

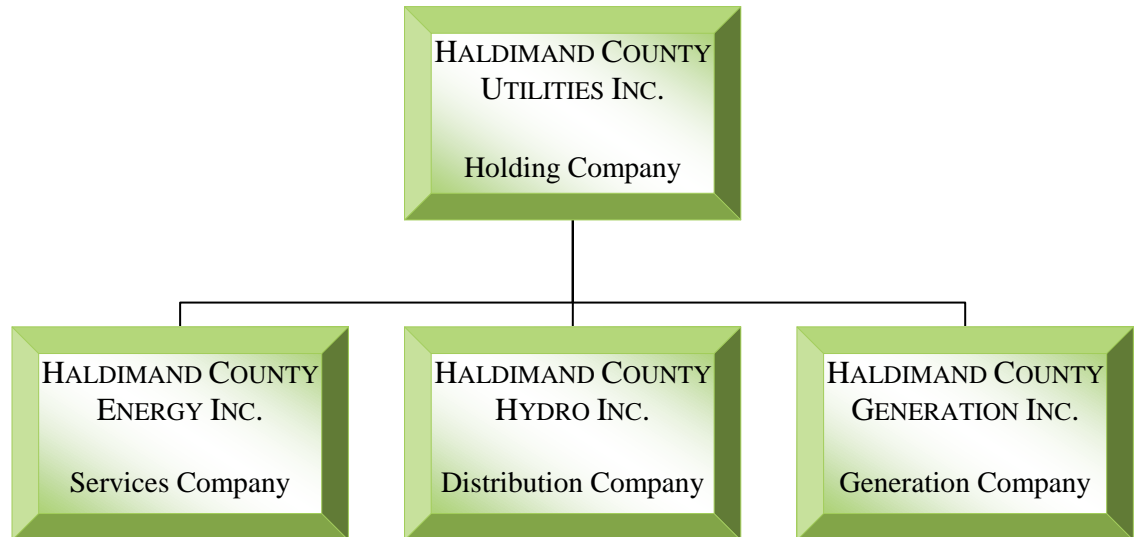
**HALDIMAND  
COUNTY  
UTILITIES INC.**

**ANNUAL REPORT  
2010**

## TABLE OF CONTENTS

<b>HCUI CORPORATE STRUCTURE</b>	<b>3</b>
<b>2010 BOARD OF DIRECTORS</b>	<b>4</b>
HALDIMAND COUNTY UTILITIES INC.	4
HALDIMAND COUNTY HYDRO INC.	4
HALDIMAND COUNTY ENERGY INC.	4
HALDIMAND COUNTY GENERATION INC.	4
<b>MANAGEMENT TEAM</b>	<b>5</b>
<b>MESSAGE FROM THE CHAIR</b>	<b>6</b>
<b>MESSAGE FROM THE PRESIDENT &amp; CEO</b>	<b>8</b>
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	<b>10</b>
<b>AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>27</b>

## HCUI CORPORATE STRUCTURE



Haldimand County Utilities Inc. is the Holding Company for the Distribution, Services, and Generation Companies.

The Corporation was formed in October 2000 following provincial government legislation, by amalgamating the former Hydro Electric Commissions of Dunnville, Haldimand and east portion of Nanticoke.

Haldimand County holds 100% of the shares of the Holding Company, which in turn holds 100% of the shares of each of the Distribution, Services and Generation Companies.

## 2010 BOARD OF DIRECTORS

### **Haldimand County Utilities Inc.**

Albert Marshall, Chair	November 1, 2009 – Present
Councillor Tony Dalimonte, Vice Chair	October 1, 2009 – Present
Mayor Ken Hewitt	December 14, 2010 – Present
Peter D. Smuk	July 1, 2007 – Present
Councillor Buck Sloat	April 1, 2005 – November 30, 2010

### **Haldimand County Hydro Inc.**

Albert Marshall, Chair	January 1, 2007 – Present
Councillor Tony Dalimonte, Vice Chair	October 1, 2009 – Present
Mayor Ken Hewitt	December 14, 2010 – Present
Peter D. Smuk	August 24, 2005 – Present
Doug Miller	July 1, 2010 – Present
Fred Moodie	November 1, 2009 – Present
Brian Snyder	January 1, 2007 – Present
Barbara Schmidt	July 1, 2009 – January 25, 2010
Alec Cowan	July 1, 2007 – June 30, 2010
Councillor Buck Sloat	April 1, 2005 – November 30, 2010
Fred Morison	July 1, 2010 – December 12, 2010

### **Haldimand County Energy Inc.**

Albert Marshall, Chair	November 1, 2009 – Present
Councillor Tony Dalimonte, Vice Chair	October 1, 2009 – Present
Mayor Ken Hewitt	December 14, 2010 – Present
Peter D. Smuk	July 1, 2007 – Present
Councillor Buck Sloat	April 1, 2005 – November 30, 2010

### **Haldimand County Generation Inc.**

Albert Marshall, Chair	December 15, 2009 - Present
Councillor Tony Dalimonte, Vice Chair	December 14, 2010 – Present
Councillor Buck Sloat	January 1, 2007 – November 30, 2010



## MANAGEMENT TEAM

President & CEO	Lloyd E. Payne, P. Eng., M.B.A.
Consumer Services Manager	R. Jane Albert
Engineering Manager	Paul Heeg (as of September 20, 2010)
Finance Manager	Jacqueline A. Scott
Operations Manager	Dan Leake, P. Eng. (as of April 26, 2010)
Engineering Manager	Ed Galinski, P. Eng. (until August 27, 2010)
Operations Manager	Doug Curtiss, P. Eng. (until January 29, 2010)

## MESSAGE FROM THE CHAIR

Haldimand County Utilities Inc.'s financial position remained strong in 2010 enabling continued essential reinvestment in electricity distribution infrastructure and an increase in the regular dividend to our shareholder, Haldimand County.

Net income for the year was \$2,867,000 compared to \$2,765,778 for 2009. Net income in both 2009 and 2010 was improved by one-time revenue from Hydro One due to the temporary rate class which applied until April 30, 2010 when an embedded distributor rate class for Hydro One was approved by the Ontario Energy Board (OEB).


A dividend in the amount of \$691,445 was paid to the shareholder during 2010. Based upon 2010 net income, a dividend of \$716,750 has been declared by the Board for payment in 2011 which will bring the total dividend payments to \$3,774,332 since incorporation in 2000. Haldimand County has also benefitted from the increase in Shareholder's equity from \$19.1 million in 2000 to \$33.3 million in 2010.

During 2010, Haldimand County Hydro successfully completed its first borrowing since incorporation in 2000. In April 2010 a \$10,253,356 short term construction loan from Infrastructure Ontario was converted to long term debentures. This borrowing was used to repay the balance of existing debentures issued in 1999 and 2000 to acquire Ontario Hydro distribution assets at that time.

A major initiative by the OEB involves subjecting each of the approximately 80 electrical distribution utilities in the province to detailed "Cost of Service" regulatory scrutiny over a 4 year period. Haldimand County Hydro was engaged in this process through 2009 and 2010, receiving approval from the OEB for distribution rates effective May 1, 2010 which incorporated a return on deemed equity of 9.85% (previously 8.01%).

In 2010 Haldimand County Hydro experienced significant renewable energy generation activity as 35 microFIT ( $\leq 10$  kW) solar generation projects, totalling 316.8 kW were connected directly to its distribution lines requiring customer information system changes to facilitate payment to the generators by Haldimand County Hydro on behalf of the Ontario Power Authority. The Green Energy Act encourages and facilitates such distributed renewable energy projects and requires that distribution grids be upgraded to accommodate them, including "Smart Grid" investment which will impact future Haldimand County Hydro capital expenditures.

Smart meters are a key component of "Smart Grid" and Haldimand County Hydro began its mass deployment of these meters in July 2009 and, by December 31, 2010, 20,245 smart meters, representing 97% of the total, were installed as well as the required telecommunications infrastructure.



Haldimand County Hydro continues to deploy smart meters as well as the software and business process changes necessary to implement time of use (TOU) electricity rates by its “Mandatory TOU Date” of September 2011 set by the OEB for customers in Haldimand County. Communication to our customers about the installation of smart meters and the implementation of time of use rates is a priority that will continue throughout 2011.

