET

DECEMBER 31, 2012

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,554,709	\$ 4,038,161
Unbilled revenue	934,701	838,525
Accounts receivable (note 4)	721,210	616,504
Payment in lieu of taxes	-	4,160
Inventories	109,804	114,558
Prepaid expenses	15,739	12,608
Payment in lieu of future taxes	51,800	-
	6,387,963	5,624,516
PROPERTY AND EQUIPMENT (note 5)	876,244	724,465
OTHER ASSETS (note 6)	9,184	10,457
	\$ 7,273,391	\$ 6,359,438
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 8)	\$ 1,616,745	\$ 778,774
Other regulatory assets and liabilities (note 9)	372,653	634,935
Due to Town of Hearst	462,968	292,407
Demand loan (note 10)	1,700,000	1,700,000
Income taxes payable	382	-
Payment in lieu of future taxes	-	7,200
Customers' deposits	57,387	57,924
	4,210,135	3,471,240
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (note 11)	10,000	10,000
RETAINED EARNINGS	2,846,615	2,671,557
CONTRIBUTED SURPLUS	206,641	206,641
	3,063,256	2,888,198
	\$ 7,273,391	\$ 6,359,438

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012

	2012	2011
OPERATING ACTIVITIES		
Net income	\$ 175,058	\$ 3,663
Items not involving cash:		
Amortization	113,785	96,847
Payment in lieu of future taxes	(59,000)	107,100
Gain on disposal of property and equipment	(3,200)	-
	226,643	207,610
Changes in:		
Unbilled revenue	(96,176)	4,836
Accounts receivable	(104,706)	(156,197)
Payment in lieu of taxes	4,542	6,566
Inventories	4,754	(6,165)
Prepaid expenses	(3,131)	(518)
Accounts payable and accrued liabilities	837,969	(565,192)
Other regulatory assets and liabilities	(262,282)	11,156
Due to Town of Hearst	170,561	140,684
Customers' deposits	(537)	(403)
	777,637	(357,623)
INVESTING ACTIVITIES		
Purchase of property and equipment	(264,289)	(45,978)
Proceeds on disposal of property and equipment	3,200	-
	(261,089)	(45,978)
CHANGE IN CASH POSITION	516,548	(403,601)
CASH POSITION, BEGINNING OF YEAR	4,038,161	4,441,762
CASH POSITION, END OF YEAR	\$ 4,554,709	\$ 4,038,161

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

1. STATUS AND NATURE OF OPERATIONS

Hearst Power Distribution Company Limited/Corporation de Distribution Électrique de Hearst, incorporated under the Ontario Business Corporations Act, owns all the electrical distribution system in the territory of the Corporation of the Town of Hearst and is responsible for the distribution of the electrical power on this territory. The company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998.

2. CHANGE IN ACCOUNTING POLICIES

On February 13, 2008, The Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011.

In a decision summary released in February 2013, the AcSB granted qualifying entities subject to rate regulation activities with the option to defer their adoption of IFRS until the period beginning on or after January 1, 2015. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. The company will apply IFRS in the year beginning on January 1, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with Part V - Pre-changeover Accounting Standards of the Canadian Institute of Chartered Accountants (CICA) Handbook, Canadian generally accepted accounting principles (GAAP), including policies from the Accounting Procedure Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998 (OEBA).

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REGULATORY ASSETS AND LIABILITIES

The rates of the company's electricity business are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate regulated accounting giving rise to the recognition of regulatory assets and liabilities. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future years. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the company not been regulated. Specific regulatory assets and liabilities are disclosed in note 8.

FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when they become a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets, are measured at fair value.

The Corporation has implemented the following classifications:

Held for trading:	Cash
Loans and receivables :	Unbilled revenue and accounts receivable
Other financial liabilities:	Accounts payable, accrued liabilities, due to Town of Hearst, demand loan and customers deposits

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REVENUE RECOGNITION

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. These revenues are recorded on the basis of regular meter readings and estimates of customer usage. Estimated customer usage from the last meter reading date to the end of the year is included in revenues and in accounts receivable as unbilled revenue.

Other revenues, which include pole rental, customer demand work and other miscellaneous revenues are recognized at the time the service is provided.

POWER PURCHASES

The power bills received from the Independent Electricity System Operator (IESO) and Hydro One are recorded in the period to which it refers and not in the period in which it is received.

Costs for power purchased represent the cost of electricity delivered to customers and the wholesale commodity cost of energy, the IESO and Hydro One wholesale market charges and transmission charges.

UNBILLED REVENUE

At year end, meter readings for the last period are not recorded in the accounting system. The unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Most of the inventory is used for own purposes and is eventually added to the property and equipment. Cost is determined on the average cost basis.

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

PAYMENTS IN LIEU OF CORPORATE TAXES

A municipal electric utility is exempt from tax under section 149 (1) of the Income Tax Act. Under the Electricity Act of 1998, municipal electric utilities have to make payments in lieu of taxes (PILS) to the province. These payments are generally equivalent to the income taxes that would be otherwise due if the municipal electric utility would have been taxable as a small business corporation under the Income Tax Act.

The company follows the asset and liability method of accounting for income taxes. Future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. Any payments in lieu of futures tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of change. Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

PROPERTY AND EQUIPMENT

Amortization of property and equipment is based on the estimated useful life of the asset and is recorded on a straight-line basis over the following number of years. In the year of acquisition, only half of the following rate is used:

Building and fixtures	50 years
Underground lines and feeders	25 years
Transformers	25 years
Meters	25 years
Office equipment	10 years
Automotive equipment	5 years
Computer equipment	5 years
Other equipment	10 years
Land rights	10 years

When property and equipment are disposed, the proceeds of disposition are recorded as a reduction to the appropriate property and equipment accounts. Consequently, gains and losses on disposals are brought into income over the depreciable lives of the remaining property and equipment.

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 20 years.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

CUSTOMERS' DEPOSITS

Customers' advance deposits are cash collections from customers to mitigate the financial risk of non-payment of energy bills. Security deposits are refunded on customer's account when a customer is deemed to have maintained a good payment history during the relevant time period set out in the customer security deposit policy.

EMPLOYEE FUTURE BENEFITS

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. Since the company is only a contributor to the plan and all the actuarial costs/benefits are assumed by the province, only its yearly contributions/adjustments required by the province are recorded as expenses in the income statement.

MEASUREMENT UNCERTAINTY / USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The significant estimates used by management in preparing these financial statements include an allowance for doubtful accounts, unbilled revenue, useful life of assets, payments in lieu of future taxes based on estimate of future tax rates and significant accrual estimates. Actual results could differ from those estimates.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

4. ACCOUNTS RECEIVABLE

	2012	2011
Electrical energy	\$ 501,827	\$ 478,923
Ontario Power Authority (OPA)	3,030	12,622
Related parties	55,916	39,020
Others	165,387	88,034
	<u>726,160</u>	<u>618,599</u>
Allowance for doubtful accounts	(4,950)	(2,095)
	<u>\$ 721,210</u>	<u>\$ 616,504</u>

The book value of the accounts receivable that have been placed in allowance for doubtful accounts is \$4,974.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2012 Net	2011 Net
Land	\$ 7,600	\$ -	\$ 7,600	\$ 7,600
Building and fixtures	232,469	91,243	141,226	127,537
Underground lines and feeders	2,056,881	1,721,298	335,583	357,217
Transformers	557,917	487,816	70,101	80,101
Meters	137,715	90,116	47,599	50,815
Office equipment	48,128	42,015	6,113	8,288
Automotive equipment	703,998	490,083	213,915	25,510
Computer equipment	220,666	213,416	7,250	18,687
Other equipment	141,918	95,241	46,677	48,350
Land rights	4,232	4,052	180	360
	<u>\$ 4,111,524</u>	<u>\$ 3,235,280</u>	<u>\$ 876,244</u>	<u>\$ 724,465</u>

At December 31, 2012, the net book value of stranded meters related to the deployment of smart meters included in meters was \$45,081 (2011 - \$45,081). In the absence of rate-regulation, capital assets would have been reduced by this amount as of December 31, 2012. Disposition of these costs will be determined in future proceedings of the Ontario Energy Board.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

6. OTHER ASSETS

	Cost	Accumulated amortization	2012 Net	2011 Net
Organization costs	\$ 24,198	\$ 15,014	\$ 9,184	\$ 10,457

7. BANK INDEBTEDNESS

The corporation has an approved line of credit of \$300,000, at prime, secured by a general security agreement on all of the company's assets.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Trade payable	\$ 1,502,128	\$ 807,277
Customer Credit Balances	38,902	30,688
Commodity Taxes	30,090	(81,304)
Payroll / wages payable	25,120	-
Accrued fees	16,000	13,500
Others	4,505	8,613
	\$ 1,616,745	\$ 778,774

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

9. OTHER REGULATORY ASSETS AND LIABILITIES

	2012	2011
Special purpose charge asset (a)	\$ 599	\$ 5,938
Other regulatory assets (b)	(27,245)	(1,915)
Miscellaneous deferred debits	(4,212)	(4,201)
LV variance account (c)	(49,852)	(36,647)
Smart Meter capital and recovery (d)	(373,155)	(423,757)
Smart Meter OM&A variance (d)	(333,118)	(264,218)
Deferred payments in lieu of taxes	(7,379)	(11,904)
Contra asset - deferred payments in lieu of taxes	7,379	11,904
Conservation and demand management (CDM) expenditures and recoveries (e)	332	332
Qualifying transition costs (f)	(32,433)	(32,145)
Pre-market opening energy variance (g)	(396)	(396)
Retail services and settlement variances - all categories (h)	81,100	673,587
Recovery of regulatory assets balances	-	993
Other regulatory liabilities	12,419	12,419
HST/OVAT Contra Account	-	(10,379)
Lost Revenue Adjustment Mechanism (LRAM) (i)	(13,689)	-
Disposition and Recovery of Regulatory (j)	1,112,303	715,324
	<u>\$ 372,653</u>	<u>\$ 634,935</u>

REGULATORY ASSETS AND LIABILITIES

The entity has to follow regulatory accounting treatments that differ from Canadian generally accepted accounting policies for enterprises operating in non regulated environment. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(a) Special purpose charge asset

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ('SPC') assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of \$33,091 for its apportioned share of the total provincial amount of the SPC of \$53,695,310 in accordance with the rules set out in Ontario Regulation 66/10 (the 'SPC Regulation'). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The company over recovered from customers which will be repaid in the next rate rebasing.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(b) Other recovery assets

OEB has allowed for the deferral of specific costs with application for future recovery. As at December 31, 2012, the company has incurred \$25,500 (2011 - \$0) of costs relating to conversion to IFRS, \$1,745 (2011 - \$1,955) of costs relating to Ontario Clean Energy Act. These costs will be eligible for recovery starting in 2013 subject to OEB approval.

