

2009 ANNUAL REPORT

 **Hydro**Ottawa
Holding Inc.

The Power to Lead



Our Mission

To create *long-term value* for our shareholder, benefiting our customers and the communities we serve.

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.



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Company Profile

Hydro Ottawa Holding Inc. (Hydro Ottawa) is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario Business Corporations Act, and overseen by an independent Board of Directors consisting of eleven members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2009, Hydro Ottawa owned and operated two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity local distribution company that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical distribution company in Ontario, and the largest in Eastern Ontario, Hydro Ottawa maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province and serves over 296,000 residential and commercial customers across a service area of 1,104 square kilometres (km). The company added approximately 4,400 new customers to its distribution system in 2009, an increase of 1.5 percent, while the volume of electricity delivered through its distribution network was virtually the same as the previous year. The company's capital assets grew by \$17.9 million, or 3.6 percent.

Energy Ottawa Inc.

Energy Ottawa is a generator of renewable energy and provider of commercial energy management services. Its twin 8-megawatt run of the river hydro-electric facilities at Chaudière Falls in the city's core produce more than 125,000-megawatt hours (MWh) of Tier III *EcoLogo* certified green power – the greenest electricity in Canada. The 5 megawatt Trail Road plant – a joint venture 60 percent owned by Energy Ottawa – converts millions of tonnes of previously wasted methane gas into renewable energy. Along with a fourth facility, the 0.7 megawatt Grinder Powerhouse, these facilities produce approximately 2 percent of Ottawa's total electricity requirement, enough to meet the annual needs of more than 18,000 homes.

Message to our Shareholder



Pierre Richard, Q.C.
Chair, Board of Directors
Hydro Ottawa Holding Inc.
and Hydro Ottawa Limited



Rosemarie T. Leclair
President and
Chief Executive Officer
Hydro Ottawa Holding Inc.

On behalf of the Board of Directors and management, we are very pleased to present this report on the performance of Hydro Ottawa Holding Inc. in 2009.

This Annual Report is the second to report on progress against the company's *2008-2012 Strategic Direction and Financial Outlook*, a five-year business strategy endorsed by our shareholder in June 2008.

The goal of that strategy is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities.

We are pleased to report that Hydro Ottawa continued to show excellent progress in the achievement of this strategy, meeting and exceeding its financial targets while continuing to deliver industry-leading service and contribute to the community as an engaged and responsible corporate citizen.

Based on the trend of solid performance established by Hydro Ottawa over the past several years, we truly believe the company has *The Power to Lead*, in an industry where service, efficiency and innovation are the defining features of leadership.

In 2009, Hydro Ottawa achieved a comprehensive net income of \$29.4 million, and a return on equity of 9.1 percent, enabling the company to provide dividends of \$17.6 million based on operations – our largest contribution to date.

On a normalized basis – excluding one-time events – the company increased its net income by \$4 million compared to the previous year, while increasing revenues by 8.6 percent.

Viewed over a longer period of time, Hydro Ottawa's key financial metrics have shown strong and steady growth over the past five years. Since the establishment of a dividend policy in 2005, Hydro Ottawa has paid dividends of \$87.2 million, while increasing shareholder equity in the company by \$80.9 million.

Reflecting this positive and sustained financial performance, the Dominion Bond Rating Service raised its credit rating on Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)' in May 2009, following a similar upgrade by Standard and Poor's Ratings Services in June 2008.

At the same time, Hydro Ottawa has continued to focus on the critical factors that have driven its success to date – in particular, service and efficiency.

As a company that provides an essential service to the public, nothing is more important to Hydro Ottawa's success than the ability to deliver value to our customers, by providing reliable, responsive and innovative services at competitive rates.

Indeed, with strong and growing demand for energy management and other value-added services, the ability to meet and exceed customers' expectations is more important than ever.

Our results in 2009 suggest we're doing just that, with electricity service reliability performance that continues to be among the best in the industry, and overall customer satisfaction reaching 89 percent – a 13 percent increase since 2004.

Hydro Ottawa also continued to perform well above the industry average in terms of productivity and efficiency, ranking 12th of 81 Ontario utilities in a recent Ontario Energy Board report comparing the unit operating costs of electrical utilities.

As a community asset, Hydro Ottawa is enhancing our City's *Power to Lead* in the critical areas of environmental performance and economic development – by ensuring Ottawa's electricity infrastructure is in excellent shape for the future; by increasing our production of renewable energy and promoting renewable generation opportunities for local homeowners and businesses; by investing in energy efficiency and conservation; and by continuing to provide stable, reliable, and growing returns to our shareholder, contributing to the City of Ottawa's objective of financial sustainability.

These efforts and achievements not only respond to the strategic objectives set out for Hydro Ottawa in our *2008-2012 Strategic Direction and Financial Outlook*; they also reflect the core mission and mandate of Hydro Ottawa, which has remained the same since the company's inception: to deliver value to our shareholder, while benefitting our customers and the community we serve.

We are proud of the strides we have made to fulfill that mission in 2009, and grateful to our 580 employees, whose commitment to excellence and continuous improvement has made these achievements possible.

We look forward to continued success in the coming years, as we pursue our vision to be a leading, trusted integrated utility services company.

Sincerely,

A handwritten signature in black ink that reads "Pierre Richard".

Pierre Richard, Q.C.
Chair, Board of Directors

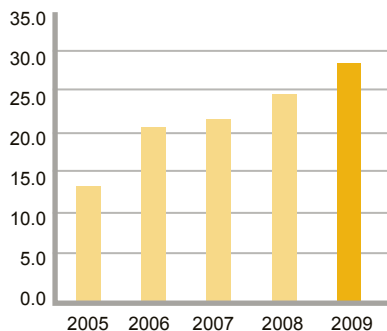
A handwritten signature in black ink that reads "Rosemarie T. Leclair".