On March 31, 2010 the Minister of Energy and Infrastructure issued a Directive to the OEB requiring it “... *to establish electricity conservation and demand management (“CDM”) targets to be met by licensed electricity distributors (“distributors”) within the timeframe specified herein*” and to “... *amend the licence of each distributor*” accordingly. On November 12, 2010 the OEB ordered such conservation targets for all distributors over the period 2011 to 2014 with those for Haldimand County Hydro being 13.3 GWh of energy savings and 2.85 MW of summer peak demand savings. These challenging targets will certainly raise the profile of CDM activity over the next four years.

Haldimand County Energy Inc. continued its operation of the sentinel light rental program during 2010. Rental rates were last increased by 3% effective January 1, 2008 for the first time in 4 years. This corporation also provides water and sewer billing services to Haldimand County.

I would like to thank my fellow Directors for their contribution to the continued success of Haldimand County Utilities Inc. and its subsidiary companies. I would also like to recognize the contribution to the Haldimand County Utilities group of companies by Board members who left during the year namely Barbara Schmidt, Alec Cowan, former Vice Chair Buck Sloat, and Fred Morison. Their service to the utility and the community is much appreciated.

Finally, on behalf of the Board of Directors, I would like to express appreciation to the staff at Haldimand County Hydro for their commitment to excellence, and dedication to workplace safety and continuous improvement.

***Albert Marshall***  
***Chair***

## MESSAGE FROM THE PRESIDENT & CEO


Every year Haldimand County Hydro develops a corporate plan through its budgeting process and this plan guides the capital, and operations and maintenance activities to be undertaken throughout the ensuing year. The goal of each plan is continuous improvement in the various aspects of service to our customers.

Haldimand County Hydro spent \$4.0 million on capital projects in 2010, including \$762,000 on smart meters, to replace aging infrastructure, enhance system security and reliability and provide service to new customers. In conjunction with its 2010 cost of service rate application, Haldimand County Hydro engaged consulting firm Kinectics Inc. to prepare a “Distribution Asset Condition Assessment” which recognized that, while much upgrading work has been done, significant capital expenditures must continue in order to maintain and improve reliability of supply to our customers.

The ongoing program to replace defective poles and the annual tree trimming program both have a significant effect on improving reliability. Accordingly 214 defective poles were replaced during the year under this program and the fifth year of the five year tree trimming cycle occurred in the former townships of Walpole, Woodhouse, and Townsend.

Capital works during 2010 included completing the conversion to 27,600 volts of line sections along Third Line and Haldimand Road 9 in the former township of Oneida. Similar conversion occurred along North Shore Drive and Canal Bank Road in the former townships of Sherbrooke and Moulton.

Two large customer-driven line construction projects were undertaken during the year to upgrade the lines along Highway 6 from Caledonia Transformer Station to and along Concession Road 12 in Walpole in order to accommodate future connection of two 10 MW solar generating stations and along Cheapside Road from Rainham Road to Shelter Cove to accommodate the needs of a residential development. Also engineering and design work was started for new underground distribution lines to be constructed in multi-year phases along Alder Street in Dunnville, in coordination with municipal roadwork, with the first phase to physically occur in 2011.



Haldimand County Hydro has a long term plan to convert all of its service territory to a higher voltage which will improve electrical efficiency and reliability, and eliminate the need for distribution substations (DSs). At the end of 2010 Haldimand County Hydro has five operating distribution substations and one regulating station in service, most of which are around 50 years of age and nearing their end of life expectancy. As noted in our 2008 Annual Report Nanticoke D.S. on Concession 3 Road (Walpole) was permanently de-energized on December 4, 2008 with equipment removal and environmental remediation occurring during November and December, 2010 in preparation for the record of site condition being submitted to the Ministry of the Environment.

Haldimand County Hydro is most conscientious about its environmental responsibilities; ensuring that each surplus property is environmentally remediated before disposal. Accordingly, a vacant property at 15 John Street, Hagersville, which was environmentally remediated in 2009 and subsequently listed for sale in 2010, was sold with a closing date of March 11, 2011. Owned and leased vacant properties at 134 Forest Street East, Dunnville were environmentally remediated in 2009 in cooperation with Haldimand County to remediate its adjoining property. The Ministry of the Environment acknowledged the filings of Record of Site Condition on May 7, 2009 for the Haldimand County Hydro properties and on September 2, 2010 for the Haldimand County property. Communication is ongoing with Haldimand County to dispose of the Haldimand County Hydro leased and owned properties at this location which would consolidate the unopened road allowance portion of Maple Street.

The removal of PCB contaminated transformers from the distribution system continued in 2010 with 26 of these transformers being removed from service. This removal activity will continue for up to ten years, and will eliminate PCBs from Haldimand County Hydro's distribution system.

Haldimand County Hydro continued its active delivery of energy conservation initiatives to residents and businesses throughout 2010. These programs were fully funded by the Ontario Power Authority. The popular Power Saving Blitz program resulted in 98 small businesses having energy efficient lighting installed at no cost to them up to \$1000 during 2010 and 512 have benefited over the life of the program. Also 14 business and institutional customers in Haldimand County received a total of \$145,500 in incentive payments from the Electricity Retrofit Incentive Program. 246 residential and small business customers signed up for the peaksaver program during the year to receive a free thermostat and allow limited control over their air conditioning at peak demand times and 286 old energy inefficient refrigerators were picked up for free and recycled.

I am proud of the employees of Haldimand County Hydro who have worked diligently and safely to provide services to our customers throughout Haldimand County.

***Lloyd E. Payne, P. Eng., MBA***  
***President & CEO***

## MANAGEMENT DISCUSSION AND ANALYSIS

*The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, related Note disclosures and Auditor's Report, as at and for the year ended December 31, 2010. This discussion may contain forward looking statements that are subject to risks, uncertainties and assumptions based on information available as at the date of this report. Management does not intend to update this information and disclaims any legal obligation for actual results that vary from those implied.*

### HALDIMAND COUNTY UTILITIES INC.


In response to the restructuring and deregulation of Ontario's electricity industry, and pursuant to the *Energy Competition Act (Ontario), 1998* (the "Electricity Act"), Haldimand County Utilities Inc. (the "Corporation") was incorporated under the Ontario Business Corporations Act.

The hydro-electric commissions of the former municipalities of Haldimand and Dunnville and divided City of Nanticoke transferred at book value, their assets and liabilities to the Corporation, effective November 1, 2000. The sole shareholder of the Corporation is the Municipality of Haldimand County (the "County").

The Electricity Act and its enabling regulations distinguish between, and require the separation of, regulated electricity businesses from non-regulated business activities. The Corporation is a holding company, which wholly owns the following subsidiaries:

- Haldimand County Hydro Inc. ("HCHI"), which distributes electricity to residents and businesses within the County.
- Haldimand County Energy Inc. ("HCEI"), which provides non-regulated water and sewer billing, collecting, and customer care services to the County, as well as sentinel light rentals to its customers.
- Haldimand County Generation Inc. ("HCGI"), which is currently an inactive company.

The Corporation's principal business is the regulated distribution of electricity by HCHI. The Consolidated Financial Statements include results for both the regulated and non-regulated business activities of its subsidiaries. The electricity distribution business of the Corporation represented approximately 99% (2009 - 99%) of consolidated assets and 99% (2009 - 99%) of consolidated revenue and other income at year-end.



Electricity produced at generating stations is transmitted along transmission lines to transformer stations which include power transformers and high-voltage switching equipment – all owned by Hydro One Networks Inc. – at which point the voltage is then reduced (or stepped down) to the distribution-level voltage 27.6 kV. Electricity is then distributed across HCHI’s distribution system to both end use customers and distribution substations at which point the voltage is further reduced (or stepped down) to 8.3 kV for supply to end use customers. HCHI’s distribution system, which is serviced from 3 transformer stations, includes 5 distribution substations that are used to reduce (or step down) voltage prior to the delivery to 7,127 distribution transformers, through a network comprised of 1,634 road kilometres of overhead lines supported by 25,800 poles and 89 road kilometres of underground circuits. HCHI provides its customers with meters through which electricity passes before reaching a service panel that direct the electricity to end use circuits on the customer’s premises. The meters are used to measure electricity consumption. HCHI owns the meters and is responsible for their maintenance and accuracy. As at December 31, 2010, the net book value of HCHI’s distribution system assets is \$29.9 million (2009 - \$29.6 million).