(c) LV variance account

This account is used to record the variance arising from low voltage transactions which are not part of the electricity wholesale.

(d) Smart meter

Effective May 1, 2006, the OEB has allowed the corporation to defer capital expenditures, operating expenditures, amortization expense and revenues related to smart meters. Total expenditures deferred at December 31, 2012 amounted to \$853,934 (2011 - \$811,319). The company has deferred these items in accordance with the criteria set out in the AP Handbook.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that 'seed' funding equivalent to \$2.50 (since May 1st, 2012), \$1.00 (since May 1st, 2011) and \$0.25 (from May 25th, 2010 to April 30th, 2011) per customer per month be included in the company's distribution rates commencing July 1, 2010. Revenue has been reduced by the amount for smart meters funded in rates, and have been deferred and netted against smart metering capital costs incurred commencing in 2010 in accordance with the AP Handbook. Accordingly, total smart meter customer revenues, in 2012 of \$171,620 (2011 - \$137,456) were deferred.

Carrying charges which amounted to \$23,954 at December 31, 2012 (2011 - \$14,112) are calculated monthly on the opening balance of the smart meter variance account using a specific interest rate as outlined by the OEB.

(e) Conservation and demand management (CDM)

All approved board CDM program initiatives for the distributor should be recorded in this variance account. All costs incurred for CDM activities and expenditures and the revenue proxy amount equivalent to the distributor's amount approved by the Board.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(f) Qualifying transition costs

Certain costs to set up the company have been deferred in accordance with OEB guidelines. These costs have been increased for the prescribed OEB rate of return with an offsetting interest income credit.

(g) Pre-market opening energy variance

This asset represents the utility's cost of power based on time-of-use rates and the amounts billed to non time-of-use customers. These costs have been increased for the prescribed OEB rate of return with an affecting interest income credit.

(h) Retail services and settlement variances

The net difference between the amount paid in the year to IESO and Hydro One and the amount billed to customers and retailers, based on Board-approved rates is recorded by journal entry in the following variance accounts:

- i) Power charges
- ii) Wholesale market service charges
- iii) Retail transmission network service charges
- iv) Retail transmission connection service charges
- e) Provincial benefit / global adjustments

(i) To record the lost revenue adjustment mechanism (LRAM) variances in relation to the conservation and demand management (CDM) programs or activities undertaken by a distributor in accordance with Board-prescribed requirements.

(j) Disposition and Recovery of Regulatory

This variance account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to refund or (recover) account balances in rates as part of the regulatory process.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

10. DEMAND LOAN

	2012	2011
Promissory note payable to the Corporation of the Town of Hearst, interest at the lesser of 12% or a part of the net income for the year, payable on a monthly basis, no fixed capital repayment	\$ 1,700,000	\$ 1,700,000

11. CAPITAL STOCK

	2012	2011
Authorized		
Unlimited number of preference shares, dividends at the discretion of the directors, non voting		
Unlimited number of common shares		
Issued		
10,000 common shares	\$ 10,000	\$ 10,000

12. EMPLOYEE BENEFIT PLAN

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. During the year, the company contributed \$36,511 to the plan (2011 - \$27,276). As this is a defined benefit plan, these contributions are the company's pension benefit expenses. No pension liability for this type of plan is included in the company's financial statements.

HEARST POWER DISTRIBUTION COMPANY LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

13. RELATED PARTY TRANSACTIONS

During the year, the company incurred the following related party transactions with its sole shareholder, the Corporation of the Town of Hearst and its affiliate Hearst Power Sales and Services Company Limited.

	2012	2011
<i>Corporation of the Town of Hearst</i>		
Service revenue	\$ 722,855	\$ 678,013
Rent expense	9,322	9,139
Clerical and answering services expense	29,413	27,097
Interest on long-term debt	150,000	135,000
<i>Year-end balances were as follows:</i>		
Accounts receivable - PUC Water	\$ 22,663	\$ 12,899
Other account receivable	499	910
Due to Town of Hearst	(462,968)	(292,407)
Demand loan payable	(1,700,000)	(1,700,000)
<i>Hearst Power Sales and Services Company Limited</i>		
Service revenue	\$ 30,896	\$ 21,131
Rent revenue	1,000	1,000
Administration revenue	1,000	1,080
<i>Year-end balances were as follows:</i>		
Due from Hearst Power Sales and Services Company Ltd.	\$ 32,752	\$ 25,211

These transactions are in the normal courses of operations and are measured at the exchange amount which is received and paid on similar terms as those of unrelated parties.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

14. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this guarantee if the company fails to make a payment required by a default notice issued by the IESO. In this regard, the company has obtained a letter of guarantee as security in the amount of \$334,919 (2011 - \$334,919) from the Caisse Populaire de Hearst Limitée.

15. CAPITAL DISCLOSURE

The management's objectives when managing capital are:

- (a) To ensure ongoing access to funding to maintain and improve the electricity distribution system
- (b) To respect the capital structure for regulated activities with debt to equity structure recommended by the OEB, which is 60% debt and 40% equity
- (c) To ensure prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity business
- (d) To provide an adequate return to his shareholder

The company defines capital as shareholder's equity and demand loan.

The OEB regulates the amount of interest on debt that may be recovered by the regulated electricity distribution business of the company through its electricity distribution rates. The actual capital structure of the company may differ from the OEB deemed structure.

The company has no external capital requirements.

**HEARST POWER DISTRIBUTION COMPANY
LIMITED/CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE
HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

16. FINANCIAL INSTRUMENTS

It is management's opinion that the company is not exposed to significant interest, fair value, foreign exchange, market, or concentration risks. The significant risks which the company is exposed to in respect of its financial instruments are credit risk and liquidity risk, each of which is described below:

(a) CREDIT RISK

Financial assets carry credit risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The company is exposed to such risks in its accounts receivable, consisting primarily of payments due from its electricity distribution customers, for a total of \$723,124 (2011 - \$618,415).

The company reduces its exposure to credit risk by performing credit valuations on a regular basis, granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the company is low and is not material.

(b) LIQUIDITY RISK

The company is exposed to liquidity risk through its accounts payable and accrued liabilities, customers' deposits and due to the Town of Hearst of \$2,137,098 (2011 - \$1,129,104). Liquidity risk represents the risk that the company is unable to repay its obligations when they become due to its creditors. The company monitors its exposure to liquidity risk with respect to its operational and investment requirements for financial capital by ensuring that it documents when authorized payments become due, by maintaining an adequate line of credit to repay trade creditors. In the opinion of management the liquidity risk exposure to the company is low and is not material.

**HEARST POWER DISTRIBUTION COMPANY LIMITED/
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2013



Collins Barrow

Gagné Gagnon Bisson Hébert
Chartered Accountants / Comptables Agréés

Eric G. Gagnon Professional Corporation
Christiane S. Lapointe C.A.
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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Hearst Power Distribution Company Limited/
Corporation de Distribution Électrique de Hearst

We have audited the accompanying financial statements of Hearst Power Distribution Company Limited / Corporation de Distribution Électrique de Hearst, which comprise the balance sheet as at December 31, 2013, and the statements of income, retained earnings and contributed capital and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal 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.

Auditor's 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.

INDEPENDENT AUDITOR'S REPORT, (CONT'D)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the management'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 management's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hearst Power Distribution Company Limited / Corporation de Distribution Électrique de Hearst as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Gagné Gagnon Bisson Hébert

Chartered Accountants
Licenced Public Accountants
April 24, 2014

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**
FINANCIAL STATEMENTS

DECEMBER 31, 2013

Statement of Income	1
Statement of Retained Earnings and Contributed Capital	2
Balance Sheet	3 - 4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 22

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2013

	2013 Budget	2013 Actual	2012 Actual Restated (note 3)
SERVICE REVENUE			
Electricity	\$ 6,420,989	\$ 7,194,707	\$ 6,243,403
Wholesale market services, transmission and connection	1,437,855	1,453,710	1,362,560
	<u>7,858,844</u>	<u>8,648,417</u>	<u>7,605,963</u>
COST OF SALES			
Electricity	6,386,293	7,194,707	6,243,403
Wholesale market services, transmission and connection	1,472,551	1,453,710	1,362,560
	<u>7,858,844</u>	<u>8,648,417</u>	<u>7,605,963</u>
GROSS MARGIN	-	-	-
DISTRIBUTION REVENUE	1,133,110	1,121,781	1,196,328
INTEREST INCOME	43,400	51,805	53,634
OTHER REVENUE	75,695	150,380	156,316
	<u>1,252,205</u>	<u>1,323,966</u>	<u>1,406,278</u>
EXPENSES			
DISTRIBUTION, OPERATION AND MAINTENANCE			
Transformers	58,910	53,480	60,110
Meters	9,900	10,350	8,226
Lines and feeders	252,470	409,198	411,105
	<u>321,280</u>	<u>473,028</u>	<u>479,441</u>
ADMINISTRATION AND FINANCE			
Meter reading, billing and collecting	182,000	203,474	179,762
General administration	351,640	209,471	171,270
Interest on long-term debt	25,000	177,000	300,000
	<u>558,640</u>	<u>589,945</u>	<u>651,032</u>
AMORTIZATION	185,807	118,126	113,786
	<u>1,065,727</u>	<u>1,181,099</u>	<u>1,244,259</u>
INCOME BEFORE PAYMENT- IN-LIEU OF TAXES	186,478	142,867	162,019
PAYMENT-IN-LIEU OF TAXES			
Current	-	12,734	11,108
Future (recovery)	-	4,350	(59,000)
	<u>-</u>	<u>17,084</u>	<u>(47,892)</u>
NET INCOME	<u>\$ 186,478</u>	<u>\$ 125,783</u>	<u>\$ 209,911</u>

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

STATEMENT OF RETAINED EARNINGS AND CONTRIBUTED CAPITAL

YEAR ENDED DECEMBER 31, 2013

	2013	2012 Restated (note 3)
RETAINED EARNINGS		
BALANCE, BEGINNING OF YEAR	\$ 2,871,880	\$ 2,661,969
NET INCOME	125,783	209,911
BALANCE, END OF YEAR	\$ 2,997,663	\$ 2,871,880
CONTRIBUTED CAPITAL		
BALANCE, BEGINNING AND END OF YEAR	\$ 206,641	\$ 206,641