Rosemarie T. Leclair
President and Chief Executive Officer

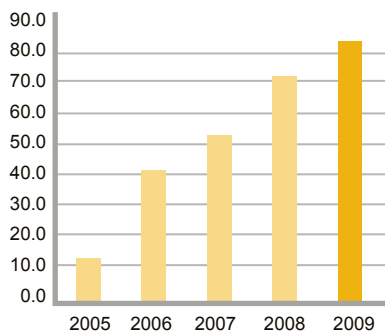
Financial Highlights

(\$ 000)	2009	2008
Revenues		
Power recovery	587,958	544,192
Distribution sales	141,213	134,227
Other income	25,561	19,341
	754,732	697,760
Earnings from continuing operations		
EBITDA	98,678	92,199
EBIT	56,723	51,597
Net income	29,353	25,290
Sources (uses) of cash		
Generated from operations	55,315	87,955
Capital assets	(84,381)	(83,872)
Financing	11,283	(10,991)
Ratios		
Working capital	1.35	1.36
Debt capitalization ratio	43:57	44:56
GWh consumption		
GWh consumption (purchased power)	7,785	7,867

Normalized Net Income

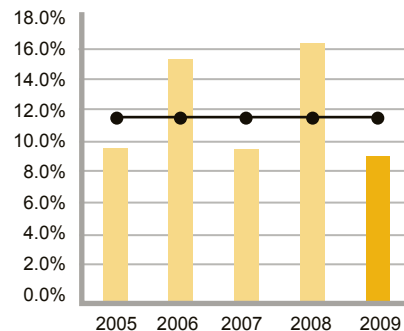


Growth in Shareholder Equity



Adjusted for dividends paid the following year

Return on Equity



Introduction to 2009 Annual Report

Hydro Ottawa's 2009 Annual Report is the second to report against the company's 2008-2012 Strategic Direction and Financial Outlook, which was endorsed by the company's shareholder in June 2008.

The goal of the Strategic Direction is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities. This strategy is built on the company's strengths and achievements, and responds to a changing environment that presents significant opportunities for the Hydro Ottawa Group of Companies, and for the community we serve.

To ensure we can take full advantage of these opportunities, Hydro Ottawa

is focused on the fundamentals of leading performance: Financial Strength, Customer Value, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus guide our business strategy, and form the basis of our annual reporting.

Hydro Ottawa's performance in each of these areas in 2009 demonstrates that the company has *The Power to Lead*. With strong financial performance, leading customer service, recognition as an employer of choice, and efficient and effective operations, Hydro Ottawa is a leading utility today, and is poised for continued leadership in an industry that is ripe with opportunity. Based on a solid foundation established over several years of exceptional performance, Hydro Ottawa is prepared to be a leader

in the development of a Smart Grid, the deployment of renewable energy, and meeting the changing needs and expectations of our customers, including the growing demand for energy conservation programs and services.

These objectives are aimed at delivering continued financial performance as a valued asset for our shareholder, and making an essential contribution to our community's well-being and competitiveness. By achieving solid performance while planning for our City's long-term electricity needs and investing in conservation and renewable energy, we're working to ensure our community has *The Power to Lead* on economic development and environmental responsibility in the years to come.

FOUR KEY AREAS OF FOCUS

<p>Financial Strength</p> <p><i>Strategic Objective</i></p> <p>We will create sustainable growth in our business and our earnings</p> <p>By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people</p>	<p>Customer Value</p> <p><i>Strategic Objective</i></p> <p>We will deliver value across the entire customer experience</p> <p>By providing reliable, responsive and innovative services at competitive rates</p>
<p>Organizational Effectiveness</p> <p><i>Strategic Objective</i></p> <p>We will achieve performance excellence</p> <p>By cultivating a culture of innovation and continuous improvement</p>	<p>Corporate Citizenship</p> <p><i>Strategic Objective</i></p> <p>We will contribute to the well-being of the community</p> <p>By acting at all times as a responsible and engaged corporate citizen</p>

Report on Operations

Financial Strength

We will create sustainable growth in our business and our earnings, by improving productivity and pursuing business growth opportunities that leverage our strengths.

Reliable dividends and long-term growth in the company's value are at the heart of Hydro Ottawa's commitment to our shareholder. In 2009, Hydro Ottawa continued to deliver on that commitment, while providing effective and reliable service to our customers, containing costs and improving productivity.

Since the adoption of a dividend policy by the company's shareholder five years ago, Hydro Ottawa has delivered dividends of \$87.2 million, while growing shareholder equity in the company by \$80.9 million.¹ This achievement reflects a determined effort to increase the company's financial strength, continually enhance its operational efficiency and effectiveness, position the company for future growth and increase its long-term value.

The main indicators of financial strength on an annual basis are net income and revenue. Hydro Ottawa achieved superior performance in 2009, with a consolidated net income of \$29.4 million.

This enabled the Corporation to pay dividends of \$17.6 million to its shareholder, exceeding forecasts by \$3.6 million. All operating divisions exceeded their financial targets in 2009, and each made a positive contribution to net income.

When normalized to exclude one-time impacts, net income was \$28.7 million compared to \$24.7 million in the previous year.²

The company's strong financial performance was due to continued productivity improvements and effective cost management, as well as increased revenues from commercial and residential energy management services, the company's growing customer base and an increase to electricity distribution rates of 1.18 percent in accordance with the Ontario Energy Board's Incentive Regulation Mechanism.

At the same time, the company continued to invest in its capital infrastructure. In 2009, \$79.9 million was invested in capital assets, of which \$79.4 million, or 99.4 percent, was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. The company invested \$38.5 million to maintain the reliability of existing infrastructure, and \$14.9 million to deploy new infrastructure to meet the City's growing needs.

In the energy generation business, the company continued to employ fixed price contracts to reduce exposure to spot market prices, which have been below historical averages in the past few years. In 2009, the company secured 20-year fixed price contracts with the Province of Ontario for a portion of the power produced from its Chaudière Falls generating stations through the Renewable Energy Standard Offer Program (RESOP), worth an estimated \$70 million over the 20 year life of the contracts. Since September 1, 2007, Energy Ottawa's production has been

nearly 100 percent protected from exposure to the spot market, through a combination of long-term power-purchase agreements, participation in the province's Standard Offer Program, and a fixed price contract with the City of Ottawa.

In addition to these pricing strategies, Energy Ottawa maintained its energy production near the record levels achieved in 2008. The Chaudière Falls generating stations continued to achieve production above historical levels, due to minimal maintenance shut-downs, relatively favourable water levels and the addition of the Grinder Powerhouse in late 2007. At the Trail Road plant, expansion to the gas collection system undertaken in 2008, and upgrades to the gas treatment system in 2009 are expected to increase production in 2010 and beyond.

The company's energy management and conservation business lines saw growth across the board, with Energy Ottawa's commercial energy management services business increasing revenues by nearly 130 percent, and Hydro Ottawa Limited's Conservation and Demand Management (CDM) results also exceeding expectations. This reflects strong demand for these services in both the private and public sectors, with more than one hundred commercial energy management projects completed by the company in 2009. Projects undertaken with the City of Ottawa have continued to reduce the City's energy costs, with more than \$3.0 million in savings achieved by the

¹ Adjusted for dividends paid the following year.

² See MD&A (p.18) for an explanation of how normalized net income is calculated.