The Corporation earns revenue by charging its customers for the use of the distribution system. Such electricity distribution charges are comprised of a fixed monthly service charge combined with a variable (volumetric) charge based on electricity consumption (usage). The distribution rate charged is designed to recover the costs incurred by HCHI in delivering electricity to customers and a rate of return on deemed common equity, which is subject to the approval of the provincial regulator, the Ontario Energy Board (the “OEB”).

HCHI distributes electricity to approximately 21,050 residential and business customers. The distribution system serves most of the residents and businesses within the borders of the County, covering a service territory of 1,252 square kilometres. At the end of 2010 there were 7 (2009 – 6) HCHI customers supplied from the lines of other electricity distributors; conversely, HCHI supplied 116 (2009 – 130) customers outside our service territory for other distributors. Such customer supply arrangements are referred to as “long term load transfers”, and the OEB, in accordance with their Distribution System Code, has proposed such arrangements be eliminated before June 30, 2014.

## *2010 Customers, Consumption and Distribution Revenue by Rate Class*

Rate Class	No. of Customers	Consumption (kWh)		Distribution Revenue (\$)	
			%		%
Residential	18,465	172,161,498	40.8	\$ 8,514,377	65.4
General Service < 50 kW	2,369	57,658,761	13.7	\$ 1,922,422	14.8
General Service 50 kW to 4999 kW	137	115,484,343	27.3	\$ 1,808,034	13.9
Embedded Distributor	8	73,870,537	17.5	\$ 545,707	4.2
Sentinel Lighting *		401,194	0.1	\$ 47,344	0.4
Street Lighting *	3	2,258,028	0.5	\$ 166,972	1.3
Unmetered Scattered Load *	76	454,181	0.1	\$ 19,637	0.2
<b>Total</b>	<b>21,058</b>	<b>422,288,542</b>	<b>100.0</b>	<b>\$13,024,493</b>	<b>100.0</b>
* Sentinel Lights, Street Lights and Unmetered Scattered Loads are billed based on number of "connections", at 594, 3,021 and 78 respectively					

Average annual electricity consumption in 2010:

- Residential – 9,324 kWh per customer (777 kWh per month)
- General Service < 50 kW – 24,339 kWh per customer (2,028 kWh per month)
- General Service 50 kW to 4999 kW – 842,951 kWh per customer (70,246 per month)


2010 system peak demand:

- 88.42 MW on July 7<sup>th</sup> at 16:00 hours

### **ELECTRICITY DISTRIBUTION REGULATION**

The OEB has regulatory oversight of electricity matters in the Province, which includes the power to issue a distribution licence, mandatory for any entity owning or operating a distribution system. The OEB may prescribe licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for affiliate businesses and filing/process requirements for rate-setting purposes.


The *Ontario Energy Board Act, 1998* (the “Ontario Energy Board Act”) gave the OEB increased powers and responsibilities, including the power to approve or fix rates for the transmission and distribution of electricity, and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. In its approval to set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation’s regulatory assets as at



December 31, 2010 in the amount of \$4,426,000 (2009 - \$3,920,000) represent amounts receivable from customers in the future and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. Conversely, regulatory liabilities as at December 31, 2010 in the amount of \$1,849,000 (2009 - \$877,000) represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods. In the event that the disposition of these balances was no longer deemed to be probable, the balances would be reported in the Corporation's consolidated results of operations.

Pursuant to industry regulation, HCHI is required to be the default billing and collecting agent for all electricity related charges for all electricity participants, which, in addition to its own electricity distribution service charges, include:

- ***Electricity Price and Related Rebates*** – the commodity cost of electricity, settled through the Independent Electricity System Operator (“IESO”), accruing to generators such as the provincially owned Ontario Power Generation Inc. (“OPGI”). The IESO is responsible for overseeing and operating the wholesale market as well as ensuring the reliability of the integrated power system. The commodity cost of energy for certain low-volume and designated customers is based on the OEB’s Regulated Price Plan (“RPP”), which consists of a two-tiered pricing structure with seasonal thresholds. Unexpected shortfalls or overpayments associated with the RPP are temporarily financed by the Ontario Power Authority (“OPA”). Prices are reviewed every six months and may change based on an updated OEB forecast and any accumulated difference between the amount that customers paid for electricity and the amount paid to generators in the previous period. Customers who are not eligible for the RPP and wholesale customers pay the market price for electricity, and receive an adjustment for the difference between the market price and set prices paid to certain regulated and contract generators.
- ***Retail Network and Connection Transmission Rates*** – wholesale costs incurred by distributors in respect of transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.
- ***Wholesale Market Service Charge*** – wholesale market support costs charged to market participants such as the IESO fees and uplift charges. These charges are also regulated by the OEB.
- ***Debt Retirement Charge (“DRC”)*** – provincial charge directed to the repayment of the stranded debt obligations of the former Ontario Hydro, which continue in the Ontario Electricity Financial Corporation (the “OEF”), an agency of the Ontario government.




These other non-distribution charges represent “pass through” charges and the Corporation must remit them to other industry participants regardless of whether such charges are ultimately collected from customers. With the exception of DRC, electricity distribution companies are exposed to losses for entire amounts billed to customers.

As a market participant, HCHI is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of a letter of credit. The Corporation collects cash and cash equivalent deposits from certain customers and retailers of electricity to reduce credit risk. It is also the policy of the Corporation to discontinue service for non-payment of customer accounts.

Bill 150, the *Green Energy and Green Economy Act, 2009* (the “Green Energy Act”), was enacted on May 14, 2009. On September 9, 2009, Schedules amending the Electricity Act and the Ontario Energy Board Act were proclaimed into force. This legislation and supporting regulations expedites the growth of clean, renewable sources of energy, strengthens the province’s commitment to energy conservation, and enables the development of a smart grid.

- The OPA launched the much-anticipated Feed-in Tariff (the “FIT”) program and began accepting FIT applications on October 1, 2009. The FIT program provides for 20 year contracts (40 years for waterpower) offering price guarantees for energy generated from renewable energy sources, including solar, wind, biogas, biomass, landfill gas and hydro.
- An amendment to the deemed licence conditions of the Ontario Energy Board Act requires that distributors provide priority connection access for qualified renewable energy generation facilities and prepare plans for approval by the OEB that identify expansion or reinforcement of the distribution system required to accommodate the connection of renewable energy generation facilities.
- The amendments to the Distribution System Code (“DSC”), finalized on October 21, 2009, revised the OEB’s approach to assigning cost responsibility between a distributor and a generator for the connection of renewable energy generation facilities. For generators that are connecting directly to a distribution system, connection asset costs will continue to be borne by the generators, while distributors will be required to fund all requested expansion costs up to a cap of \$90,000/MW per project with the generator paying the rest, and all renewable enabling improvements.

On March 31, 2010, the Minister of Energy, under the guidance of the Ontario Energy Board Act, directed the OEB to establish Conservation and Demand Management (“CDM”) targets to be met by LDCs. Accordingly, on November 12, 2010, the OEB amended HCHI’s distribution licence to incorporate the implementation of regulations under the Green Energy Act. The amendments require HCHI, as a condition of its licence, to achieve 13.3 GWh of energy savings and 2.85 MW of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.




In 2007, HCHI entered into agreements with the Ontario Power Authority (the “OPA”) to deliver OPA-funded CDM programs in the amount of \$1,008,302 during the years from 2007 to 2010. Since the launch of these programs in 2007, HCHI has recognized \$146,426 in revenues. All programs delivered during this time were fully funded by the OPA.

On February 4, 2011, HCHI entered into an agreement with the OPA to deliver OPA-funded programs in the amount of \$1,403,336 from January 1, 2011 to December 31, 2014. All programs to be delivered under this OPA agreement are expected to be fully funded and paid in advance by the OPA.