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

BALANCE SHEET

DECEMBER 31, 2013

	2012	2012
	2012	Restated
	2013	(Note 3)
BALANCE SHEET		
CURRENT ASSETS		
Cash	\$ 4,246,772	\$ 4,554,709
Unbilled revenue	1,211,975	938,242
Accounts receivable (note 4)	765,045	721,210
Inventories	123,812	109,804
Prepaid expenses	17,161	15,739
Payment-in-lieu of future taxes	47,450	51,800
	6,412,215	6,391,504
PROPERTY AND EQUIPMENT (note 5)	818,351	876,244
OTHER ASSETS (note 6)	7,910	9,184
OTHER REGULATORY ASSETS AND LIABILITIES (note 9)	252,250	-
	\$ 7,490,726	\$ 7,276,932

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

BALANCE SHEET

DECEMBER 31, 2013

	2013	2012 Restated (Note 3)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 8)	\$ 2,174,585	\$ 1,616,745
Other regulatory assets and liabilities (note 9)	-	350,930
Due to Town of Hearst	337,822	462,967
Demand loan (note 10)	1,700,000	1,700,000
Payment-in-lieu of taxes	12,954	382
Customers' deposits	51,061	57,387
	<u>4,276,422</u>	<u>4,188,411</u>
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (note 11)	10,000	10,000
RETAINED EARNINGS	2,997,663	2,871,880
CONTRIBUTED SURPLUS	206,641	206,641
	<u>3,214,304</u>	<u>3,088,521</u>
	<u>\$ 7,490,726</u>	<u>\$ 7,276,932</u>

CONTINGENT LIABILITIES - NOTE 15

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013

	2013	2012 Restated (note 3)
OPERATING ACTIVITIES		
Net income	\$ 125,783	\$ 209,911
Items not involving cash:		
Amortization	118,126	113,786
Payment-in-lieu of future taxes	4,350	(59,000)
Gain on disposal of property and equipment	-	(3,200)
	<u>248,259</u>	<u>261,497</u>
Changes in:		
Unbilled revenue	(273,733)	(91,091)
Accounts receivable	(43,835)	(104,706)
Payment-in-lieu of taxes	12,572	4,542
Inventories	(14,008)	4,754
Prepaid expenses	(1,422)	(3,130)
Accounts payable and accrued liabilities	557,843	837,969
Other regulatory assets and liabilities	(603,180)	(302,220)
Due to Town of Hearst	(125,145)	170,561
Customers' deposits	(6,326)	(537)
	<u>(248,975)</u>	<u>777,639</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(58,962)	(264,291)
Proceeds on disposal of property and equipment	-	3,200
	<u>(58,962)</u>	<u>(261,091)</u>
CHANGE IN CASH POSITION	(307,937)	516,548
CASH POSITION, BEGINNING OF YEAR	<u>4,554,709</u>	<u>4,038,161</u>
CASH POSITION, END OF YEAR	<u>\$ 4,246,772</u>	<u>\$ 4,554,709</u>

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. STATUS AND NATURE OF OPERATIONS

Hearst Power Distribution Company Limited / Corporation de Distribution Électrique de Hearst was incorporated under the Ontario Business Corporations Act. The company operates electrical distribution utilities in the territory of the Corporation of the Town of Hearst.

RATE REGULATED ENTITY

The Ontario Energy Board (OEB) has regulator oversight of electricity matters in the Province of Ontario. Among other duties, the OEB has authority to issue distribution licenses along with conditions pertaining to accounting records and filing requirements for rate setting purposes.

All energy must be purchased through Independent Electricity System Operations (IESO) in a weighted average basis whereas the price paid for the electricity is based on the market price adjusted for the peak periods of demand.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with Part V - Pre-changeover Accounting Standards of the Canadian Institute of Chartered Accountants (CICA) Handbook, Canadian generally accepted accounting principles (GAAP), including policies from the Accounting Procedure Manual issued by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1998 (OEBA).

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, The Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011.

In a decision summary released in February 2013, the AcSB granted qualifying entities subject to rate regulation activities with the option to defer their adoption of IFRS until the period beginning on or after January 1, 2015. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. The company will apply IFRS in the year beginning on January 1, 2015.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REGULATORY ASSETS AND LIABILITIES

The rates of the company's electricity business are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate regulated accounting giving rise to the recognition of regulatory assets and liabilities. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future years. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the company not been regulated. Specific regulatory assets and liabilities are disclosed in note 9.

FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when they become a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets, are measured at fair value.

The company has implemented the following classifications:

Held for trading:	Cash
Loans and receivables :	Unbilled revenue and accounts receivable
Other financial liabilities:	Accounts payable, accrued liabilities, due to Town of Hearst, demand loan and customers deposits

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

REVENUE RECOGNITION

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. These revenues are recorded on the basis of regular meter readings and estimates of customer usage. Estimated customer usage from the last meter reading date to the end of the year is included in revenues and in accounts receivable as unbilled revenue.

Other revenues, which include pole rental, customer demand work and other miscellaneous revenues are recognized at the time the service is provided.

POWER PURCHASES

The power bills received from the Independent Electricity System Operator (IESO) and Hydro One are recorded in the period to which it refers and not in the period in which it is received.

Costs for power purchased represent the cost of electricity delivered to customers and the wholesale commodity cost of energy, the IESO and Hydro One wholesale market charges and transmission charges.

UNBILLED REVENUE

Revenue is recorded in the accounts at various dates based on meter readings. At the end of an accounting cycle, there is energy used by customers for which meter readings are not available. This unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Most of the inventory is used for own purposes and is eventually added to the property and equipment. Cost is determined on the average cost basis.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of property and equipment. In the year of acquisition, only half of the following rate is used. Depreciation methods and useful lives are reviewed at each reporting date. The estimated useful lives are as follows :

Building and fixtures	50 years
Underground lines and feeders	25 years
Transformers	25 years
Meters	25 years
Office equipment	10 years
Automotive equipment	5 years
Computer equipment	5 years
Other equipment	10 years
Land rights	10 years

See Note 14 - Change in Accounting Policy

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 20 years.

PAYMENT-IN-LIEU OF CORPORATE TAXES

A municipal electric utility is exempt from tax under section 149(1) of the Income Tax Act. Under the Electricity Act of 1998, municipal electric utilities have to make payment-in-lieu of taxes (PILS) to the province. These payments are generally equivalent to the income taxes that would be otherwise due if the municipal electric utility would have been taxable as a small business corporation under the Income Tax Act.

The company follows the asset and liability method of accounting for income taxes. Future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. Any payments-in-lieu of future tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of change. Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

CUSTOMERS' DEPOSITS

Customers' advance deposits are cash collections from customers to mitigate the financial risk of non-payment of energy bills. Security deposits are refunded on customer's account when a customer is deemed to have maintained a good payment history during the relevant time period set out in the customer security deposit policy.

EMPLOYEE FUTURE BENEFITS

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. Since the company is only a contributor to the plan and all the actuarial costs/benefits are assumed by the province, only its yearly contributions/adjustments required by the province are recorded as expenses in the income statement.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The significant estimates used by management in preparing these financial statements include an allowance for doubtful accounts, unbilled revenue, useful life of assets, payments in lieu of income taxes and significant accrual estimates. Actual results could differ from those estimates.

3. IMPACT OF THE CORRECTION OF ERRORS

OEB conducted an audit of Group 1 and Group 2 Deferral and Variance Accounts of Hearst Power Distribution Company. OEB concluded that Hearst Power did not follow completely the Accounting Procedures Handbook with regards to the accrual method of accounting of deferred variance accounts for 2012. It was also noted that Hearst Power did not dispose of and close specific account balances as at December 31, 2011 following OEB's incentive regulation mechanism EB-2011-0171. Lastly, OEB also noted that Hearst Power did not record both the collection of the rate riders for Recovery of Foregone Revenue and Late Payment Penalty Litigation Costs and the Rural or Remote Electricity Rate Protection. The impact on the affected accounts is presented for both the opening balances as at January 1, 2012 and the closing balances as at December 31, 2012.

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. IMPACT OF THE CORRECTION OF ERRORS, (CONT'D)

(a) Opening balance sheet at January 1, 2012:

	As previously reported	Effects of transition	As restated
BALANCE SHEET			
CURRENT ASSETS			
Unbilled revenue	\$ 838,525	\$ 8,626	\$ 847,151
LIABILITIES			
CURRENT LIABILITIES			
Other regulatory assets and liabilities	\$ 634,935	\$ 18,215	\$ 653,150
SHAREHOLDER'S EQUITY			
Retained earnings	2,671,558	(9,589)	2,661,969
	<u>\$ 3,306,493</u>	<u>\$ 8,626</u>	<u>\$ 3,315,119</u>

(b) Balance sheet at December 31, 2012:

	As previously reported	Effects of restatement	As restated
BALANCE SHEET			
CURRENT ASSETS			
Unbilled revenue	\$ 934,701	\$ 3,541	\$ 938,242
LIABILITIES			
CURRENT LIABILITIES			
Other regulatory assets and liabilities	\$ 372,653	\$ (21,723)	\$ 350,930
SHAREHOLDER'S EQUITY			
Retained earnings	2,846,616	25,264	2,871,880
	<u>\$ 3,219,269</u>	<u>\$ 3,541</u>	<u>\$ 3,222,810</u>

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

3. IMPACT OF THE CORRECTION OF ERRORS, (CONT'D)

- (c) Impact on Income Statement and Changes in Retained Earnings and Contributed Capital, for the year ended December 31, 2012:

	As previously reported	Effects of restatement	As restated
Revenue	\$ 7,643,950	\$ (37,989)	\$ 7,605,961
Cost of sales	(7,660,729)	54,766	(7,605,963)
Distribution revenue	1,174,035	22,293	1,196,328
Other revenue	159,045	(2,729)	156,316
Transformers expense	(58,622)	(1,488)	(60,110)
NET INCOME	\$ 1,257,679	\$ 34,853	\$ 1,292,532
Retained earnings, beginning of year	\$ 2,671,558	\$ (9,589)	\$ 2,661,969
Net income	175,058	34,853	209,911
RETAINED EARNINGS, END OF YEAR	\$ 2,846,616	\$ 25,264	\$ 2,871,880

4. ACCOUNTS RECEIVABLE

	2013	2012
Electrical energy	\$ 112,299	\$ -
Ontario Power Authority (OPA)	539,552	501,827
Related parties	11,962	3,030
Others	30,720	55,916
	86,131	165,387
Allowance for doubtful accounts	780,664	726,160
	(15,619)	(4,950)
	\$ 765,045	\$ 721,210

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2013 Net	2012 Net
Land	\$ 7,600	\$ -	\$ 7,600	\$ 7,600
Building and fixtures	232,469	95,623	136,846	141,226
Underground lines and feeders	2,072,892	1,763,251	309,641	335,583
Transformers	557,917	497,159	60,758	70,101
Meters	144,972	93,659	51,313	47,599
Office equipment	48,128	43,781	4,347	6,113
Automotive equipment	732,199	541,557	190,642	213,915
Computer equipment	224,399	215,996	8,403	7,250
Other equipment	145,678	97,057	48,621	46,677
Land rights	4,232	4,052	180	180
	\$ 4,170,486	\$ 3,352,135	\$ 818,351	\$ 876,244

At December 31, 2013, the net book value of stranded meters related to the deployment of smart meters included in meters was \$45,081 (2012 - \$45,081). In the absence of rate-regulation, capital assets would have been reduced by this amount. Disposition of these costs will be determined in future proceedings of the Ontario Energy Board.