\$ 87.2 million

end of 2009. Demand for residential conservation programs delivered in partnership with the province also continued to be strong.

prospects for future growth in value. In 2008, Hydro Ottawa's shareholder endorsed a targeted growth strategy involving three basic components: expanding our distribution business

company's energy management services business increased by nearly 130 percent in 2009.

In support of the company's objective to pursue business growth in areas that build on existing core strengths, Hydro Ottawa in 2009 made a modest strategic investment in Streetlight Intelligence Inc., which manufactures adaptive street lighting systems that can significantly reduce the energy and maintenance costs of street lighting. This technology is in the early stages of commercialization, and is well positioned to be a market leader in meeting an increasing demand for more energy efficient street lighting. Hydro Ottawa currently holds 4,166,667 shares in this company, as well as options and warrants for the purchase of additional shares.

Hydro Ottawa achieved superior performance in 2009, with a consolidated net income of \$29.4 million.

Consolidated revenues, excluding flow-through items such as the cost of purchasing power from the provincial grid, increased by 8.6 percent on a year over year basis, continuing a trend of steady revenue growth.

Overall, the Hydro Ottawa Group of Companies achieved a Return on Equity of 9.1 percent in 2009.

Access to affordable capital is critical to business success, and is primarily influenced by a company's credit rating. In 2009, the Dominion Bond Rating Service (DBRS) upgraded its rating on Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)', continuing a trend of strengthening credit ratings over the past several years. In announcing the upgrade, DBRS cited Hydro Ottawa's strong financial profile, conservative financial policies, strong operational performance and low business risk. This followed a similar upgrade by Standard & Poor's Ratings Services, which in 2008 raised its long-term corporate credit and senior unsecured debt rating for Hydro Ottawa to 'A' from 'A-'.

Over the longer term, shareholder value is tied not only to efficient and effective operations, but also to the company's

beyond our current service territory; expanding our hydroelectric and other renewable generation capacity; and building on our existing core strengths to diversify our business lines, focusing on business opportunities that are compatible, low risk, and offer stable long-term returns.

In 2009, Hydro Ottawa continued to actively evaluate and pursue opportunities to expand its electricity distribution, renewable generation and energy services business lines.

In October 2006, the Government of Ontario provided publicly owned utilities a two-year exemption, later extended indefinitely, from paying the 33 percent electricity transfer tax when they sell electricity assets to other publicly owned electrical utilities in Ontario. In light of this change, Hydro Ottawa continues to assess opportunities to grow its electricity distribution business beyond its current service territory. The company also continues to explore new opportunities for renewable energy generation, particularly small- and medium-sized renewable projects envisaged by Ontario's *Green Energy and Green Economy Act*. And, as noted above, revenues in the

Dividends paid to the City of Ottawa since 2005

Customer Value

We will deliver value across the entire customer experience, by providing reliable, responsive and innovative services at competitive rates.

As a company that provides an essential service to the public, nothing is more critical to Hydro Ottawa's success than the ability to deliver value to our customers. Whether the customer is one of the 296,000 homes and businesses who rely on our electricity distribution system every day, or one of a growing number of commercial energy services clients looking to cut their energy costs and environmental footprint, our goal is to provide effective, efficient and reliable service.

The fundamentals of customer value in the electricity business are quality and cost – delivering a reliable service, while operating efficiently and effectively to keep rates competitive. Hydro Ottawa is consistently among the top performers in Ontario in both of these areas.

We are also continuously working to improve our customer-facing processes and maintain a customer-centric culture throughout our group of companies. In 2009, we continued to enhance customer communication and our ability to provide accurate, responsive, courteous and timely service to meet customer needs.

Service Quality and Reliability

Hydro Ottawa Limited is consistently among the top performers in the industry in providing uninterrupted electricity service, and restoring power quickly when outages do occur. We use two key indicators to measure our reliability of service – the System Average Interruption

Frequency Index (SAIFI), which measures the average number of outages a Hydro Ottawa customer experiences in a year, and the System Average Interruption Duration Index (SAIDI), which measures the total time (in hours) that an average customer is without power in a year.

With a 2009 SAIFI of 0.82 interruptions, and a SAIDI of 1.05 hours, the average Hydro Ottawa customer would experience one outage every fifteen months, and be without power for just over one hour (63 minutes) per year, excluding outages due to a loss of supply from the provincial electricity grid.

It is common in the electrical distribution industry to measure reliability results using a three-year rolling average. As the adjoining graphs illustrate, Hydro Ottawa's three-year averages for both SAIFI and SAIDI held steady in 2009, demonstrating a continuation of the company's industry-leading performance in this area, and the value of its capital investments in maintaining reliable infrastructure.

Given that system-wide performance remains very strong, Hydro Ottawa continues to emphasize targeted investments in areas that have experienced lower reliability. In 2009, this included completing the purchase of the Fallowfield and Richmond distribution stations from Hydro One in order to improve outage response in south Nepean, as well as targeted investments in the areas of Leitrim Road, Kanata, east of Rockcliffe, Orleans and Beechwood.

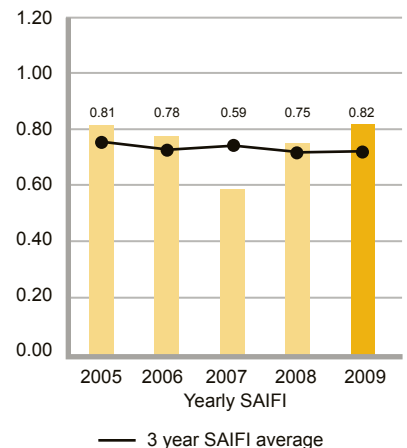
In addition, the company is completely rebuilding the Beacon Hill substation, which was destroyed in a fire in 2009, expanding a substation in Ottawa south (Albion Road) to meet growing demand, and planning for a new substation in Kanata.

Hydro Ottawa also tracks several key measures of service quality and customer satisfaction, which have shown steady improvement over the past several years.

Our success rate in resolving customer requests on the first call has continued to show strong performance, with

Number of service interruptions per year for an average customer

Hydro Ottawa SAIFI Excluding Loss of Supply



78 percent of customer queries resolved on the first contact in 2009, consistent with 2008. Hydro Ottawa is one of a very few utilities across the country to track and target performance in this area.

2009, while customers subscribing to E-billing, a new service offering launched in late 2008, reached 9,200 by year end. As Hydro Ottawa customers transition to Time-of-Use rates in 2010 and 2011, they will have access to a new set of tools that allow them to view their hourly electricity

Keeping Rates Low

While maintaining reliable service and investing for the future, Hydro Ottawa has also maintained its record as one of the most efficient electrical utilities in Ontario, maintaining competitive rates for our customers.