On April 9, 2010, the OEB informed LDCs of a Special Purpose Charge (“SPC”) assessment, under section 26.1 of the Ontario Energy Board Act, for the Ministry of Energy’s conservation and renewable energy program costs. The OEB assessed HCHI the amount of \$163,046 for its share of the total provincial amount of \$53.7 million. In accordance with Ontario Regulation 66/10, HCHI is allowed to recover their assessed amount, over a one year period, commencing May 1, 2010.

The Province of Ontario has committed to having smart meters installed in all homes and small businesses throughout Ontario. These meters are capable of measuring and reporting usage over predetermined periods, being read remotely, and when combined with communications systems are capable of providing customers with access to information about their consumption. In 2007, the Province appointed the IESO as the smart meter entity that will oversee the collection and management of data. LDCs, including HCHI, are accountable for the development of smart meter infrastructure and related technology for communications to meet minimum requirements as defined in regulations, as well as the implementation of time of use (“TOU”) rates. On August 4, 2010, the OEB mandated HCHI’s TOU rates be implemented in September 2011. HCHI had installed 20,245 smart meters as at December 31, 2010, representing 97% of the total required to be installed. Software systems, preparations for the integration with the IESO Meter Data Management and Repository (the “MDMR”), training and modifications to the customer information and billing system were all started during 2010. Expenditures on capital and operating costs applicable to this initiative are in the order of \$4.0 million to the end of 2010. HCHI expects to take an application to the OEB in 2012 for the approval and recovery of these capital and operating costs that are being accumulated in OEB-approved deferral accounts, and the removal of the net book value of the stranded meters associated with the deployment of these smart meters from its rate base. In the interim, a smart meter funding adder in the amount of \$1.87 per metered customer per month, effective May 1, 2010 (\$1.00 effective April 1, 2009) has been included in rates to partially offset this significant investment. Rate recoveries in the order of \$714,000 have been received to the end of 2010.




With respect to distribution connected renewable energy generation facilities, 35 microFIT projects were connected during 2010, requiring settlement through HCHI's billing system. These are all PV-solar projects totaling 316.80 kW. HCHI has responded to over 200 requests for information on connection details for FIT projects – ranging in size from 100 kW to 30 MW. Engineering work has also commenced on connecting a customer's 4 MW natural gas fuelled co-generation system. Three large scale, transmission connected, wind and solar developers have had preliminary discussions with HCHI for projects planned for construction in Haldimand County which may have an impact on the existing distribution lines generally in the Walpole, Rainham and South Cayuga areas.

## **ELECTRICITY DISTRIBUTION RATES**

In 2006 the OEB commenced a process of establishing an Incentive Regulation Mechanism ("IRM") multi-year electricity distribution rate-setting plan for the years 2007 to 2010, and subsequently extended to 2011. Incentive based regulation is a methodology to encourage utility management to be efficient in the running of their business, including benchmarking for the comparison of distributor costs (a continuation of the former comparators and cohorts review), a comprehensive electricity distribution rate design review, and service quality regulation review. The process includes a formulaic approach to establishing 2007 and subsequent rates with a rate rebasing approach to be staggered across all Ontario LDCs between 2008 and 2011. Rebasing is essentially a review of all utility costs, requiring the submission of a comprehensive full cost of service application based on a forward test year to set new distribution rates. The Corporation's ability to continue to maintain and operate the distribution system reliably and safely in the future will depend on, among other things, the OEB allowing recovery of costs in respect of the Corporation's maintenance program and capital expenditure requirements.

LDC electricity distribution rates are effective from May 1 to April 30 of the following year. Accordingly, for the first four months of 2010, distribution revenue was based on rates approved for the May 1, 2009 to April 30, 2010 rate year (the "2009 rate year"), and the distribution revenue for the remainder of 2010 is based on rates approved for the May 1, 2010 to April 30, 2011 rate year (the "2010 rate year").

In November 2008, HCHI submitted its electricity distribution rate ("EDR") application to adjust its electricity distribution rates for the 2009 rate year. This application was prepared under the 2nd Generation IRM ("2GIRM"), based upon an OEB-approved formula that considered inflation less a productivity factor, utilizing existing Board-approved 2006 rate classifications, rates and charges. In February 2009, the OEB set the allowed return on equity ("ROE") for the 2009 rate year to 8.01%. The OEB issued its Decision and Order on March 11, 2009 approving the applied-for tariff of rates and charges.



In August 2009, HCHI submitted its significant cost of service rate rebasing application for the 2010 rate year. On March 31, 2010 the OEB issued its Decision and Order which was aligned with the settlement proposal accepted by HCHI and other parties with regard to the major components of the revenue requirement, such as operating expenditures, capital expenditures and load forecast. This final decision was based upon a revenue requirement of \$12,646,747 and a rate base of \$40,215,214. This revenue requirement reflects:

- i. The OEB's cost of capital report issued in December 2009 which reset the ROE formula resulting in a base ROE of 9.75%, and further updated in February 2010 to 9.85%, and
- ii. A deemed capital structure of 60% debt and 40% equity.

The volume of electricity consumed by HCHI's customers during any period is dictated by events largely outside of its control, including sustained periods of hot or cold weather, general economic conditions and unpredictable effects of CDM. Accordingly, there can be no assurance that HCHI will earn the revenue requirement approved by the OEB. The 2010 rate year also included for the recovery of lost revenue and shared savings, in the combined amount of \$391,337, related to HCHI's CDM programs delivered in 2005 through 2007.

In November 2010, HCHI submitted its EDR application for the 2011 rate year. This application was prepared under the 3<sup>rd</sup> Generation IRM ("3GIRM"); that is, similar to 2GIRM but also includes a stretch factor determined by the relative efficiency of an electricity distributor. The stretch factor applicable to HCHI is 0.4%. The OEB issued its Decision on March 31, 2011 and Rate Order on April 6, 2011 approving the applied-for tariff of rates and charges.

By order dated July 22, 2010, the Ontario Supreme Court approved the settlement of the Late Payment Penalty Class Action, which commenced in 1998, against all Ontario Municipal Electrical Utilities ("MEUs") in restitution for late payment charges collected by them from their customers that were in excess of the interest stipulated in the *Criminal Code*. The settlement requires all MEUs to collectively pay \$17,000,000 plus costs and taxes. The amount allocated for payment by HCHI, based upon its percentage of distribution revenue over the late payment penalty period, is \$52,104. HCHI has accrued a liability in 2010 for this amount payable on June 30, 2011. In February 2011, the OEB finalized its proceeding and issued its Decision allowing for the future recovery from customers, of all MEUs involved in the settlement including HCHI, of all costs related to the settlement over a one year period commencing May 1, 2011. By direction of its Board, HCHI rescinded that portion of its EDR application related to the recovery of these settlement costs for the 2011 rate year.

## RESULTS OF OPERATIONS

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Revenues	2010	2009
Distribution Services	\$ 13,024,493	\$ 13,266,128
Other Operating Revenue	\$ 1,433,132	\$ 1,439,910
	\$ 14,457,625	\$ 14,706,038

### Distribution Services

Distribution service revenues are primarily influenced by the electricity distribution rates and the amount of electricity distributed (i.e. consumption). Net distribution service revenues decreased in 2010 in the order of \$242,000 as compared to 2009 as a result of the combination of the following:

- i. In March 2009, an embedded distributor, Hydro One Networks Inc. (“HONI”) chose not to upgrade certain of their wholesale meter points located within HCHI’s service territory, requiring HCHI to bill these as retail embedded supply points; as well, a portion of the load of a large customer of HONI’s came online to HCHI’s system. In the absence of a distribution rate specific to this embedded distributor class, during 2009 HCHI settled with HONI applying its general service 50 kW to 4999 kW rate class charges. The EDR application for the 2010 rate year included a new embedded distributor rate class which includes a substantially lower distribution wheeling service rate applicable to this class during the eight months of 2010 (versus the general service distribution volumetric rate). Net revenues earned in 2010 are \$516,244 as compared to \$1,947,330 in 2009.
- i. This decrease in embedded distributor distribution revenue was partially offset due to an increase in the distribution revenue earned from the regular rate classes, and this is attributable to both an increase in consumption and the higher distribution rates for the 2010 rate year approved by the OEB. Consumption increased in 2010 to approximately 348 million kWh (2009 – 339 million kWh). Distribution revenue increased in 2010 to approximately \$12.5 million (\$11.4 million in 2009).