6. OTHER ASSETS

	Cost	Accumulated amortization	2013 Net	2012 Net
Organization costs	\$ 25,471	\$ 17,561	\$ 7,910	\$ 9,184

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

7. BANK INDEBTEDNESS

The corporation has an approved line of credit of \$300,000, at prime, secured by a general security agreement on all of the company's assets. The line of credit is not used at year-end.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Accounts payable	\$ 1,914,079	\$ 1,502,128
Customer credit balances	35,973	38,902
Commodity taxes	-	30,090
Payroll / wages payable	-	25,120
Accrued fees	18,000	16,000
RRR overcollection	206,533	-
Others	-	4,505
	<u>\$ 2,174,585</u>	<u>\$ 1,616,745</u>

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

9. OTHER REGULATORY ASSETS AND LIABILITIES

	2013	2012 Restated (Note 3)
Other regulatory assets (a)	\$ 37,633	\$ 26,703
Miscellaneous deferred debits	4,223	4,212
LV variance account (b)	29,891	(2,671)
Smart meter capital and recovery (c)	339,068	373,155
Smart meter OM&A variance (c)	412,205	333,118
Retail services and settlement variances - all categories (d)	(39,148)	(83,489)
Other regulatory liabilities	(12,419)	(12,419)
Lost revenue adjustment mechanism (LRAM) (e)	5,228	13,689
Disposition and recovery of regulatory (f)	(527,169)	(1,003,228)
Smart metering entity charge variance account (g)	2,738	-
	<u>\$ 252,250</u>	<u>\$ (350,930)</u>

REGULATORY ASSETS AND LIABILITIES

The entity has to follow regulatory accounting treatments that differ from Canadian generally accepted accounting policies for enterprises operating in non-regulated environment. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(a) Other recovery assets

OEB has allowed for the deferral of specific costs with application for future recovery. As at December 31, 2013, the company has incurred \$35,500 (2012 - \$25,500) of costs relating to conversion to IFRS, plus \$1,696 (2012 - \$1,745) of carrying charges costs relating to Ontario Clean Energy Act. These costs will be eligible for recovery starting after 2013 subject to OEB approval.

(b) LV variance account

This account is used to record the variance arising from low voltage transactions which are not part of the electricity wholesale.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(c) Smart meter

Effective May 1, 2006, the OEB has allowed the corporation to defer capital expenditures, operating expenditures, amortization expenses and revenues related to smart meters. Total expenditures deferred at December 31, 2013 amounted to \$888,226 (2012 - \$853,934). The company has deferred these items in accordance with the criteria set-out in the Accounting Procedures Handbook.

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies up to April, 2012. Revenue has been reduced by the amount for smart meters funded in rates, and have been deferred and netted against smart metering capital costs incurred commencing in 2010 in accordance with the AP Handbook. Accordingly, total smart meter customer revenues amounted to \$171,620 (2012 - \$171,620) were deferred.

Carrying charges which amounted to \$34,667 at December 31, 2013 (2012 - \$23,954) are calculated monthly on the opening balance of the smart meter variance account using a specific interest rate as outlined by the OEB.

(d) Retail services and settlement variances

The net difference between the amount paid in the year to IESO and Hydro One and the amount billed to customers and retailers, based on Board-approved rates is recorded by journal entry in the following variance accounts:

- i) Power charges
- ii) Wholesale market service charges
- iii) Retail transmission network service charges
- iv) Retail transmission connection service charges
- v) Provincial benefit / global adjustments

(e) To record the lost revenue adjustment mechanism (LRAM) variances in relation to the conservation and demand management (CDM) programs or activities undertaken by a distributor in accordance with Board-prescribed requirements.

(f) Disposition and Recovery of Regulatory

This variance account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to refund or (recover) account balances in rates as part of the regulatory process.

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

9. OTHER REGULATORY ASSETS AND LIABILITIES (CONT'D)

(g) Smart Metering Entity Charge Variance Account

The OEB is managing the development of the meter data management/repository to collect, manage, store and retrieve information related to the metering of customers' use of electricity in Ontario.

A monthly carrying charge is calculated based on Board approved interest rates and added to the balance of each account.

10. DEMAND LOAN

	2013	2012
Promissory note payable to the Corporation of the Town of Hearst, interest at the lesser of 12% or a part of the net income for the year, payable on a monthly basis, no fixed capital repayment	\$ 1,700,000	\$ 1,700,000

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. CAPITAL STOCK

	2013	2012
Authorized		
Unlimited number of preference shares, dividends at the discretion of the directors, non voting		
Unlimited number of common shares		
Issued		
10,000 common shares	\$ 10,000	\$ 10,000

12. EMPLOYEE BENEFIT PLAN

The company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS), a defined benefit plan established by the province. Both employers and employees are required to make contributions to the plan. During the year, the company contributed \$38,021 to the plan (2012 - \$36,511). As this is a defined benefit plan, these contributions are the company's pension benefit expenses. No pension liability for this type of plan is included in the company's financial statements.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

13. RELATED PARTY TRANSACTIONS

During the year, the company incurred the following related party transactions with its sole shareholder, the Corporation of the Town of Hearst and its affiliate Hearst Power Sales and Services Company Limited.

	2013	2012
<i>Corporation of the Town of Hearst</i>		
Service revenue	\$ 771,563	\$ 722,855
Rent expense	9,397	9,322
Clerical and answering services expense	30,088	29,413
Interest on long-term debt	177,000	300,000
<i>Year-end balances were as follows:</i>		
Accounts receivable - PUC Water	\$ 15,785	\$ 22,663
Other account receivable	1,093	499
Due to Town of Hearst	(337,822)	(462,967)
Demand loan payable	(1,700,000)	(1,700,000)
<i>Hearst Power Sales and Services Company Limited</i>		
Service revenue	\$ 28,411	\$ 30,896
Rent revenue	1,000	1,000
Administration revenue	1,000	1,000
<i>Year-end balances were as follows:</i>		
Due from Hearst Power Sales and Services Company Ltd.	\$ 13,841	\$ 32,752

These transactions are in the normal courses of operations and are measured at the exchange amount which is received and paid on similar terms as those of unrelated parties.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

14. CHANGE IN ACCOUNTING POLICY

On July 8, 2010, the OEB released a depreciation study for use by electricity distributors in preparation for transition to IFRS. The results of this study were released in a report by a 3rd party consultant, Kinetrics, and provided information and guidance that the OEB expected LDCs to consider as asset service lives were determined under IFRS. Even though Hearst Power Distribution Company Limited has deferred adoption of IFRS until January 1, 2015, as permitted by the Canadian Accounting Standards Board, the release of this study provided Hearst Power Distribution Company Limited with new information with regards to the estimates used for depreciation purposes. In accordance with the OEB's letter of July 17, 2012, "Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013", Hearst Power Distribution Company Limited has adopted the required changes to depreciation and capitalization under CGAAP as of January 1, 2013 on a prospective basis.

The OEB has approved variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make accounting changes to depreciation; the difference is a reflection of the revised depreciation expense in comparison to the depreciation that would have been recorded under previous service life terms and thus included in rates charged to customers. The cumulative variance in this account will be refunded to ratepayers in the year of the company's next cost of service application through an adjustment to depreciation expense over an approved amortization period pending review and approval by the OEB.

Additionally, Hearst Power Distribution Company Limited has modified its policy relating to asset disposals where an asset is derecognized at its carrying value when it is disposed of/or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the income statement.

15. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario are required to provide security to the IESO to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this guarantee if the company fails to make a payment required by a default notice issued by the IESO. In this regard, the company has obtained a letter of guarantee as security in the amount of \$334,919 (2012 - \$334,919) from the Caisse Populaire de Hearst Limitée.

HEARST POWER DISTRIBUTION COMPANY LIMITED / CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

16. FINANCIAL INSTRUMENTS

It is management's opinion that the company is not exposed to significant interest, fair value, foreign exchange, market, or concentration risks. The significant risks which the company is exposed to in respect of its financial instruments are credit risk and liquidity risk, each of which is described below:

(a) CREDIT RISK

Financial assets carry credit risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The company is exposed to such risks in its accounts receivable, consisting primarily of payments due from its electricity distribution customers, for a total of \$765,045 (2012 - \$721,210).

The company reduces its exposure to credit risk by performing credit valuations on a regular basis, granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the company is low and is not material.

(b) LIQUIDITY RISK

The company is exposed to liquidity risk through its accounts payable and accrued liabilities, customers' deposits and due to the Town of Hearst of \$2,356,936 (2012 - \$2,137,098). Liquidity risk represents the risk that the company is unable to repay its obligations when they become due to its creditors. The company monitors its exposure to liquidity risk with respect to its operational and investment requirements for financial capital by ensuring that it documents when authorized payments become due, by maintaining an adequate line of credit to repay trade creditors. In the opinion of management the liquidity risk exposure to the company is low and is not material.

**HEARST POWER DISTRIBUTION COMPANY LIMITED /
CORPORATION DE DISTRIBUTION ÉLECTRIQUE DE HEARST**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

17. CAPITAL DISCLOSURE

The management's objectives when managing capital are:

- (a) To ensure ongoing access to funding to maintain and improve the electricity distribution system;
- (b) To respect the capital structure for regulated activities with debt to equity structure recommended by the OEB, which is 60% debt and 40% equity;
- (c) To ensure prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity business;
- (d) To provide an adequate return to his shareholder.

The company defines capital as shareholder's equity and demand loan.

The OEB regulates the amount of interest on debt that may be recovered by the regulated electricity distribution business of the company through its electricity distribution rates. The actual capital structure of the company may differ from the OEB deemed structure.

The company has no external capital requirements.

Ex.1/Tab 3/Sch.2 - Reconciliation between Financial Statements and Results Field

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

This information is only available for 2013. HPDC's new management believes that the 2.1.13 was not filed for years prior to 2013 as it has been unable to find any historical filings.