Of the money collected from Hydro Ottawa customers, only the portion relating to distribution charges stays with Hydro Ottawa. Distribution charges cover the costs of constructing, maintaining and operating the local electricity distribution system, and account for approximately 25 percent of a typical residential customer's bill.

In 2009, Hydro Ottawa's distribution rates increased 1.18 percent in accordance with the Ontario Energy Board's Incentive Regulation Mechanism. For a typical residential customer, this amounts to an increase of approximately 0.3 percent on the total bill related to Hydro Ottawa's operations, or approximately 34 cents per month. When combined with other adjustments reflected in the Delivery line on the customer's bill, including an increase in transmission rates paid to Hydro One, costs related to the provincial Smart Meter project and other adjustments not related to Hydro Ottawa's operations, the total increase for a typical residential customer was 2.4 percent, or approximately \$2.73 per month.

In April 2010, the OEB approved new distribution rates for Hydro Ottawa resulting in a decrease of 0.5 percent on the total bill, or 46 cents per month for a typical residential customer, beginning May 1, 2010. This was offset by an increase in transmission rates paid to Hydro One. The combined impact of these changes is a 0.5 percent increase on the total bill.

In 2009, Hydro Ottawa achieved 89 percent customer satisfaction – a 13 percentage point increase since tracking began in 2004.

The company's online customer service offerings through *MyHydroLink* also continued to be enhanced, and customer demand for these services continued to grow. The number of customers who have signed up for a *MyHydroLink* account nearly doubled to 29,100 in

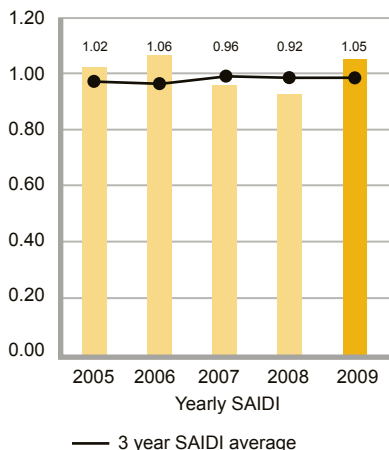
consumption patterns online, and analyze the cost savings they could achieve by shifting some of their electricity use to off-peak periods.

Hydro Ottawa has also continued to enhance communication with our customers about power outages when they do occur, through proactive media notification and updates of information on the company's dedicated outage line. Technology and process improvements have resulted in more frequent, timely and accurate updates on the outage line, with live call agents available 24-7. As a result, Hydro Ottawa was recognized as a finalist for the Electricity Distributors' Association's *Innovation Award* in the Customer Service category for 2009.

These efforts have led to a continuing trend of strong customer satisfaction in a third-party administered annual survey. In 2009, Hydro Ottawa achieved 89 percent customer satisfaction – a 13 percentage point increase since tracking began in 2004.

Hours of service interruptions per year for an average customer

Hydro Ottawa SAIDI Excluding Loss of Supply



Percentage of time Hydro Ottawa customers have enjoyed uninterrupted power since 2007

Organizational Effectiveness

We will achieve performance excellence by cultivating a culture of innovation and continuous improvement.

Performance excellence is an objective we strive toward in every area of our operations, in order to provide effective, efficient service to our customers and deliver solid returns to our shareholder, now and in the future.

Particularly important are the continuance of Hydro Ottawa's exceptional health and safety record, the development of a skilled, engaged and prepared workforce for the future, and leveraging technology and innovation to improve our efficiency and enhance service.

As we prepare for a future of smart grids, evolving customer expectations, and increasing emphasis on conservation and renewable energy, efficient and effective operations have never been more important to Hydro Ottawa.

A Strong Focus on Productivity

The Ontario Energy Board regularly compares the operating, maintenance and administration costs of Ontario utilities, and Hydro Ottawa's costs per customer have consistently been lower than the provincial average. A recent Ontario Energy Board report comparing the unit operating costs of Ontario electrical utilities ranked Hydro Ottawa 12th of 81 utilities in the province.

Since 2007, Hydro Ottawa has set and achieved annual productivity improvement targets, and in 2009 we continued to focus on maximizing the efficiency and effectiveness of our operations by reducing waste and optimizing productivity at every opportunity. The Ontario Energy Board now establishes annual productivity improvement expectations through its multi-year rate setting process, referred to as the Third Generation Incentive Regulation Mechanism. In keeping with our focus on continuous improvement, Hydro Ottawa sets internal targets for productivity improvement, across all of our operations, in addition to these OEB mandated efficiencies.

Hydro Ottawa has achieved cost savings through productivity improvement of more than \$7 million over the past three years, by restructuring its operations into four zones to reduce travel time, integrating apprentices into overhead line crews, leveraging new technologies for improved scheduling and dispatching of field work, a move to paperless processing for new and upgraded customer connections to the distribution system, and other measures. Energy Ottawa continued to achieve efficient operations at its generation facilities, achieving plant availability of 97 percent.

A Healthy and Prepared Workforce

At Hydro Ottawa, we understand that our employees are our greatest asset. Recruiting, developing and retaining highly skilled employees, and ensuring they remain safe on the job, is crucial to Hydro Ottawa's continued success, and our mission to provide excellent value to our customers, our shareholder, and our community.

Our commitment to these objectives was acknowledged recently when Hydro Ottawa was named one of the National Capital Region's Top 25 Employers for a second straight year. This prestigious award, sponsored by MediaCorp and adjudicated by an independent panel of judges, recognizes Hydro Ottawa and other employers in the region that offer exceptional places to work.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees. In 2007, Hydro Ottawa completed the integration of its health and safety and environmental management systems, achieving two internationally recognized standards of management. In 2009, the company was recertified to the International Organization for Standardization (ISO)

14001 Environmental Management System standard for a sixth consecutive year, and recertified to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard for a third straight year.

development programs to facilitate leadership succession and train and develop front-line Supervisors, Managers and emerging leaders. These programs position Hydro Ottawa to deal effectively with the industry-wide challenge of an aging workforce, by ensuring effective

moves and new service connections more seamless and convenient.

In addition, Hydro Ottawa has continued to introduce more intelligence and automation into our distribution system, building on the substantial investments already made, such as the conversion to Geographical Information System (GIS) mapping that was completed in 2007. In 2009, Hydro Ottawa continued to improve its ability to diagnose and respond to outages from its system control centre, by deploying more sensors within the distribution system, and more controls that can be remotely operated to re-route power when problems occur. These investments improve service to customers through faster outage response times. The company also deployed a new interactive voice response (IVR) system on its customer outage reporting line, enhancing customer service while dramatically reducing blocked calls and reducing average call handling time from three minutes to less than one.