Revenue from the sale of electricity is recorded on the basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. The Corporation estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read at the end of each month. Services and other operating revenue are recognized as services are rendered.

**Other Operating Revenue** includes various sources of revenue as listed in Note 9 accompanying the Consolidated Financial Statements.

Total other operating revenues decreased in 2010 in the order of \$6,000 as compared to 2009.

<b>Expenses</b>	<b>2010</b>	<b>2009</b>
Operating Expenses	\$ 6,926,481	\$ 7,119,451
Amortization	\$ 2,832,052	\$ 2,691,623
Interest Expense	\$ 563,751	\$ 697,784
	\$ 10,322,284	\$ 10,508,858

**Operating Expenses** include Distribution, Billing and Collecting, General Administration and Directors. Similar to 2009, expenditures necessary to operate and maintain the distribution system were budgeted to increase during 2010; however actual expenditures were lower than the forecasted total.

Significant operating activities, including departmental projects contributing to these expenses, include the following:

- a) HCHI continued with its Distribution System Maintenance and Inspection program in 2010. HCHI remains focused on reliability while recognizing the challenges in operating a distribution system with low customer density and rural geography. Maintenance was carried out while also managing the impact of disturbances. Significant maintenance activities included continuing with the inspection of off road distribution lines only accessible by track mounted aerial equipment, regulator maintenance, thermography inspection, and hydraulic recloser maintenance.
- b) HCHI has committed to the identification and removal of PCB contaminated transformers from its distribution system. In 2010, 26 of these transformers (2009 – 12) were removed from service. This removal activity will continue over the next five to ten year period, and will eliminate PCBs from HCHI's service territory.
- c) The OEB regulates plant inspections as a requirement for all LDCs. HCHI's program this year concentrated on the east (rural) area including the former townships of Canborough, Moulton, Dunn, and Sherbrooke. This work includes the immediate repair of deficiencies accessible from the ground, wood pole integrity testing where required, and capturing GPS coordinates for each pole location. Major deficiencies are noted for further engineering work and the GPS coordinates are used to plot each pole on HCHI's mapping and geographical information system (GIS).

This GIS system, when fully populated, will enable future enhancements in HCHI's asset management strategy.

- d) As part of a five-year cycle, line clearing of trees continued in 2010. This work concentrated on the former townships of Walpole, Woodhouse and Townsend. Other specific areas where growth exceeded the five year schedule were also cleared. This program continues to be very effective in reducing tree-related outages.
- e) HCHI currently has five operating distribution substations (DSs) and one regulating station (RS) in service, most of which are approaching 50 years of age and nearing their end of life expectancy.
  - i. As part of the Corporation's long-term plan to remove DSs from service by converting the service territory to 27.6 kV, Selkirk North DS was permanently removed from service in late 2009 (part of 2009's capital projects). As stations are removed from service the sites are screened for contaminants and remediated accordingly. The Selkirk North DS site requires further testing and potential remediation.
  - ii. In 2009 a record of site condition was submitted for the former Forest Street DS site in Dunnville (remediated in 2008).
  - iii. The former Nanticoke DS (removed from service in 2008) site was tested and remediated in 2010. A record of site condition ("RSC") will be submitted for this property in 2011.
  - iv. A property at 15 John Street, Hagersville, beside the former John Street DS (removed from service in 2006), was tested and remediated in 2009. A record of site condition was completed in December 2009, and this vacant property located at 15 John Street was listed for sale in 2010. The sale of this property closed in March 2011.
- f) Transformer gas and oil analysis on all substation transformers was completed as part of the annual maintenance program. A number of these units are being monitored for moisture content. Moisture removal in the most severe cases will begin in the spring of 2011 with the use of a portable moisture removal system acquired for this purpose.
- g) In 2006 HCHI embarked on an effort to recycle and rebuild transformers to fulfill current and future requirements; that is, using parts of old units to build new units. This program continues to lower the purchase cost of transformers (compared with new units) and promotes environmental stewardship as it reuses materials that would normally enter the waste stream.

The potentially hazardous nature of our business requires a strong focus on safety, which continued to be a top priority in 2010. HCHI's focus in 2009 was to complete the development of a hazard recognition and risk assessment program, and this continued in 2010. The completion of this program will represent a significant milestone in HCHI's Health and Safety program.

The Corporation employed 48 full-time employees as at the end of 2010 (2009 – 46), for a combined gross payroll, including employer portions of source deductions and employee group health benefit premiums in the order of \$3.7 million (2009 - \$3.6 million).

There were two new staff positions created during 2010 (2009 – 0), which included a staff Accountant filled by an external candidate in May and a CDM Program Specialist filled by an internal candidate, previously hired under contract, in December. A Lineperson position which had become vacant in December 2009 was filled by an external candidate in April. The Operations Manager’s position became vacant in January and was filled by an external candidate in April. The Engineering Manager’s position became vacant in August and was filled by an internal candidate in September. This created a vacant Meter Supervisor position which was also filled by an internal candidate in November, and the resulting vacant Meter Technician position remained vacant until January 2011, when it was filled by an external candidate entering the apprenticeship program.

The bargaining unit employees are represented by the International Brotherhood of Electrical Workers (“IBEW”) Union, operating under a four year collective agreement, effective April 1, 2009 to March 31, 2013. Increased payroll costs are a function of the 2% across the board wage increase effective April 1, 2010, and the 1% increase effective October 1, 2010 for all union and non-union employees.

**Amortization expense** increased in 2010 in the order of \$140,000 as compared to 2009.

This increase is attributable to the placement of new assets in service, consistent with our ongoing capital works program including new projects, services, line extensions, routine replacement and enhancements of aging infrastructure, tools, shop and transportation equipment, and general administrative assets, net of capital contributions, in the order of \$3.3 million (2009- \$4.2 million).

In 2010, net capital expenditures provided for the rebate of capital contributions, in the order of \$107,000 (2009- \$108,000), to developers on account of eligible subdivision agreements entered into after November 2000. The rebates are calculated using an economic evaluation model developed in accordance with the OEB’s Distribution System Code.

***Capital Expenditures Net of Capital Contributions***

	<b>2010</b>	<b>2009</b>
Distribution Plant Assets	\$ 2,431,489	\$ 3,074,807
Tools, Shop and Transportation Equipment	\$ 422,518	\$ 662,350
General Administration Assets	\$ 402,758	\$ 451,792
Sentinel Light Rental Units	\$ 2,561	\$ 3,155
<b>Total</b>	<b>\$ 3,259,326</b>	<b>\$ 4,192,104</b>

**Interest expense** decreased in 2010 in the order of \$134,000 as compared to 2009.

The Corporation's primary sources of funding for capital expenditures are cash provided by operating activities, interest income and debt financing. The Ontario Infrastructure Projects Corporation ("OIPC") short term construction financing in the amount of \$4.0 million on May 1, 2009, at rates throughout the year less than 1.0%, was combined with an additional advance in the amount of \$6.3 million for conversion to long term debenture financing in April 2010 – at rates more favourable than the existing debenture. These debentures were secured against 2008 and 2009 capital expenditures, with the proceeds being used to pay a balloon payment due in May 2010 on the existing debenture.

<b>Results of Operations</b>	<b>2010</b>	<b>2009</b>
Revenues	\$ 14,457,625	\$ 14,706,038
Expenses	\$ 10,322,284	\$ 10,508,858
Income before Income Taxes	\$ 4,135,341	\$ 4,197,180
Income Taxes	\$ 1,268,341	\$ 1,431,402
<b>Net Income</b>	<b>\$ 2,867,000</b>	<b>\$ 2,765,778</b>

The overall decrease in total revenues in 2010 in the order of \$248,000, combined with the decrease in total expenses in 2010 in the order of \$186,000 as compared to 2009, resulted in an increase in net income before income taxes for the year in the order of \$62,000. After providing for a decrease in income taxes on account of the future tax component, net income in 2010 increased in the order of \$101,000 as compared to 2009.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario). However, the Corporation and each of its subsidiaries is a "municipal electric utility" ("MEU") for purposes of the payments in lieu ("PILs") regime contained in the *Electricity Act, 1998*. Accordingly, the Corporation makes payments in lieu of corporate income taxes to the OEFC (to be applied against certain debt obligations of the former Ontario Hydro). The Corporation provides for PILs using the asset and liability method. Under this method, future income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

### *Funds Generated from Operations*

Cash and cash equivalents decreased to \$2.5 million in 2010 (2009 - \$7.6 million). This is due to the significant decrease in cash flows from operating activities, investing in capital assets, and the May 1<sup>st</sup> balloon payment on the existing debenture – which exceeded the increase in financing advances during the year.