**Hearst Power Distribution Company Limited/ Corporation de
Distribution Électrique de Hearst
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2013**

	ACCOUNT	\$	2,013
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SERVICE REVENUE

ELECTRICITY

Residential Energy Sales - COP - First 750 kwh	4006	\$	2,038,271
Street Lighting Energy Sales - COP - Interval Mete	4025	\$	85,327
Sentinel Lighting Energy Sales - COP - First 750 k	4030	\$	1,725
General Energy Sales - GS < 50 - COP - First 750 k	4035	\$	4,900,680
Revenue adjustments	4050	\$	-
Energy Sales for Retailers -Residential-COP	4055	\$	168,704
		\$	7,194,707

WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION

Billed WMS - Residential	4062	\$	386,988
BILLED - RRA	4063	\$	72,930
Billed NW - Residential	4066	\$	519,482
Billed CN - Residential	4068	\$	406,838
Billed - LV	4075	\$	50,510
Billed - Smart Metering Entity Charge	4076	\$	16,962
		\$	1,453,710
		\$	8,648,417

COST OF SALES

ELECTRICITY

Power Purchased	4705	\$	4,565,032
Power Purchased - Global Adjustment	4706	\$	2,629,675
		\$	7,194,707

WHOLESALE MARKET SERVICES, TRANSMISSION AND CONNECTION

Charges - Wholesale Market Services (WMS)	4708	\$	386,988
Charges - Network Services (NW)	4714	\$	519,482
Charges - Connections (CN)	4716	\$	406,838
Rural Rate Assistance Expense	4730	\$	72,930
Charges - Smart Metering Entity Charge	4751	\$	16,962
Shared LV Line	4750	\$	50,510
		\$	1,453,710
		\$	8,648,417

GROSS MARGIN		\$	-
DISTRIBUTION			
Dist Service Revenue	4080	\$	1,121,781
INTEREST INCOME			
Interest & Dividend Income - Interest	4405	\$	34,900
Interest Rev.-Carrying Charges	4406	\$	16,905
		\$	51,805
OTHER REVENUE			
Retail Services Revenue - Distributor-Consolidated	4082	\$	3,158
STR Revenues - Request Fee	4084	\$	32
LATE PAYMENT CHARGES	4225	\$	12,983
MISC SERVICES REVENUES	4235	\$	15,990
REVENUES FROM MERCHANDISE,JOBGING ETC.	4325	\$	70,675
OTHER MISC. REVENUE	4326	\$	6,882
TRUCK RENTAL	4327	\$	17,694
Rent from Electric Property - Pole Rentals	4210	\$	22,966
		\$	150,380
		\$	1,323,966
EXPENSES			
DISTRIBUTION, OPERATION & MAINTENANCE			
TRANSFORMERS			
Mtce of Line Transformers - Labour	5160	\$	53,480
METERS			
Meter Expense - Materials & Expenses (all meters)	5065	\$	2,352
Maintenance of Meters - Labour	5175	\$	7,998
		\$	10,350
LINES AND FEEDERS			
Stn Bldg & Fixt Exp - Warehouse Sup & Exp	5012	\$	574
OH Dist Lines & Feeders - Operation Labour - Prima	5020	\$	3,085
Oh Dist Lines & Feeders - Op Supplies & Exp - Seco	5025	\$	64,829
91-8 Cheyenne Yellow Pick-up -Labour	5027	\$	23,953
UG Dist Line Feeders-Ope Lab	5040	\$	-
UG Dist Lines & Feeders - Op Sup & Exp - Secondary	5045	\$	373
OH Dist Lines& Feeders - Rental Paid	5095	\$	1,448
Mtce Supervision & Engineering - Labour	5105	\$	6,206
Mtce of Poles, Towers & Fixt - Primary - Labour	5120	\$	102,724
Mtce of OH Conduct & Devices - Primary - Labour	5125	\$	124,440
Mtce of OH Services - Labour	5130	\$	24,425
OH Dist. Lines & Feed-Right of Water		\$	-

Mtce of UG Conduit - Primary - Labour	5145	\$	651
Mtce of UG Conduct & Devices - Primary - Labour	5150	\$	3,477
Mtce of UG Services - Labour	5155	\$	23,817
Sentinel Lights - Mat & Expenses		\$	-
Misc Distribution Expenses- Warehouse -Labour	5085	\$	26,246
Other Rent	5096	\$	450
Tower Rental	5097	\$	2,500
		\$	409,198
		\$	473,028

ADMINISTRATION AND FINANCE

METER READING, BILLING AND COLLECTING

Meter Reading Expenses - Labour	5310	\$	13,896
Collection Charges	5330	\$	593
Bad Debt Expenses - Residential	5335	\$	26,661
Customer Billing -Labour	5315	\$	130,946
Misc Cust Account Exp - Communication Service	5340	\$	10,525
Energy Conservation - Labour	5415	\$	505
Collecting - Services for internal purposes - Labo	5320	\$	20,348
		\$	203,474

GENERAL ADMINISTRATION

Miscellaneous General Expenses	5665	\$	21,099
Advertising Expense - Materials & Expenses	5515	\$	-
Executive Salaries & Expenses - Labour	5605	\$	11,454
General Admin Sal & Exp - Salaries	5615	\$	78,945
Office Supplies & Expenses	5620	\$	5,535
Outside Services Employed	5630	\$	23,252
Property Insurance	5635	\$	602
Injuries & Damages - WSIB	5640	\$	-
Employee Pensions & Benefits - Sickness	5645	\$	-
Regulatory Expenses	5655	\$	18,617
Rent	5670	\$	9,397
Electrical Safety Authority Fees	5680	\$	2,196
Other Interest Expense	6035	\$	806
Interest Exp -Carrying Charges	6036	\$	35,943
General Advertising Expenses	5660	\$	275
Late Payment Class Action Settlement		\$	-
Smart Meter OM&A Contra Account	5695	\$	-
Donations - Leap Funding	6205	\$	1,350
		\$	209,471

INTEREST ON LONG-TERM DEBT

Interest on long-term debt	6005	\$	177,000
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		<u>\$</u>	<u>589,945</u>
AMORTIZATION			
Depreciation general plant	5705	\$	116,852
Amort. Of Intangible & Other	5715	\$	1,274
		<u>\$</u>	<u>118,126</u>
		<u>\$</u>	<u>1,181,099</u>
INCOME BEFORE PAYMENT-IN-LIEU OF TAXES			
		<u>\$</u>	<u>142,867</u>
PAYMENT-IN-LIEU OF TAXES			
Income Taxes	6110	\$	12,734
Future income taxes expense	6115	\$	4,350
		<u>\$</u>	<u>17,084</u>
NET INCOME			
		<u>\$</u>	<u>125,783</u>

Hearst Power Distribution Company Limited/ Corporation
de Distribution Électrique de Hearst
BALANCE SHEET
YEAR ENDED DECEMBER 31, 2013

	ACCOUNT	2013
BALANCE SHEET		
CURRENT ASSETS		
CASH		
Cash in Bank (Int Only)	1006	16,668
Cash in Bank (Cap Social)	1007	10
Cash on Hand	1004	102
Cash in Bank (Ck Acct)	1005	1,417,826
Epargne Sociale -Caisse Pop	1008	2,812,167
		<u>4,246,772</u>
UNBILLED REVENUE		
Accrued Utility Revenues (Unbilled Re	1120	<u>1,211,975</u>
ACCOUNTS RECEIVABLE		
Customer Accounts Receivable	1100	539,552
Acct Rec. - Invoice Bill Ready	1103	112,299
Acct Rec.- Merchandise,Jobbing	1105	86,131
Acct Rec. - Recoverable Work	1104	11,962
Acct Rec. - Sales & Serv Co.	1108	13,841
Other A/R Town	1110	1,093
Acc. Prov. for Uncollect. Acct	1130	- 15,619
Accounts Receivable -PUC Water	1106	15,785
		<u>765,045</u>
INVENTORIES		
Plant Materials & Operating Supplies	1330	<u>123,812</u>
PREPAID EXPENSES		
Prepayments	1180	<u>17,161</u>
PAYMENT-IN-LIEU OF FUTURE TAXES		
Future Income Tax - Non Current	2350	<u>47,450</u>
		<u>6,412,215</u>
PROPERTY AND EQUIPMENT		
Land	1905	7,600
Land Rights	1906	4,232
Buildings and Fixtures	1908	232,469

Overhead Conductor & Devices	1835		1,638,845
Underground Conductors & Devices	1840		434,047
Line Transformers	1850		557,917
Meters	1860		143,079
Meters - Single Phase - Change A Base	1861		1,894
Office Furniture & Equipment	1915		48,128
Computer Equipment - Hardware	1920		102,646
Computer Software	1925		121,752
Stores Equipment	1935		1,855
Transportation Equipment	1930		732,199
Tools, Shop & Garage Equipment	1940		98,422
Communication Equipment	1955		3,546
POLES, TOWERS & FIXTURES	1830		19,939
Underground Conduit	1840		8,387
Services	1855		13,529
			4,170,487
Acc Amort. Electric Utility Plant - P	2105		-
Acc. Amort. - Building and fixtures	2105-1	-	95,623
Acc. Amort. - Underground lines and f	2105-2	-	1,763,250
Acc. Amort. - Transformer	2105-3	-	497,159
Acc. Amort. - Meters	2105-4	-	93,660
Acc. Amort. - Office Equipment	2105-5	-	43,781
Acc. Amort. - Automotive equipment	2105-6	-	541,557
Acc. Amort. - Computer equipment	2105-7	-	215,996
Acc. Amort. - Other equipment	2105-8	-	97,057
Acc. Amort. - Land Rights	2105-9	-	4,053
		-	3,352,136
			818,351

OTHER ASSETS

Organization	1606		25,471
Acc Amort - Electric Utility Plant -	2120	-	17,561
			7,910

OTHER REGULATORY ASSETS AND LIABILITIES

Disposition and Recovery of Regulator	1595	-	527,169
RSVA WMS	1580	-	133,452
RSVA NW	1584		154,454
RSVA CN	1586		70,256
RSVA Power	1588	-	145,005
RSVA Power - Global Adjustment	1589		14,598
Other Regulatory Assets - Pension Con	1508		37,633
Miscellaneous Deferred Debits	1525		4,223
RSVA - Shared LV Line	1550		27,827
Carrying Charges - Shared LV Line	1550.1		2,064
Smart Meter Cap & Rec Offset Variance	1555		339,068
Smart Meter OM&A Variance Account 200	1556		412,205
LRAM Variance account 2012	1568		5,228

Other Regulatory Liabilities	2405	-	12,419
Smart Metering Entity Charge Variance	1551		<u>2,738</u>
			<u>252,250</u>
			<u><u>7,490,726</u></u>

Hearst Power Distribution Company Limited/ Corporation
de Distribution Électrique de Hearst
BALANCE SHEET
YEAR ENDED DECEMBER 31, 2013

	ACCOUNT	2013
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED CHARGES		
RRR Overcollection	2225	206,533
Accounts Payable	2205	1,914,079
Customer Credit Balances	2208	35,973
Misc. Current & Accrued	2220	18,000
		2,174,585
DUE TO TOWN OF HEARST		
A/P Town Int. Long Term Debt	2209	177,000
Accounts Payable - Town	2206	145,314
Accounts Payable - Water	2207	15,508
		337,822
DEMAND LOAN		
Other Long Term Debt	2520	1,700,000
PAYMENT-IN-LIEU OF TAXES		
Accrual for Taxes, Payment in Lieu of Taxes	2294	12,954
CUSTOMERS' DEPOSITS		
Long Term Customer Deposits	2335	51,061
		4,276,422
SHAREHOLDER'S EQUITY		
CAPITAL STOCK		
Common Shares Issued	3005	10,000
RETAINED EARNINGS		
Adjustment to Retained Earnings	3055	2,997,663
CONTRIBUTED SURPLUS		

Miscellaneous Paid-In Capital

3030

206,641

3,214,304

7,490,726

Ex.1/Tab 3/Sch.3 - Prospectus and Recent Debt/Share issuance update

HPDC does not issue debt or share nor do they publish any prospectus.