In 2010, Hydro Ottawa will complete the development of a more detailed Smart Grid plan, as required by the *Green Energy and Green Economy Act*, and a broader technology strategy to maximize the effectiveness of future technology investments, for the benefit of our customers and shareholder.

Hydro Ottawa's costs per customer have consistently been lower than the provincial average.

While safety is paramount, Hydro Ottawa's commitment to our employees goes far beyond their health and safety. Our aim is to create a workplace that fosters employee satisfaction and productivity, while ensuring opportunities for skills development and growth.

In 2009, Hydro Ottawa continued to emphasize skills development by providing ongoing training opportunities throughout the organization, and continued to develop tomorrow's workforce through its skilled trades apprenticeship programs. In 2010, Hydro Ottawa will graduate six apprentices to journeyman status, marking the completion of a four to five year process for each of these employees.

The company currently has 50 apprentices active in various stages of its Trades Apprenticeship Programs, training to become Powerline Maintainers, Cable Jointers, Meter Technicians, Stations Electricians and System Operators. In 2009, the company also introduced an Engineering Intern Training and Development Program, and continues to implement management and leadership

skills development and the transfer of critical knowledge from one generation to the next.

A Focus on Innovation

Hydro Ottawa also continues to leverage new technologies to enhance service and prepare for the future. Increasingly, technology is enabling utilities to identify and respond to problems in the electricity distribution system more quickly, to improve service to customers and provide them with more information and control, and to offer value-added services to meet customers' evolving needs and expectations – innovations increasingly recognized as the development of a Smart Grid.

With more than 99 percent of electricity meters in our service territory now replaced by Smart Meters, Hydro Ottawa has one of the largest active Advanced Metering Infrastructure (AMI) systems in Canada. This eliminates the need for field readings for the vast majority of Hydro Ottawa customers, avoiding estimated readings for meters in difficult to access locations and making

Number of apprentices currently active in Hydro Ottawa's Trades Apprenticeship Programs

Corporate Citizenship

We will contribute to the well-being of the community, by acting at all times as a responsible and engaged corporate citizen.

As a community company that delivers essential services to Ottawa residents – and whose predecessor companies have done so for more than 100 years – contributing to the well-being of the community has always been a part of Hydro Ottawa's core mandate. It's an integral part of our mission, to create long-term value for our shareholder, benefiting our customers and the communities we serve.

We do so by providing a reliable and safe supply of electricity, increasing the supply of renewable energy and respecting the environment in our work; but our commitment also goes beyond our day to day operations. The Hydro Ottawa Group of Companies is active in our community promoting conservation and demand management, educating children and youth about electricity safety, helping to mitigate the impact of energy costs for those in need, and making other contributions to our City's quality of life.

Hydro Ottawa once again partnered with Enbridge Gas Distribution, the United Way/Centraide Ottawa and the Salvation Army Booth Centre to deliver the Winter Warmth program in Ottawa in 2008/2009, helping low-income families to pay their energy bills during the coldest months

of the year. In total, Hydro Ottawa's contribution assisted 184 households, benefiting 581 individuals.

Hydro Ottawa took this commitment to helping Ottawa residents stay safe and warm a step further in 2009, launching an innovative community investment fund called the Hydro Ottawa Shelter and Warmth Fund, in partnership with the United Way/Centraide Ottawa. This fund – the first of its kind in Ottawa – uses the corporate matching funds from Hydro Ottawa's annual workplace United Way campaign to support local organizations working to ensure Ottawa residents in need have access to secure, affordable housing. In 2009, the first year of operation for the Shelter and Warmth Fund, a total of \$38,000 was provided to four local organizations.

Contributions through the Shelter and Warmth Fund will grow in 2010, thanks to the efforts of Hydro Ottawa's employees, who once again surpassed their previous best in the company's annual United Way campaign. A total contribution of over \$154,600 was achieved through employee pledges, fundraising events, and corporate matching.

More than 19,500 students at 51 elementary schools learned valuable lessons about using electricity safely and wisely through Hydro Ottawa's Electricity Safety and Conservation presentations. And Hydro Ottawa was once again honoured to host the Special Needs Day at the Gloucester Fair, with 30 Hydro Ottawa volunteers helping 800 disabled children enjoy a day at the fair, complete with rides, games and a barbeque lunch.

Hydro Ottawa also continued to play a leading role in creating a culture of conservation in our community. Since the company began actively promoting energy conservation in 2005, its conservation initiatives have resulted in more than 100 million kilowatt hours saved. More than 18,500 old, inefficient refrigerators have been reclaimed and recycled in Ottawa through the Great Refrigerator Round-up, nearly 14,500 Ottawa households are now registered in the *peaksaver* program, and more than 1,480 small businesses have taken advantage of up to \$1,000 in lighting upgrades and audits through the Power Savings Blitz program, while over \$225,000 in incentives were provided in 2009 to larger commercial customers completing energy efficiency upgrades through the Electricity Retrofit Incentive Program.

\$154,600

In addition to these ongoing programs, Hydro Ottawa funded a 2.1 kilowatt solar photovoltaic (PV) and solar hot water installation as part of the Now House project in Ottawa, which completed an extreme energy retrofit of a wartime home owned by Ottawa Community Housing, to make it nearly a “net zero energy” home.

its environmental impact in four areas: reducing our carbon footprint, specifically through improvements in fleet, facilities, and information technology infrastructure; improving waste reduction and diversion; greening the company’s procurement and supply chain; and building a culture of environmental sustainability

Ottawa also joined with the City of Ottawa to promote Ottawa’s second Earth Hour, calling attention to climate change and the importance of energy conservation by asking Ottawa residents to join others around the world in turning off their lights for one hour. And, recognizing the importance of the building industry in making our community more sustainable, the company sponsored the new “Green LEED Home of the Year Award” as part of the Greater Ottawa Homebuilders’ Association’s Housing Design Awards.

Hydro Ottawa also continued to work with other leading Ottawa employers to champion diversity in the workplace, as an active member of the Employers’ Council of Champions of the Hire Immigrants Ottawa initiative. Along with 33 other Ottawa employers, Hydro Ottawa is working to remove the barriers to employment for skilled immigrants, so that employers can get the full benefit of their skills and expertise.

More than 19,500 elementary students learned valuable lessons about using electricity safely and wisely through Hydro Ottawa’s Electricity Safety and Conservation presentations.