### *Related Party Transactions*

The Corporation's operations include the provision of electricity and services to its sole Shareholder. Electrical energy is sold to the County at the same prices and terms as other electricity customers in their rate class. Street lighting maintenance services are provided at cost. Water and waste water billing, collecting, and customer care services are provided pursuant to an agreement effective April 1, 2008, at rates based on the average cost to provide this service.

A summary of the reciprocal charges between the Corporation and the County is provided below.

#### *Summary of Reciprocal Charges Between the Corporation and the County*

<b>Amounts Billed by the Corporation</b>	<b>2010</b>	<b>2009</b>
<b>To the County</b>		
Electrical Energy	\$ 2,409,267	\$ 1,784,778
Distribution Service Revenue portion actually retained by HCHI	\$ 460,169	\$ 331,871
Street Lighting - Maintenance	\$ 87,091	\$ 150,367
Street Lighting - Specific Project Costs	\$ 5,141	\$ -
Water and Waste Water Billing and Collecting	\$ 430,279	\$ 425,908
Tree Trimming and Removals	\$ 14,387	\$ 10,527
Supply, Install and Relocate poles	\$ 16,951	\$ 5,589
Environmental Remediation - Forest St. DS	\$ -	\$ 55,523
Supply and Install Transformers - Cayuga and Dunnville	\$ 31,315	\$ -
<b>Amounts Billed by the County</b>		<b>2009</b>
<b>To the Corporation</b>		
Property Taxes	\$ 45,702	\$ 45,105
Bank Service Charges - Debenture Handling	\$ 8,437	\$ 3,295



## *Dividends*

Dividends on common shares are declared at the discretion of the Board of Directors – subject to applicable law and based on direction from the Shareholder, the Board’s proposed dividend policy, and recommendations of Management - with consideration for results of operations, financial condition and future outlook, cash requirements and industry practice.

The Corporation declared and paid dividends in the amount of \$691,445 in 2010 (2009 - \$515,808) for total dividends paid to date since 2003 in the amount of \$3,057,582 to its sole Shareholder, Haldimand County.

Consistent with the Board’s proposed dividend policy of paying dividends based on 25% of the previous year’s net income, on April 27, 2011 the Board of Directors of the Corporation declared dividends in the amount of \$716,750 to be paid in 2011.

The book value of the County’s original investment of \$19.1 million in 2000 has increased in the order of \$14.0 million to \$33.3 million as a result of operations, net of dividends paid to date, as at December 31, 2010.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of the Corporation, prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the OEB, are the responsibility of Management and have been approved by the Board of Directors (the "Board"). The significant accounting principles, including regulatory treatments, are disclosed in Note 2 to the Consolidated Financial Statements.

Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data which necessarily involves the use of estimates and assumptions based on management's best judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Management has exercised careful judgment where estimates were required; however, due to the uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance. Accordingly, these Consolidated Financial Statements reflect all information available to March 23, 2011.

The Consolidated Financial Statements have been examined by Millard, Rouse & Rosebrugh, LLP, Licensed Public Accountants, external auditors of the Corporation. The Independent Auditor's report, which accompanies these statements, outlines the scope of their audit examination and states their opinion.

Management maintains appropriate systems of internal controls designed to provide reasonable assurance that the assets of the Corporation are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and timely. The internal control systems include formal corporate-wide policies and procedures and an organizational structure that provides a proper delegation of authority and segregation of responsibilities.

The Board, through the Audit and Finance Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting, accounting systems and internal controls. The Audit and Finance Committee, which is comprised of the same Directors as the Corporation, meet with Management and the external auditors to review the Consolidated Financial Statements and recommends their approval to the Board.



**HALDIMAND COUNTY UTILITIES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2010**



Millard, Rouse & Rosebrugh LLP  
Chartered Accountants

# HALDIMAND COUNTY UTILITIES INC.

For the year ended December 31, 2010

## INDEX

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	2
Consolidated Statement of Retained Earnings	3
Consolidated Statement of Income	4
Consolidated Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	6 - 15



## Millard, Rouse & Rosebrugh LLP

Chartered Accountants  
P.O. Box 57, 91 Main Street South  
Hagersville, Ontario N0A 1H0  
Telephone: (905) 768-5883  
Facsimile: (905) 768-5843

### INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
**Haldimand County Utilities Inc.**

We have audited the accompanying consolidated financial statements of Haldimand County Utilities Inc., which comprise the consolidated statement of financial position as at December 31, and the consolidated statements of income, retained earnings 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.

#### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 for our audit opinion.

#### **Opinion**

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

March 23, 2011

CHARTERED ACCOUNTANTS  
Licensed Public Accountants

# HALDIMAND COUNTY UTILITIES INC.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2010	2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and bank	2,544,214	7,563,911
Unbilled revenue	5,259,993	5,163,885
Accounts receivable	3,228,811	2,956,612
OPA conservation program	107,499	13,532
Inventory	1,113,623	843,516
Income taxes recoverable	29,407	-
Prepaid expenses	212,360	101,420
	12,495,907	16,642,876
<b>Property, Plant and Equipment</b> (Note 5)	37,861,017	37,255,381
<b>Deferred Financing Costs</b>	-	3,235
<b>Regulatory Assets</b> (Note 6)	2,576,731	3,043,000
<b>Future Tax Asset</b>	1,180,275	838,008
	54,113,930	57,782,500
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	7,112,960	7,730,664
Income taxes payable	-	768,952
Deposit advance for recoverable work	-	2,561,017
Current portion of long term liabilities	1,555,851	8,359,998
	8,668,811	19,420,631
<b>Long Term Liabilities</b> (Note 7)	9,093,433	4,371,672
	17,762,244	23,792,303
<b>Deferred Credits</b>		
Contributions in aid of construction	3,786,815	3,456,315
Less: Amortization to date	691,355	546,789
	3,095,460	2,909,526
<b>SHAREHOLDER'S EQUITY</b>		
<b>Capital</b> (Note 8)	20,289,812	20,289,812
<b>Retained Earnings</b> (Page 3)	12,966,414	10,790,859
	33,256,226	31,080,671
	54,113,930	57,782,500

See accompanying notes

Millard, Rouse & Rosebrugh LLP  
Chartered Accountants

2

# HALDIMAND COUNTY UTILITIES INC.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<b>For the year ended December 31</b>	<b>2010</b>	<b>2009</b>
<b>Retained Earnings - Beginning of Year</b>	10,790,859	8,540,889
Net income	2,867,000	2,765,778
Dividends	(691,445)	(515,808)
<b>Retained Earnings - End of Year</b>	<b>12,966,414</b>	<b>10,790,859</b>

# HALDIMAND COUNTY UTILITIES INC.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31	2010	2009
<b>Service Revenue</b>		
Residential	10,311,194	9,051,719
General	8,941,377	11,043,121
Street lighting	160,799	141,953
Sentinel lighting	23,323	24,531
Embedded Distributor	5,530,280	1,621,481
Retailer	4,593,215	3,547,890
Retail transmission and low voltage	4,969,886	5,085,486
Regulatory	2,909,386	2,668,789
Distribution services	13,024,494	13,266,128
	50,463,954	46,451,098
<b>Cost of Power</b>	37,439,461	33,184,970
<b>Gross Margin on Service Revenue</b>	13,024,493	13,266,128
Other Operating Revenue (Note 9)	1,433,132	1,439,910
	14,457,625	14,706,038
<b>Expenses</b>		
Distribution, operation and maintenance (Note 10)	3,662,611	3,623,651
Community relations	42,643	35,182
Billing and collecting	1,308,454	1,378,285
General administration	1,854,711	2,001,831
Directors	58,062	80,502
	6,926,481	7,119,451
<b>Amortization</b>	2,976,618	2,811,216
Less: Amortization of contributions in aid of construction	144,566	119,593
	2,832,052	2,691,623
	9,758,533	9,811,074
<b>Income Before Interest and Income Taxes</b>	4,699,092	4,894,964
Interest expense	563,751	697,784
<b>Income Before Income Taxes</b>	4,135,341	4,197,180
Income taxes - current (Note 11)	1,610,608	1,551,524
- future	(342,267)	(120,122)
	1,268,341	1,431,402
<b>Net Income</b>	2,867,000	2,765,778