Ex.1/Tab 3/Sch.4 - Annual Report

The previous manager abolished the practice of publishing an annual report to its shareholder, therefore the utility's last annual report dates back to 2011. Since 2011, financial statements are presented yearly to the shareholder in a special meeting.

Ex.1/Tab 3/Sch.5 – Tax Status

The utility is not seeking any changes in its tax status.

Materiality Threshold

Ex.1/Tab 4/Sch.1 - Materiality Threshold

The Minimum Filing Requirements state that a distributor with a distribution revenue requirement lesser than \$10 million must use \$50,000 as a materiality threshold. With a proposed base revenue requirement of \$1.1M, HPDC has used this amount as a materiality threshold throughout this application.

Administration

Ex.1/Tab 5/Sch.1 - Legal Application

In the matter of; the Ontario Energy Board Act, 1998; S.O. 1998, c.15, Sched B, as amended; and in the matter of; an Application by HPDC for an Order or Orders approving or fixing just and reasonable distribution rates effective November 1, 2015.

Hearst Power Distribution Company Limited (“HPDC” or the “Company” or the “Applicant”) is a distributor of electricity pursuant to a distribution license ([number]) issued by the Ontario Energy Board (the “Board”) under the Ontario Energy Board Act, 1998 (the “Act”).

HPDC hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving or fixing just and reasonable distribution rates effective November 1, 2015.

HPDC accordingly applies to the Board for the following Order or Orders:

1. an Order approving HPDC’s proposed distribution rates for the 2015 rate year, or such other rates as the Board may find to be just and reasonable, as the final rates effective November 1, 2015.;
2. an Order approving clearance of the balances recorded in certain deferral and variance accounts by means of rate riders effective January 1, 2015 for the 2015 rate year;
3. Approval to charge rates effective November 1, 2015 to recover a revenue requirement of \$1,186,876 which includes a revenue deficiency of \$72,976;
4. Approval of the proposed loss factor of 1.03;
5. Approval to revise Low Voltage Rates as proposed;
6. Approval to revise Retail Transmission Network and Connection rates as proposed;
7. Approval to continue to charge Wholesale Market and Rural Rate Protection Charges;
8. Approval to dispose of Group 1 & Group 2 Regulatory Asset, Deferral and Variance accounts;
9. Approval of a Stranded Meter rate rider as proposed;
10. Approval of HPDC’s Smart Meter related expenditures, including but not limited to the approval of Smart Meter Disposition Rate Riders to recover Smart Meter expenditures

1 incurred to December 31, 2012 as presented in this Application and the inclusion of the
2 Smart Meter Initiative capital expenditures in Rate Base effective January 1, 2015;

3 11. Approval that its current rates be made interim effective May 1, 2015.

4 12. As indicated by HPDC's pre-filed evidence, its proposed 2015 revenue requirement is
5 \$1,186,876. Based on current distribution rates and forecasted load, HPDC projects a
6 revenue deficiency of \$72,976.

7 13. This Application is made in accordance with the Board's Chapter 2 of the Board's Filing
8 Requirements for Transmission and Distribution Applications dated July 25, 2014.

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

12 15. The Applicant requests that, pursuant to Section 34.01 of the Board's Rules of Practice
13 and Procedure, this proceeding be conducted by way of written hearing.

14 16. Note that the utility does not have legal representation at this time.

15 17. The utility certifies that the evidence filed in this application is, to the best of the utility's
16 knowledge, accurate, consistent and complete.

17 18. The Applicant requests that a copy of all documents filed with the Board in this
18 proceeding be served on the Applicant and the Applicant's advisor, as follows:

19
20 Jessy Richard, Directeur Général/General Manager,

21
22 Corporation de distribution électrique de Hearst

23 Hearst Power Distribution Company Limited

24 925 rue Alexandra Street, S.P./P.O. Bag 5000

25 Hearst, Ontario P0L 1N0

26 Tel: 705-372-2820 / Fax:705-362-5902

27 jrichard@hearstpower.com

28 Website: <http://www.hearst-pdcl-cde.ca/>

1 **Ex.1/Tab 5/Sch.2 - Statement of Publication**

2 Upon receiving the Letter of Direction and the Notice of Application and Hearing from the Board,
3 HPDC will immediately arrange to have the Notice of Application and Hearing for this
4 proceeding published in two local community newspapers which have the highest circulation in
5 its service area namely; “Journal Le Nord” (paid subscription) and “The Weekender” (non-paid
6 subscription)
7 Once the Notice of Application and Hearing has been published in the above listed newspapers,
8 HPDC will immediately file an Affidavit of Publication together with proof.

Ex.1/Tab 5/Sch.3 - Proposed Issues List

In establishing the overall appropriateness of the proposed rates, HPDC anticipates that the following issues will be addressed by the Board and interveners.

General (Exhibit 1) - The reasonableness or suitability of;

- The overall economic and business planning assumptions for the Test Year.
- The utility's goals towards Customer Focus, Operational Effectiveness, Public Responsiveness and Financial Ratios.

Rate Base (Exhibit 2) - - The reasonableness or suitability of;

- HPDC's asset planning assumptions (e.g. asset knowledge, strategy and conditions, etc.)
- HPDC's revised capitalization and depreciation policy.
- The overall capital additions in 2015 of \$165,073.
- The working capital allowance of \$1,316,443.
- The proposed rate base for the Test Year of \$2,759,303.
- The accounting for stranded meters.
- The utility's Distribution System Plan

Operating Revenues (Exhibit 3) - The reasonableness or suitability of;

- The load forecast methodology including weather normalization.
- The proposed customers/connections and load forecasts (both kWh and kW) for the Test Year
- The adjustment of CDM in the load forecast.
- The proposed revenue offsets of \$218,986.

Operating Costs (Exhibit 4) - The reasonableness or suitability of;

- The overall OM&A forecast for the Test Year of \$1,087,287
- The methodologies used to allocate costs.
- The proposed level of depreciation/amortization expense for the Test Year of \$136,509.
- The compensation costs and employee levels.
- The Test Year forecast of PILs of \$3,329
- HPDC's service-quality results, based on the Board specified performance indicators

1
2 Cost of Capital and Rate of Return (Exhibit 5) - The reasonableness or suitability of;

- 3 • The proposed capital structure.
4 • Deemed Interest Expense of \$76,091
5 • Return on Deemed Equity of \$102,646
6 •

7 Calculation of Revenue Deficiency (Exhibit 6) - The reasonableness or suitability of;

- 8 • The reasonableness of the proposed revenue requirement of \$1,187,175.
9 • The calculation of Revenue Deficiency of \$72,976.

10
11 Cost Allocation (Exhibit 7) - The reasonableness or suitability of;

- 12 • The appropriateness of HPDC's cost allocation.
13 • The proposed revenue-to-cost ratios.
14

15 Rate Design (Exhibit 8) - The reasonableness or suitability of;

- 16 • The proposed classes of customers.
17 • The customer charges and the fixed-variable splits for each class.
18 • The proposed Retail Transmission Service Rates.
19 • The proposed loss factors of 3%.
20 • HPDC's proposed Tariff of Rates and Charges.
21

22 Deferral and Variance Accounts (Exhibit 9) - The reasonableness or suitability of;

- 23 • The account balances totaling a credit of -\$517,305 , allocation methodology and
24 disposition plan.

Ex.1/Tab 5/Sch.4 - Operating Environment

HPDC is incorporated under the Ontario Business Corporations Act and is 100% owned by the Town of Hearst. HPDC is managed by a Board of Directors appointed by the Town of Hearst. HPDLC has 7 employees; a General Manager and two billing clerks in the office, a Lead Hand, two linemen and a utility person to address the outside plant matters. The current General Manager was hired in May 2014 to fill the vacancy created by the previous General Manager leaving HPDC after about three years of service. The Manager prior to the previous General Manager served HPDC for 40 years. The experience and backgrounds of the General Managers has been office and billing or accounting. Consequently the majority of the operational and technical input comes from the Lead hand.

HPDC expects the status quo for the business conditions over the planning horizon of this report; no growth and no shrinkage. There are no known expansion plans for industrial, commercial or residential segments of the economy nor are there any known planned closures in the industrial or commercial segments of the economy. The primary business in the area is the production of forest products. This involves timber cutting, hauling, processing, and shipping to market as well as reforestation. The lack of change in the economy means that there is no growth based capital work proposed by HPDC.

HPDC receives power from Hydro One Networks Inc. ("Hydro One") and the IESO. HPDC delivers power to its 2,850 customers via three feeders from a high voltage transformer station, which is owned by Hydro One. The utility covers an area of 93 square km and maintains 57 km of overhead lines and 11 km of underground lines. The distributor does not have any transmission or high voltage assets deemed by the Board as distribution assets and as such is not seeking approvals from the Board in that regards.

Much of overhead plant is old (more than 40 years in service) and an assessment of the condition of the wood poles was carried out. This resulted in the pole replacement program which will replace 126 deteriorated poles over a 5 year period. This is the only "material" project that is proposed to be undertaken. Pole failures have not been a frequent occurrence so the savings are expected to be very low, but this program will prevent the increase of these costs which will begin to occur if the poles are not replaced now.

- 1 HPDC is implementing a process to identify and execute approved programs. In this period,
- 2 budgets were approved but the work was not completed nor was the money spent. This makes
- 3 it necessary to establish these management processes. The new General Manager has started
- 4 this process since May 2014 when he joined HPDC.

Ex.1/Tab 5/Sch.5 - Corporate Organization

HPDC currently employs 7 employees, including:

- A General Manager;
- A field Superintendent/Leadhand
- An administrative assistant
- A billing and customer service clerk (since Oct 2014)
- 3 linemen

The above relationships are shown in the Utility Organization Chart at the next page.