Hydro Ottawa’s Energy Conservation Events Van visited 75 community events, and made presentations to over 800 grade five students in 17 schools. Hydro Ottawa’s Companies for Conservation program, which recognizes and promotes the efforts of large businesses and organizations that are showing leadership on energy conservation, was recognized with the Electricity Distributors’ Association’s *Innovation Award* in the Public Relations category in 2008, and will be expanded in 2010 to acknowledge the leading efforts of small businesses as well.

In keeping with this commitment to environmental sustainability, Hydro Ottawa is working to reduce our own environmental footprint, and made significant enhancements to the company’s Environmental Sustainability Strategy in 2009. This strategy focuses on improving the company’s environmental performance and reducing

throughout our workforce and business practices. Action plans are in place for each of these areas. Successes in 2009 included continued improvements in the energy efficiency of our facilities and the emissions intensity of our fleet, as well as successful verification by the Canadian Electricity Association of Hydro Ottawa’s compliance with its Environmental Commitment Responsibility Program.

Hydro Ottawa continued to support community initiatives that help to raise awareness of the importance of energy conservation and sustainable living as well. As the presenting sponsor of the Rideau Canal Festival, recognized as one of Ontario’s best 100 festivals and the Best New Festival (2008), Hydro Ottawa and Energy Ottawa helped to further establish this important community celebration of Ontario’s first UNESCO World Heritage Site. It is also one of our community’s greenest celebrations, as Canada’s first zero footprint festival. Hydro

Amount raised for United Way by Hydro Ottawa’s employee campaign in 2009

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is intended to provide a narrative review of Hydro Ottawa Holding Inc.'s operational performance and financial position, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2009.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including accounting principles prescribed by the Ontario Energy Board (OEB) in the Accounting Procedures Handbook, and are expressed in Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of release. Risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

THE BUSINESS OF HYDRO OTTAWA HOLDING INC.

Hydro Ottawa Holding Inc. (Hydro Ottawa or the Corporation) is a holding company created in October 2000, wholly owned by the City of Ottawa (the Shareholder), and governed by an independent Board of Directors appointed by the Shareholder. The Corporation and its subsidiaries are incorporated under the *Business Corporations Act (Ontario)*.

The Corporation's core businesses are electricity distribution, renewable energy generation and related services. In 2009, Hydro Ottawa owned and operated two subsidiary companies, as follows:

Hydro Ottawa Limited: the core and by far the largest business of the Corporation is the distribution of electricity by its largest subsidiary, Hydro Ottawa Limited, which accounts for more than 94 percent of the Corporation's capital assets and 94 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company (LDC) that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally-owned LDC in the Province of Ontario. Hydro Ottawa Limited delivers safe and reliable electricity to over 296,000 residential and commercial customers across a service area of 1,104 square kilometres. Hydro Ottawa Limited receives power from the provincial electricity grid and transports it across a distribution network comprising 84 distribution stations, 2,700 kilometres of underground cable, 2,700 kilometres of overhead lines, 40,500 transformers and 48,700 hydro poles. Hydro Ottawa

Limited added approximately 4,400 net new customers to its distribution system in 2009, an increase of 1.5 percent.

Energy Ottawa Inc. (Energy Ottawa): a generator of renewable energy and provider of commercial energy management services, Energy Ottawa is Ottawa's largest producer of green power. Its run of the river hydro-electric facilities at Chaudière Falls in the city's core produce more than 125,000-megawatt hours (MWh) of certified green power. In addition, the Trail Road landfill gas-to-energy plant, a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. In combination, Energy Ottawa's generation plants produced approximately 150,000 MWh of renewable green energy in 2009. This output is enough to meet the annual needs of more than 18,000 homes.

VISION AND STRATEGY

The Corporation's vision is to be a leading and trusted integrated utility services company. The Corporation will achieve that vision through a strategic direction structured around four key areas of performance:

- Financial Strength
- Customer Value
- Organizational Effectiveness; and
- Corporate Citizenship

In pursuing its strategic direction, Hydro Ottawa intends to preserve and grow its core electricity distribution and renewable generation assets, and capitalize on the opportunities presented in its business environment.

Looking forward, the Corporation's targeted growth strategy involves three components: expanding the electricity distribution business; expanding hydroelectric and other renewable generation capacity; and building on existing core strengths to diversify business lines, focusing on compatible low risk business opportunities.

REGULATORY ENVIRONMENT

Hydro Ottawa and its subsidiaries operate within the framework of the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEB Act).

Hydro Ottawa Limited, as an electricity distributor, is both licensed and regulated by the OEB, which has a legislated mandate to oversee many aspects of the electricity industry. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned, directly or indirectly, by a municipal corporation.

The OEB must set or approve all rates charged by Hydro Ottawa Limited and the OEB establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity. Energy Ottawa is also licensed by the OEB as an electricity generator. However, the prices charged by Energy Ottawa for the electricity commodity are not subject to regulation.

The permitted business activities of Hydro Ottawa Limited were expanded as a result of the *Green Energy and Green Economy Act, 2009* (Green Energy Act), to include the ownership and operation of generation and energy storage facilities under established criteria, in addition to the existing permitted activities of distributing electricity, load management, the promotion of electricity conservation and the efficient use of electricity and cleaner energy sources. In addition, the City of Ottawa's Shareholder Declaration for Hydro Ottawa states that the Corporation may not, without the prior written approval of its shareholder, engage in the retailing of electricity or gas on a basis which exposes the Corporation or a subsidiary to the risk of fluctuations in the market price of the commodity.

The Green Energy Act requires all distributors to file plans to the OEB on facilitating renewable energy generation and implementing a smart grid. It also amended the mandate of the OEB, expanding its objectives to include promoting conservation and demand management, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources.

Permitted activities for Hydro Ottawa and Energy Ottawa include the same activities as Hydro Ottawa Limited, plus distributing or retailing energy products (e.g. gas) through pipes or wires, activities that enhance the work of a distributor or more effectively use corporate assets, managing or operating public utilities for a municipal corporation and renting or selling hot water heaters.

The Electricity Act establishes the structure of the electricity industry and the roles and responsibilities of parties such as the Independent Electricity System Operator (IESO), Electrical Safety Authority (ESA), Ontario Power Authority (OPA) and the Smart Meter Entity (SME). The Electricity Act further establishes both rights and obligations for distributors. Upon request, distributors are obligated to connect any building that lies along their distribution systems and access to this system must be non-discriminatory. New as a result of the Green Energy Act are mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that will sell electricity through the distribution grid.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. At the wholesale level, generators can bid into the electricity market overseen by the IESO or enter into a contract with the OPA. At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licenced electricity retailer or from a licenced distributor, such as Hydro Ottawa Limited, as part of a standard supply service (SSS).