See accompanying notes

# HALDIMAND COUNTY UTILITIES INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net Income	2,867,000	2,765,778
Charges (credits) to income not involving cash		
Amortization	2,976,618	2,811,216
Amortization of contributions in aid of capital	(144,566)	(119,593)
(Gain) loss on disposal of property, plant and equipment	(5,519)	(9,479)
Future income taxes	(342,267)	(120,122)
	5,351,266	5,327,800
Net change in non-cash working capital balances related to operations	(4,820,401)	4,610,322
	530,865	9,938,122
<b>Cash Flows from Financing Activities</b>		
Dividends	(691,445)	(515,808)
Deposits from customers (net)	34,242	219,375
Contributions in aid of construction	330,500	779,896
Long term debt	(2,116,628)	810,728
Deferred financing costs	3,235	9,706
	(2,440,096)	1,303,897
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(3,589,825)	(4,972,000)
Proceeds on disposal of property, plant and equipment	13,090	17,483
Regulatory assets/liabilities	466,269	(2,314,930)
	(3,110,466)	(7,269,447)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(5,019,697)</b>	<b>3,972,572</b>
<b>Opening Cash and Cash Equivalents</b>	<b>7,563,911</b>	<b>3,591,339</b>
<b>Closing Cash and Cash Equivalents</b>	<b>2,544,214</b>	<b>7,563,911</b>

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

### 1. NATURE OF ACTIVITIES

---

Haldimand County Utilities Inc. ("the Company") was incorporated under the Ontario Business Corporations Act on October 13, 2000. The company acts as the holding company for the shares of Haldimand County Hydro Inc., Haldimand County Energy Inc., and Haldimand County Generation Inc.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### (a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Haldimand County Hydro Inc., Haldimand County Energy Inc., and Haldimand County Generation Inc.

#### (b) General

These financial statements have been prepared in accordance with accounting principles for electrical utilities in Ontario as required by the Ontario Energy Board under the authority of Section 70(2) of the OEB Act, 1998, of The Energy Competition Act, 1998, and reflect the following policies as set forth in the Ontario Energy Board Accounting Procedures Handbook. All principles employed are in accordance with Canadian generally accepted accounting principles.

#### (c) Measurement

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations.

#### (d) Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined on a weighted average basis.

#### (e) Property, Plant and Equipment and Amortization

Property, plant and equipment are recorded at their historical cost. Amortization is calculated on a straight-line basis over the estimated useful service life as follows:

Buildings	50 years	Distribution stations	30 years
Distribution lines - overhead	25 years	Distribution lines - underground	25 years
Distribution transformers	25 years	Distribution meters	25 years
Rolling stock	8 years	Sentinel lights	10 years
Other capital assets	5 - 50 years		

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

---

#### (f) Contributions in Aid of Construction

Contributions in aid of construction are reported as deferred credits and amortized over the useful life of the related property, plant and equipment. Contributions prior to 2000 are included in equity as contributed capital.

#### (g) Revenue Recognition

Distribution revenues are based on OEB approved distribution rates and are recognized as electricity is delivered to customers and collection is reasonably assured. Distribution revenue includes an estimate of revenue based on electricity delivered but not yet invoiced to customers from the last meter reading date to the year end.

#### (h) Payments in Lieu of Income Taxes (PILs)

Under the Electricity Act, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

The Company accounts for payments in lieu of corporate taxes using the liability method. Under the liability method, future income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

#### (i) Financial Instruments

Financial instruments are initially recognized at fair value. Subsequent measurement is based on the classification of the financial instrument. The Company has adopted a policy to classify all financial instruments as follows:

- (1) - Cash and bank are classified as Held for Trading and measured at fair value.
- (2) - Accounts receivable and unbilled revenue are classified as Loans and Receivables and measured at amortized cost using the effective interest rate method.
- (3) - Accounts Payable, amounts due to affiliates and long term liabilities are classified as Other Liabilities and measured at amortized cost.
- (4) - Purchases and sales of financial instruments are accounted for at the trade date.
- (5) - Transaction costs on financial assets and liabilities are expensed as incurred.

The Company has adopted the disclosure and presentation requirements of CICA Handbook Section 3861 rather than Handbook Sections 3862 and 3863.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

---

#### (j) Regulatory Policies

The Company has adopted the following policies, as prescribed by the Ontario Energy Board (OEB) for rate-regulated enterprises. The policies have resulted in accounting treatments differing from Canadian generally accepted accounting principles for enterprises operating in a non-rate-regulated environment:

1. Various regulatory costs have been deferred in accordance with criteria set out in the OEB's Accounting Procedures handbook. In the absence of such regulation, these costs would have been expensed when incurred under Canadian GAAP.
2. The Company has deferred certain retail settlement variance amounts under the provisions of Article 490 in the OEB's Accounting Procedures handbook.

### 3. EMERGING ACCOUNTING CHANGES

---

The Accounting Standards Board (AcSB) confirmed that rate-regulated enterprises will be required to adopt International Financial Reporting Standards (IFRS) by January 1, 2011. The Public Sector Accounting Board released a decision summary confirming that government organizations following commercial practices adhere to standards for publicly accountable entities after January 1, 2011. In 2010, the AcSB granted an optional one year deferral of the adoption of IFRS for rate regulated entities and as such, IFRS may be adopted for financial statements ending December 31, 2012.

Given the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting standard under IFRS, it is expected that the Company will elect the optional one year deferral of its adoption of IFRS. Accordingly the Company will continue to prepare its financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook for 2011.

The Company continues to assess the impact of conversion to IFRS on its results of operations. However, given the uncertainties regarding the impact of IFRS on rate regulated entities, the Company cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and the results of its operation. The Company will continue to monitor accounting developments with respect to the adoption of IFRS and how any changes will impact on the Company's reporting under IFRS.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

### 4. RATE SETTING

The rates of the Company's electricity distribution business are subject to regulation by the OEB.

With the commencement of the open market, the Company purchases electricity from the Independent Electricity System Operator (IESO), at spot market rates and charges its customers unbundled rates. The unbundled rates include the actual cost of generation and transmission of electricity and an approved rate for electricity distribution. The cost of generation, transmission and other charges such as connection are collected by Haldimand County Hydro Inc. and remitted to the IESO. Debt retirement charges are collected and remitted to the Ontario Electricity Financial Corporation. The Company retains the distribution charge on the customer hydro invoices.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated Company. Such change in timing gives 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 rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods than would be the case had the Company been unregulated. Specific regulatory assets and liabilities are disclosed in Note 6. Haldimand County Hydro Inc.'s approved rate for distribution includes components for the recovery (refund) of regulatory assets (liabilities). The approved rates, effective May 1, 2010, were calculated on a 2010 test year rate base and included a rate of return on equity of 9.85%.