The General Manager is responsible for all internal and external financial activities of the company including liaison with banks and other financial institutions; providing financial reports to its Shareholder; development of budgets and tracking the company's progress towards achieving approved financial targets and capital investments. He is the liaison with regulatory bodies including the OEB; accountants, purchasing and stores; Canada Revenue Agency, IESO and Hydro One, as well as conservation and demand management. The General Manager also oversees the operation of the distribution system, customer service, billing and metering. The General Manager is also responsible for providing human resource support including salary and benefit services; maintaining effective communications throughout the company; and ensuring that operations and office staff have access to the highest quality information and training to allow them to perform their work safely and efficiently.

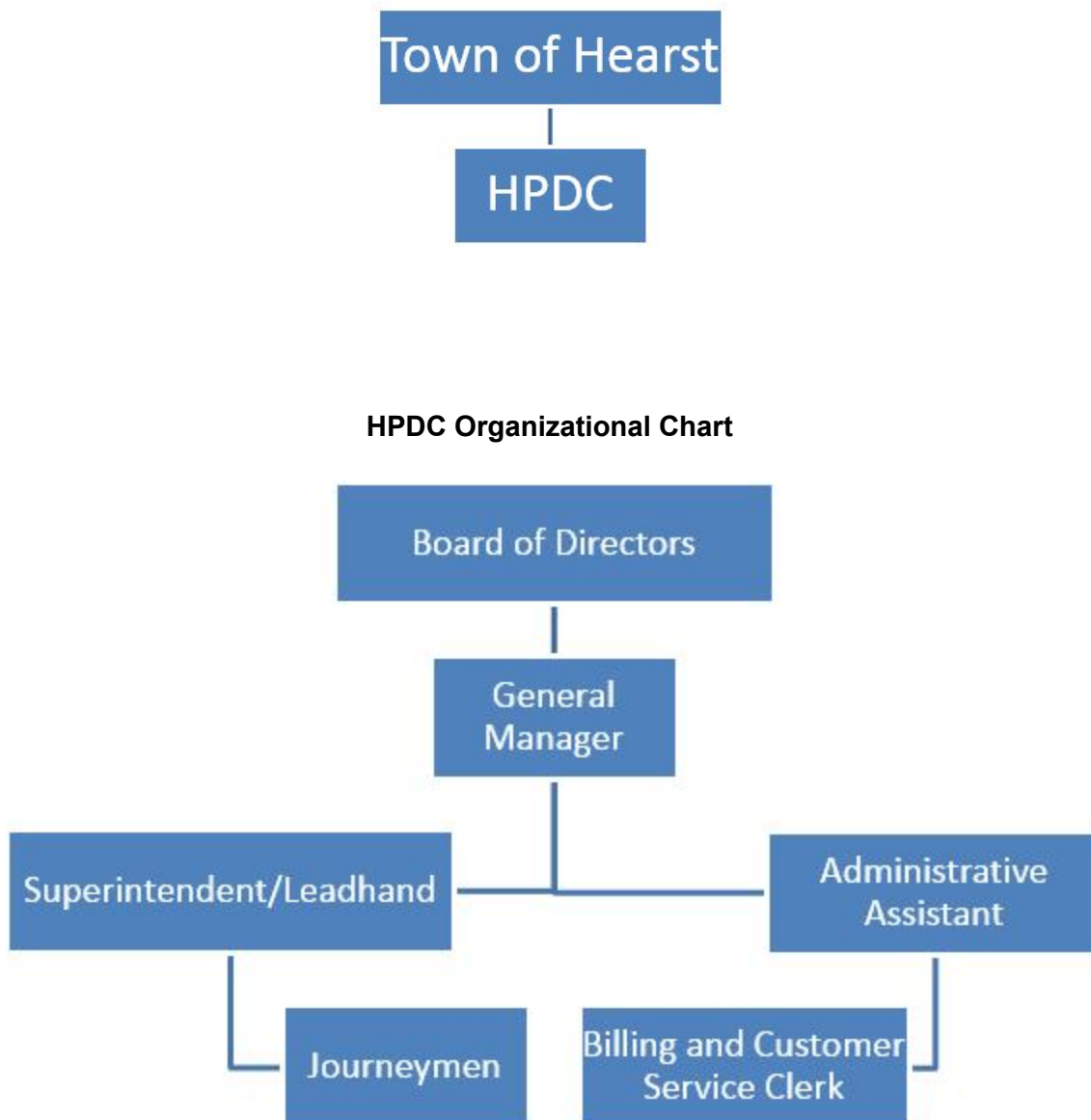
The field Superintendent/Leadhand, is responsible for ensuring that employees, contractors and public remain safe when interfacing with the distribution system; ensuring the reliable operation – including maintenance and repair – of the distribution system and general plant; and ensuring that customer requests for electricity service are provided promptly and according to code.

The Assistant Administrator is responsible for metering, bookkeeping, customer billing as well as many other financial and administrative tasks to support the General Manager.

The billing and customer service clerk is responsible for external communications with customers, public and media as well as assistance on metering and customer billing.

The utility's only affiliate is its shareholder, the Town of Hearst.

Table 1.11 – Corporate Organizational Chart



Ex.1/Tab 5/Sch.6 - Corporate Governance

HPDC presents at the next page its Shareholder Agreement with the shareholder. The report details the role and mandate of HPDC's Board of Directors. The name of the Directors and the schedule of Board meetings is presented at the table below. The only issue that is not discussed in either the table below or the Shareholder Agreement is the issue of "Continuing Education". Since Hearst is located in remote Ontario, it is difficult for Board members to engage in any type of education courses without the utility incurring travel costs. The General Manager makes a point of keeping the Board Members up to date on all requirements, filings, rate applications and any policy changes at the OEB. HPDC Board receives monthly reports by General Manager on operations, financial status and planned projects. Directors are also handed OEB changes related to the Electrical Distributors as well as all EDA and MEARIE reports and publications.

In 2014, as per the table below, the HPDC board had 12 regular meetings as well as 4 extra-ordinary meetings and 2 special meetings. Extra-ordinary meetings are defined as gatherings for potential employee interviews and/or meetings with its shareholder. Special meetings are defined as presentations from companies or individuals on various electrical subjects or EDA/MEARIE conferences.

The overall attendance of the HPDC board members has been exemplary, at minimum, each Director has attended 89% of the meetings in 2014.

Note that HPDC's Board has not yet adopted an Ethical Business Code of Conduct.

Table 1.12 - Board Meeting Schedule

<u>Date</u>	<u>Directors Present</u>	<u>Description</u>
28-Feb-14	5	Regular meeting
27-Mar-14	5	G.M. interviews
9-Apr-14	4	Regular meeting
16-Apr-14	5	Regular meeting
24-Apr-14	5	Regular meeting
9-May-14	3	Regular meeting
12-May-14	5	Journeyman Apprent. Interviews
06-Jun-14	4	Regular meeting
09-Jun-14	1	EDA meeting in Toronto
10-Jul-14	5	G.M. Special presentation
21-Jul-14	5	Regular meeting
6-Aug-14	4	Regular meeting
27-Aug-14	4	Billing and Cust.Serv. clerk interviews
10-Sep-14	5	Regular meeting
22-Sep-14	5	IESO Presentation
6-Oct-14	5	Regular meeting
6-Nov-14	4	Regular meeting
12-Dec-14	5	Regular meeting

CORPORATION OF THE TOWN OF HEARST

SHAREHOLDER DECLARATION

**HEARST POWER DISTRIBUTION COMPANY LIMITED
CORPORATION DE DISTRIBUTION ELECTRIQUE DE HEARST**

**ARTICLE 1
INTERPRETATION**

1.1 **Defined Terms.** For the purposes of this Declaration, unless the context otherwise requires, the following terms shall have the respective meanings set out below and grammatical variations of such terms shall have corresponding meanings:

“**Act**” means the *Energy Competition Act, 1998* (Ontario);

“**Board**” means the board of directors of the Corporation;

“**Chairman**” means the chairman of the Board;

“**Clerk**” means the Clerk of the Shareholder;

“**Corporation**” means Hearst Power Distribution Company Limited/Corporation de distribution électrique de Hearst;

“**Council**” means the town council of the Shareholder;

“**General Manager**” means the general manager of the Corporation;

“**IMO**” means the Independent Electricity Market Operator;

“**OBCA**” means the *Business Corporations Act* (Ontario);

“**OEB**” means the Ontario Energy Board;

“**OEB Act**” means the *Ontario Energy Board Act, 1998* (Ontario);

“**Shareholder**” means the Corporation of the Town of Hearst;



“Shareholder Declaration” means this shareholder declaration;

“Shareholder Representative” shall have the meaning set out in Section 6.1; and

1.2 Purpose. This Shareholder Declaration outlines the expectations of the Shareholder relating to the principles of governance and other fundamental principles and policies of the Corporation. Except as provided in Sections 6 and 9, this Shareholder Declaration is not intended to constitute a unanimous shareholder declaration under the OBCA or to formally restrict the exercise of the powers of the Board.

ARTICLE 2

PERMITTED BUSINESS ACTIVITIES

2.1 Subject to the restrictions in Section 9 of this Shareholder Declaration, the Corporation may engage in the business activities which are permitted by any law applicable to the Corporation, including the Act and as the Board may authorize including, without limitation, the business activities referred to in Section 2.2 as applicable to the Corporation. In so doing, the Corporation shall conform to all requirements of the OEB, the IMO and all other applicable regulatory or governmental authorities.

2.2 As at the date hereof, the Corporation may engage the business of distributing electricity and such other business activities as may be permitted by law and authorized by the Board from time to time.

ARTICLE 3

STANDARDS OF GOVERNANCE

3.1 As required by the OBCA, the Board shall supervise the management of the business and affairs of the Corporation and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In addition, the Shareholder expects the Board to observe substantially the same standards of corporate governance as may be established from time to time by the Toronto Stock Exchange, excerpts of which are attached hereto as Schedule “A”, or any other applicable regulatory or governmental authority in Canada for publicly traded corporations with such modifications as may be necessary to reflect the fact that the Corporation itself is not a publicly traded corporation.



ARTICLE 4 BOARD OF DIRECTORS

4.1 Number of Directors - The Corporation shall be governed by the Board which shall consist of four (4) to seven (7) directors. The Shareholder shall, by special resolution, designate the number of directors to hold office from time to time. The initial board shall be comprised of five (5) directors.

4.2 Composition of Board - The initial Board shall be comprised of the Mayor of the Town of Hearst, one councillor of the Town's Council, the current chairman of the Hearst Public Utilities Commission, one member of the Hearst Public Utilities Commission and one director at large.