Under SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues match the cost. Residential and small commercial customers receive the SSS through a regulated price plan. Under the regulated price plan, the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs. Differences between the forecast and actual costs are maintained by the OPA in a variance account until the balance is cleared through future regulated commodity rates. Customers not on the regulated price plan pay for the commodity based on the provincial spot market price or through the terms of a retail contract.

Regardless of whether customers have signed a contract with a retailer, or are supplied through the SSS, Hydro Ottawa continues to be responsible for the delivery of the electricity through its distribution system to all customers within the licenced service area.

Rate Regulation

Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, goods and services tax and starting in 2010, harmonized sales tax. Revenues from all of these charges, except distribution services, are collected from customers on a pass-through basis, and any differences between costs and revenues collected are tracked as a regulatory asset or liability to be cleared through rates in a subsequent period. For distribution services, Hydro Ottawa applies to the OEB for approval of distribution rates which include a fixed charge and a variable charge based on electricity consumption or peak demand.

To establish rates for distribution service, the OEB has adopted an incentive regulation mechanism (IRM). Under IRM, a distributor first sets base rates through a cost of service application. This application determines the appropriate revenue requirement to cover the company's forecasted costs, plus a regulated return. For subsequent years in which no cost of service application is filed, rates are adjusted by an inflation factor less a productivity factor. Further adjustments may be permitted for incremental capital above a prescribed threshold, or for recovery of extraordinary event costs.

Hydro Ottawa Limited last established base rates effective May 1, 2008 using 2008 forecast costs and a rate of return on equity deemed by the OEB at 8.57 percent. For 2009, the OEB approved an adjustment to rates effective May 1, 2009 using the IRM mechanism. Rates were increased by an inflation factor of 2.3 percent determined from the Gross Domestic Product Implicit Price Index on Final Domestic Demand (GDP-IPI FDD) released by Statistics Canada for 2008, less a factor of 1.12 percent

established by the OEB to encourage productivity improvements. In October 2009, a further rate application was filed for rates effective May 1, 2010. If approved, rates would once again be adjusted using the same IRM mechanism.

Under the OEB's IRM, if Hydro Ottawa Limited's actual rate of return on equity (ROE) is 300 basis points above or below 8.57 percent, the OEB will undertake a review with the possible outcome that a new cost of service application be required. In 2009, the OEB held a proceeding to determine if formulas used for calculating the deemed components of the cost of capital were appropriate. The OEB concluded that the formulas should be amended to ensure that they adequately and appropriately accommodate changing economic and financial conditions. As a result, the deemed ROE will start from 9.75 percent at September 2009 and will then be adjusted based on interest rates going forward. The new formula will be effective at the time of Hydro Ottawa Limited's next cost of service rate application. Hydro Ottawa Limited is planning to file a cost of service rate application with the OEB in 2010, which would go into effect in 2011.

CAPABILITY TO DELIVER RESULTS

Liquidity and Capital Resources

The table below shows the debt and liquidity profile of the Corporation as at December 31.

(\$000s)	2009	2008
Debt:		
Notes payable	251,705	251,481
Letters of credit	11,931	11,931
Liquidity:		
Unused bank facilities	128,319	163,169

Sources of Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are derived from operating activities, banking facilities and proceeds from bond issuances, as and when required. Liquidity and capital resource requirements are primarily for capital expenditures to maintain the Hydro Ottawa Limited electricity distribution system, cost of power, interest expense and prudential requirements.

On January 16, 2009 the credit facilities in place at December 31, 2008 were replaced with a new credit facility for \$140.2 million. The revised facility is more than adequate for current and projected needs, and provides management with additional flexibility. The Corporation may use up to \$75 million of the new facility for general operating requirements and annual capital expenditures. In addition, a \$50 million five-year revolving credit line has been secured for larger capital expenditures and acquisitions. Capital expenditure requirements, if any, in excess of this will be funded through future bond issuances.

This new credit facility was subsequently renewed on October 7, 2009. As at December 31, 2009, the Corporation had drawn \$11.8 million in standby letters of credit against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO cost of power invoice in advance of receiving payment from customers.

The Corporation's joint venture, Powertrail Inc., maintains a separate credit facility with a Canadian Chartered bank. The facility consists of \$0.1 million in standby letters of credit. As at December 31, 2009, the joint venture had drawn \$0.1 million in standby letters of credit against this credit facility.

Summary of Sources and Uses of Cash

(\$000s)	2009	2008
Cash (bank indebtedness), beginning of year	21,332	(24,576)
Net cash provided by operations	55,315	87,955
Net acquisition of capital assets	(58,900)	(66,486)
Dividends paid to the City of Ottawa	(17,200)	(28,375)
Streetlight Intelligence Investment	(500)	
Other	3,130	228
Net Cash inflow from discontinued operations	312	52,586
Cash, end of year	3,489	21,332

Cash Provided by Operating Activities

Cash generated by operating activities provided \$32.6 million less cash flow than in 2008. The majority of the decrease arises from less cash flow being generated from working capital as a result of higher accounts receivable and unbilled revenue balances, as year-over-year fourth quarter electricity revenues increased by 10 percent.

Cash Used in Investing Activities

Total investment in property, plant and equipment and intangible assets in 2009 was \$84.4 million, offset by contributions in aid of construction and proceeds from the disposition of assets, for net cash impact of \$58.9 million. Most of this was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. Capital investments in 2009 included approximately \$31.7 million on sustainment capital, to replace aging infrastructure and modify existing distribution system; \$15.0 million (net) on demand projects, which include third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects; and \$5.8 million on general plant and Conservation and Demand Management (CDM).

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2009, 674 new poles, 477 transformers, 87 km of overhead lines and 100 km of underground cable were installed. Over 180 demand capital projects were initiated including the addition of 4,330 new residential and 38 new commercial connections.

Additional capital acquisitions of \$0.5 million were invested to maintain or enhance the generation capability of Energy Ottawa facilities.

Cash Used in Financing Activities

Dividends were paid to the Shareholder in 2009 in accordance with the approved dividend policy. 2009 payments totaled \$17.2 million, including \$15.2 million arising from 2008 continuing operations, \$1.1 million from discontinued operations (Telecom Ottawa), and \$0.9 million from the gain on sale of Telecom Ottawa. 2008 payments totaled \$28.4 million, with \$16.4 million arising from 2007 operations, and \$12.0 million from the gain on sale of Telecom Ottawa.