### 5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2010	2009
Land	139,071	-	139,071	139,071
Buildings	2,029,926	365,792	1,664,134	1,680,303
Distribution stations	466,496	150,789	315,707	345,466
Distribution lines - overhead	28,035,394	10,671,974	17,363,420	16,825,413
Distribution lines - underground	7,645,599	3,122,789	4,522,810	4,533,912
Distribution transformers	13,341,245	4,407,964	8,933,281	8,858,692
Distribution meters	2,949,488	1,077,708	1,871,780	1,968,517
Sentinel lights	177,667	159,818	17,849	18,874
Rolling stock	1,870,373	940,305	930,068	764,309
Other capital assets	4,754,790	2,651,893	2,102,897	2,120,824
	61,410,049	23,549,032	37,861,017	37,255,381

During the year, the Haldimand County Hydro Inc. disposed of conventional meters that were removed from service. For regulatory purposes, the net book value of the meters is included in property, plant and equipment. In the absence of rate regulation, the loss on the disposition of the meters would have been charged to operations.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. REGULATORY ASSETS (LIABILITIES)	2010	2009
Deferred payments in lieu of taxes	1,000,669	994,576
Retail settlement variance accounts	(1,447,365)	(262,686)
Recovery of regulatory asset balances	(148,557)	(137,546)
Deferred pension costs	-	205,456
Smart meters	3,350,039	2,714,945
Low voltage services	(252,960)	(476,985)
Hydro One Networks Inc.	5,994	5,240
Special purpose charge	68,911	-
	2,576,731	3,043,000

The deferred payments in lieu of taxes represents the accumulated difference in the approved estimate of taxes to be paid and the actual taxes paid.

On March 31, 2010, the OEB announced its decision regarding the Company's rate application. As part of the rate application, the OEB allowed for a recovery (refund) of various regulatory assets (liabilities). These amounts are reported as the Recovery of regulatory asset balances account (RAR). The RAR consists of various OEB approved regulatory asset (liability) account balances as at December 31, 2008.

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario. As at December 31, 2010, the Company has installed smart meters in approximately 97% of its eligible customer base. The OEB has allowed all costs and related revenues to be recorded as a regulatory asset.

The special purpose charge variance is a special charge from the OEB related to the Ministry of Energy and Infrastructure's conservation and renewable energy program costs. The OEB assessed the Company \$163,046 for its share of the program. The Company is allowed to recover this charge. The amount is expected to be recovered in 2011.

The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. LONG TERM LIABILITIES	2010	2009
Non-callable debenture, with graduated interest rates starting at 6% in 2000, up to 6.5% in 2010. Interest is payable semi-annually, principal is payable annually. Due May 1, 2010	-	7,670,000
Ontario Infrastructure Projects Corporation (OIPC) serial debentures, at rates from 2.92% to 4.39% with semi-annual principal payments totaling \$494,248 plus interest. Due April 1, 2015, 2020 and 2025	9,759,106	-
Ontario Infrastructure Projects Corporation (OIPC) financing advance, interest payable monthly at OIPC advance interest rate calculated monthly. Advance to be repaid or converted to a debenture at completion of advances	-	4,005,730
CIBC demand loan repayable in monthly instalments of \$16,667 plus interest. Interest is calculated based upon purchased bankers acceptance rates, Due December 2011	199,994	399,998
Customer Deposits	690,184	655,942
	10,649,284	12,731,670
Current portion	1,555,851	8,359,998
	9,093,433	4,371,672

Based upon current repayment terms, the estimated annual principal repayments and return of customer deposits are as follows:

2011	-	1,555,851
2012	-	1,029,270
2013	-	1,037,740
2014	-	1,039,066
2015	-	983,321

The CIBC demand instalment loan and the OIPC debentures are secured by a general security agreement on all property owned by the Company.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

8.	CAPITAL	2010	2009
	<b>Capital Stock</b>		
	Authorized - an unlimited number of common shares		
	Issued - 1,001 common shares	19,149,049	19,149,049
	<b>Miscellaneous Paid-in Capital</b>	1,140,763	1,140,763
		<b>20,289,812</b>	<b>20,289,812</b>
9.	OTHER OPERATING REVENUE	2010	2009
	Late payment charges	73,362	73,849
	Retail service charges	32,792	32,335
	Sentinel light rental	82,891	89,661
	Interest earned	70,191	58,778
	Pole rentals	80,923	122,299
	Change of occupancy charges	74,730	65,339
	Collection charges	276,054	260,490
	Reconnection charges	60,895	60,287
	Profit on sale of material services	18,976	16,820
	Water and sewer billings	430,279	425,908
	Gain (loss) on disposal of property, plant and equipment	5,519	9,479
	Ontario Power Authority CDM fees	60,998	40,088
	Miscellaneous	70,208	184,577
	Special purpose charge	94,692	-
	MicroFIT monthly service charge	622	-
		<b>1,433,132</b>	<b>1,439,910</b>
10.	DISTRIBUTION, OPERATION AND MAINTENANCE	2010	2009
	Distribution station equipment	151,082	169,305
	Overhead distribution lines	1,925,446	2,055,549
	Underground distribution lines	265,926	271,864
	Distribution transformers	445,518	326,289
	Distribution meters	255,754	252,342
	Distribution supervision and engineering	598,774	520,220
	Sentinel light maintenance	20,111	28,082
		<b>3,662,611</b>	<b>3,623,651</b>

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

### 11. INCOME TAXES - CURRENT 2010 2009

---

The income tax provision was calculated based on taxable income.

Taxable income is calculated as follows:

Income before income taxes	4,135,341	4,197,180
Amortization in excess of Capital Cost Allowance	(102,631)	38,400
Net change in regulatory assets	466,269	(2,314,930)
Regulatory assets capitalized for tax purposes	781,771	2,892,306
(Gain) Loss on disposal of assets	(5,519)	(9,479)
Other additions and deductions	51,537	37,108

---

Taxable income	5,326,768	4,840,585
----------------	-----------	-----------

---

Tax at 30.24%, (2009 - 32.05%)	1,610,608	1,551,524
--------------------------------	-----------	-----------

---

### 12. RELATED PARTY TRANSACTIONS

---

The Company is wholly owned by The Corporation of Haldimand County. Haldimand County Utilities Inc. owns 100% of Haldimand County Hydro Inc., Haldimand County Energy Inc. and Haldimand County Generation Inc. Transactions between Haldimand County Hydro Inc., Haldimand County Energy Inc., Haldimand County Generation Inc., and Haldimand County Utilities Inc. occur in the normal course of operations and consideration paid is on similar terms as transactions with unrelated parties.

### 13. PRUDENTIAL SUPPORT

---

Haldimand County Hydro Inc. is required, through the IESO, to provide security to mitigate the Company's risk of default based on its expected activity in the electricity market. The IESO could draw on this guarantee if Haldimand County Hydro Inc. fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2010, the Company provided prudential support in the form of bank letters of credit of \$1,796,505. The letters of credit are secured by a general security agreement on all property owned by the Company.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

### 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain financial stability such that it can continue to provide returns for the shareholder and benefits for other stakeholders. The Company meets its objectives for managing capital by management oversight and Board monitoring of total capital.

The Company's total capital as at December 31, consists of:

	2010	2009
Total long term liabilities	10,649,284	12,731,670
Less: cash and bank	2,544,214	7,563,911
Net long term liabilities	8,105,070	5,167,759
Total shareholder's equity	33,256,226	31,080,671
Total capital	41,361,296	36,248,430

### 15. FINANCIAL INSTRUMENTS

Management and the Board monitor and respond as necessary to any risks arising from financial instruments.

#### Fair Value

The fair value of financial instruments such as cash and bank, accounts receivable, unbilled revenue and accounts payables and accrued liabilities are determined to approximate their recorded value due to their short term maturity.

#### Interest Rate Risk

The Company's exposure to interest rate risk relates to its floating bank rate indebtedness (see Note 7).

#### Credit Risk

The Company's exposure to credit risk relates to its accounts receivable and unbilled revenue. The Company collects security deposits from customers in accordance with direction provided by the OEB. The Company held deposits of \$690,184 at year end in order to mitigate credit risk.

### 16. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for purposes of comparison, have been reclassified to conform with the current year's presentation.

# HALDIMAND COUNTY UTILITIES INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

---

### 17. CONTINGENCIES

---

#### **Late Payment Charges Class Action**

By order dated July 22, 2010, the Ontario Supreme Court settled the class action suit. The settlement required all Municipal Electric Utilities to pay \$17,000,000 plus costs and taxes. The amount allocated to the Company was \$52,104. The OEB has allowed the amount to be recovered through future rates.

#### **Other**

A claim has been filed against the Company related to stray voltage. At this time, it is not possible to quantify the effect, if any, of this claim on the financial statements of the Company, consequently no provision for a loss, if any, has been recorded in these financial statements.