4.3 Qualification of Directors - In addition to sound judgment and personal integrity, the qualifications of candidates for the Board may include:

- (a) awareness of public policy issues related to the Corporation;
- (b) business expertise (including retail experience);
- (c) experience on or with boards of directors of significant commercial corporations;
- (d) financial, legal, accounting and/or marketing experience;
- (e) regulated industry knowledge including, but not limited to, knowledge of municipal electric utilities; and
- (f) knowledge and experience with risk management strategy.

4.4 Term - The term for each director of the Corporation shall be as follows:

- (a) The Directors shall be appointed by the Shareholder for the initial Board as follows: one director for a one (1) year term, two directors for a two (2) year term, and two directors for a three (3) year term. The Shareholder shall designate the term for each director and shall annually appoint directors to fill vacancies as required. All directors of the Corporation appointed to fill vacancies of the Board shall serve three (3) year terms subject to the Shareholder's overriding right to remove and replace any director in accordance with good corporate governance practice.
- (b) Any director of the Corporation may serve for successive terms as determined by the Shareholder.



4.5 Board Committees - The Board may establish committees of the Board in the Board's discretion. The Shareholder anticipates that the Board will establish an Audit and Finance Committee to review financial results.

4.6 Directors' Compensation - The Board of Directors shall establish compensation for directors of the Corporation and the Chairman in amounts sufficient to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable businesses. The compensation shall be payable to the directors of the Corporation and the Chairman for all of the Board and Board committee meetings in any given fiscal year. Compensation is to be allotted on a pro rata basis, and will be calculated and paid on a bi-annual basis.

4.7 Management Compensation - The Board of Directors shall be responsible to hire and appoint and set the compensation for the senior management of the Corporation.

ARTICLE 5 FINANCIAL POLICIES, RISK MANAGEMENT AND STRATEGIC PLANNING

The Shareholder expects that the Board will establish policies to:

5.1 Capital Structure - develop and maintain a prudent financial and capitalization structure for the Corporation consistent with industry norms and sound financial principles and established on the basis that the Corporation is intended to be a self-financing entity;

5.2 Distribution Rates - establish just and reasonable rates for the regulated distribution business of the Corporation which are:

- (a) consistent with similar utilities in comparable growth areas and as may be permitted under the OEB Act;
- (b) intended to enhance the value of the Corporation; and
- (c) consistent with the encouragement of economic development and activity within the Shareholder;

5.3 Returns - enhance Shareholder value by generating a reasonable return:

- (a) comparable to the returns on the regulated distribution businesses received by other comparable municipalities as permitted by the OEB pursuant to the OEB Act;
- (b) through the payment of dividends, interest or otherwise; and



- (c) consistent with a prudent financial and capitalization structure and maintaining just and reasonable rates;

5.4 Timing and Quantum of Dividends - ensure payment of dividends by the Corporation comparable to those dividends paid by a majority of corporations engaged in similar businesses to the Corporation;

5.5 Risk Management - manage all risks related to the business conducted by the Corporation, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms; and

5.6 Strategic Plan - develop a long range strategic plan for the Corporation which is consistent with the maintenance of a viable, competitive business and preserves the value of the business for the Shareholder.

ARTICLE 6 DECISIONS OF THE SHAREHOLDER AND SHAREHOLDER REPRESENTATIVE

6.1 The Shareholder hereby designates the Chief Administrative Officer/Clerk as the legal representative of the Shareholder (the "Shareholder Representative") for purposes of communicating to the Board pursuant to Section 6.2, any consent or approval required by this Shareholder Declaration or by the OBCA.

6.2 Approvals, decisions or actions of the Shareholder required pursuant to this Shareholder Declaration, the OBCA, or the articles of by-laws of the Corporation shall require a resolution or a by-law of the Shareholder passed at a meeting of Council duly called and held and shall be communicated in writing signed by the Shareholder Representative.

ARTICLE 7 PUBLIC MEETINGS AND ANNUAL MEETING

Within 6 months after the end of each fiscal year of the Corporation,

7.1 Annual Report to Meeting of Council - the Board shall report to a meeting of Council and the Chairman or the General Manager shall attend such meeting and provide such information concerning the Corporation as is appropriate pursuant to this Shareholder Declaration.



7.2 Annual Resolutions:

- (a) the Shareholder shall, at an in camera meeting of Council, consider the appointment of the auditors of the Corporation and receive the audited financial statements of the Corporation for the last completed fiscal year; and
- (b) the Shareholder, by resolution in writing signed and authorized by the Shareholder Representative and the Mayor in accordance with Section 6, shall elect the necessary members of the Board and appoint the auditors for the Corporation and complete such other business as would normally be completed at an annual meeting of shareholder under the OBCA.

**ARTICLE 8
REPORTING ON MAJOR DEVELOPMENTS**

The Board shall from time to time report to Council on major business developments or materially significant or adverse results as the Board, in its discretion, considers appropriate and such reports received may be considered by the Shareholder at an in camera meeting of Council.

**ARTICLE 9
MATTERS REQUIRING SHAREHOLDER APPROVAL**

Without Shareholder approval given in accordance with Section 6 of this Shareholder Declaration, the Corporation shall not:

Statutory Approval Rights

- 9.1 change the name of the Corporation; add, change or remove any restriction on the business of the Corporation; create new classes of shares; or in any other manner amend its articles of incorporation or make, amend or repeal any by-law;
- 9.2 amalgamate with any other corporation(s);
- 9.3 take or institute proceedings for any winding up, arrangement, or dissolution of the Corporation;
- 9.4 apply to continue the Corporation under the laws of another jurisdiction;



9.5 change the registered or executive offices of the Corporation;

Additional Approval Rights

9.6 issue, or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class, of the Corporation respectively;

9.7 redeem or purchase any of the Corporation's outstanding shares;

9.8 acquire any business;

9.9 enter into any joint venture, partnership, strategic alliance or other venture, including ventures in respect of the generation or co-generation of electricity, or acquire any assets other than in the ordinary course of business;

9.10 declare and/or pay any dividend or make any capital or surplus distribution to the shareholder;

9.11 borrow money or give security on the assets of the Corporation save and except in connection with the purchase of assets;

9.12 grant any customer rebates;

9.13 enter into any agreement, transaction or other arrangement which would cause the municipality to be liable to pay transfer tax under section 94 of the Electricity Act, 1998;

9.14 make any rate submissions to the OEB;

9.15 approve the annual budget of the Corporation;

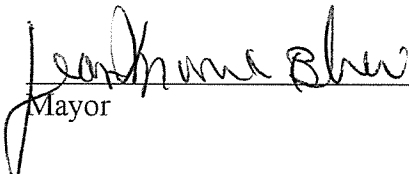
9.16 make or commit to make any capital expenditures in excess of \$250,000 in any 12 month period; and

9.17 fill any vacancy in the Board of Directors.




ARTICLE 10
REVISIONS TO THIS DECLARATION


The Shareholder acknowledges that this Shareholder Declaration may be revised from time to time as circumstances may require and that the Shareholder will consult with the Board prior to completing any revisions and will promptly provide the Board of Directors with copies of such revisions.



Mayor



Chief Administrative Officer / Clerk



Date

Ex.1/Tab 5/Sch.7 - Accounting Standards for Regulatory and Financial Reporting

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

HPDC has filed trial balances, financial statements and historical results for the historical 2010 to 2013 years in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). Forecasted results were done in accordance with IFRS accounting standards.

The useful lives proposed by HPDC in this Application are consistent with the useful lives in the Kinectrics Report commissioned by the OEB dated July 8, 2010. HPDC's accounting methodology change in this regard took effect mid-year 2014.

HPDC attest that it does not and will continue not to capitalize administration and other general overhead costs no longer permitted under IFRS as clarified by the Board in its letter dated February 24, 2010. In making these changes, HPDC believes it will ensure that the company is comparable to other distribution utilities in the Province. HPDC understands the need for comparability between distribution utilities.

HPDC has also adopted the various account changes prescribed by the Board in relation to the USoA (Article 210 – Chart of Accounts and Account 220 – Account Descriptions).

Consistent with recent applications to the Board, HPDC no longer includes PST in its OM&A cost estimates.

Regulatory costs and the incremental one-time cost have been normalized by allocating one fifth of that total to the 2015 Test Year.

HPDC is not proposing other changes in methodology.

Ex.1/Tab 5/Sch.8 - Statement of Deviation of Filing Requirements

Except where specifically identified in the Application, HPDC followed Chapter 2 of the OEB's "Filing Requirements for Electricity Transmission and Distribution Applications", dated July 25, 2013 (the "Filing Requirements") in order to prepare this application.

The excel version of the complete 2015 Cost of Service checklist is being filed in conjunction with this application.

Ex.1/Tab 5/Sch.9 - Accounting Treatment of Non-Utility Related Business

HPDC provides non-utility services on two distinct sectors which are "Street Lightning – repair and maintenance" as well as "Water – maintenance, customer service and billing". Prior to 2015, income related to these services was recorded as a deduction to its related expense and as such, there was no impact on the revenue requirement for electrical ratepayers. Using this accounting method, also known as "netting", the OM&A calculations as well as revenues earned from utility related business were not inflated, nor deflated.

Starting in 2015, non-utility business will be recorded in both accounts 4375 for income and 4380 for expenses, which again, shall have no effect on the revenue requirement of HPDC but shall adhere to the OEB Accounting Procedure Handbook.

HPDC confirm that the accounting treatment for non-utility related businesses is segregated from its rate-regulated activities. HPDC does not own generation facilities.

Ex.1/Tab 5/Sch.10 - Board Directive from Previous Decisions

The Board did not issue specific directives in previous decisions. However, the Board did raise the issue that more transparency is required with respect to Hearst Power's expenses and revenues related to its affiliates. The Board expects Hearst Power to afford this matter its utmost attention, in particular by ensuring that its records show clearly all costs incurred by Hearst Power that ultimately result in revenue for Hearst Power Sales and Service (HPSS).

As of 2014, Hearst Power Sales and Service (HPSS) is no longer an affiliate of the utility. HPSS is owned by the Corporation of the Town of Hearst and was originally created to build, maintain and operate various solar panels. To simplify the business and accounting processes, the shareholder and the utility decided to terminate the affiliation.

On January 1st 2015, a new intercorporate service agreement between HPDC and the Corporation of the Town of Hearst was implemented. The new agreement was based on the previous agreement dated October 2000. In the new agreement, incomes and expenses were updated to be more in line with the present shared services.

Ex.1/Tab 5/Sch.11 - Conditions of Service

HPDC's conditions of services are found at <http://www.hearst-pdcl-cde.ca/conditions-e.htm>. Please note that Hearst is currently working with other French utilities to update and translate its conditions of service.

Ex.1/Tab 5/Sch.12 - Letter of Comment

The utility does not have any letter of comments at the time of the filing.