Credit Ratings

As at December 31, 2009, the Corporation's bonds are rated as follows:

Rating Agency	Rating
Standard & Poor's Rating Services Inc.	A (stable)
Dominion Bond Rating Service Inc.	A (stable)

On May 1, 2009 the Dominion Bond Rating Service ("DBRS") upgraded Hydro Ottawa Holdings Inc.'s rating to "A" from "A (low)", and changed the trend to Stable from Positive. DBRS noted that the rating upgrade reflects the Corporation's strong financial profile, which has improved over the past five years, conservative financial policies, strong operational performance and low business risk.

The Corporation's bonds carry covenants normally associated with this type of debt (see Note 16 of the consolidated financial statements for further details). The Corporation is in compliance with these covenants as at December 31, 2009.

Critical Non-Capital Resources

The Corporation employs approximately 600 people. Hydro Ottawa Limited employs over 90 percent of this workforce. The Corporation experiences low attrition rates.

In the next five years, 85 employees in Hydro Ottawa Limited will be eligible for early retirement with an unreduced pension. Over 60 percent are trades or technical employees; the other 40 percent are administrative/clerical and management group employees.

In preparation for these eventual retirements, which are similar to those being experienced by many other utilities in Ontario, Hydro Ottawa Limited has undertaken an extensive in-house apprenticeship program to ensure the continuation of qualified tradespersons. A succession planning and management development program and numerous training and development programs are also in place to ensure that there are known qualified employees in the pipeline for key positions. These initiatives are ongoing.

Internal Processes

Various technology and process initiatives have been introduced to better manage electrical distribution assets and improve customer service, by increasing the reliability of the network through faster repairs, and enhancing its sustainability through new technologies.

The Geographical Information System (GIS) continues to be leveraged to enhance outage management, asset management, system design, and other functions throughout the Corporation. A major enhancement of the Hydro Ottawa Limited Outage Management System (OMS) took place in 2009 providing a connection between the Supervisory Control System (SCADA) and OMS. This enhancement now provides OMS with immediate notification of equipment operation in the field, allowing OMS to diagnose problems faster and more accurately than before. More mobile computing was also added in 2009 that will enhance the ability to electronically dispatch construction work to field crews. Hydro Ottawa Limited will be able to increase the volume of electronically dispatched work orders as more mobile computing technology is deployed.

Hydro Ottawa Limited continues to be actively involved in implementing the province's Smart Meter Program. As of December 31, 2009, a total of 289,600 smart meters have been installed, representing 99 percent deployment. Hydro Ottawa Limited is in the final testing stages with the provincial Meter Data Management & Repository (MDM/R) system, and plans to transition customers to Time-of-Use (TOU) billing beginning in 2010.

An upgrade to the Corporation's financial system began in 2009 and will continue into 2010. The main reason for the upgrade is to assist the organization in preparing for its transition to International Financial Reporting Standards (IFRS). A key upgrade or migration to a new Customer Information System (CIS) is also anticipated beginning in 2011.

Hydro Ottawa Limited continues to maintain certification with several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety. Internal and external third-party audits are conducted as required to confirm and maintain certification.

The Corporation also continues to emphasize cost containment and productivity improvement in order to enhance financial strength and operational performance. The OEB sets productivity improvement targets for electricity distributors as part of its incentive regulation mechanism, and the Corporation pursues corporate-wide efficiencies in addition to these targets. In line with these objectives, Hydro Ottawa Limited began a Lean process improvement pilot in 2009, using an established methodology focused on improving the efficiency and effectiveness of core processes. This program will continue in 2010.

RESULTS

The Corporation continued a positive trend of sustained profitability from continuing operations in 2009.

Selected Consolidated Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements.

(\$000)	2009	2008	Change \$	Change %
Revenues				
Power recovery	587,958	544,192	43,766	
Distribution and other	166,774	153,568	13,206	
	754,732	697,760	56,972	
Expenses				
Purchased power	584,282	537,979	46,303	
Operating costs	71,765	68,125	3,640	
	656,047	606,104	49,943	
EBITDA	98,685	91,656	7,029	7.7%
Depreciation and amortization	41,955	40,602	1,353	
Interest	12,315	11,770	545	
Taxes	13,416	13,571	(155)	
Other	1,646	423	1,223	
Net income from continuing operations	29,353	25,290	4,063	16.1%
Income from discontinued ops.	0	1,775	(1,775)	
Gain on sale of discontinued ops.	20	22,931	(22,911)	
	20	24,706	(24,686)	-99.9%
Net income and comprehensive income	29,373	49,996	(20,623)	-41.2%

Normalized Net Income

Adjusting for the impact of taxes and extraordinary items, normalized net income increased \$4.0 million over 2008.

(\$000)	2009	2008
Net income and comprehensive income	29,373	49,996
Adjusted to reflect income tax at statutory rates	(697)	(183)
Net income and comprehensive income using statutory tax rates	28,676	49,813
Adjusted for non-recurring items (net of tax)		
Recovery of regulatory asset write-down	-	(450)
Income from discontinued operations	-	(1,775)
Gain on disposal of discontinued operations	(20)	(22,931)
	(20)	(25,156)
Normalized net income	28,656	24,657
<i>Statutory tax rate</i>	33.0%	33.5%

Revenues

Revenue is earned from electricity distribution, sales of generated power, energy management services, the CDM program and sundry revenue.

Hydro Ottawa Limited's power recovery – a flow-through of purchased power costs to the customer – increased \$43.8 million, mainly due to a large increase in the global adjustment rate, offset by small decreases in sales, commodity rates and transmission rates.

Revenue, excluding power recovery, increased \$13.2 million (8.6 percent) from 2008. Electricity distribution revenues are reflective of OEB approved distribution rates, and the amount of electricity consumed. Revenue from distribution sales increased due to the impact of the May 1, 2009 rate increase and load growth. Additional revenue was also earned from an expanded CDM program, and increased commercial services revenue was achieved at Energy Ottawa. Energy Ottawa's generation revenue decreased from the prior year as electricity commodity pricing declined in 2009 and production was higher in 2008 due to more favourable weather conditions.

Expenses

Purchased power costs represent the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges and transmission charges levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by \$46.3 million, due mainly to the global adjustment rate, which was offset by small decreases in purchases, commodity rates and transmission rates as noted above.

2009 operating costs of \$71.8 million increased by \$3.6 million over 2008. The most significant increases in operating costs related to Hydro Ottawa Limited's expanded CDM program and Energy Ottawa's commercial services. As noted above, these two revenue generating activities experienced increased revenues in 2009. Expenses also increased due to compensation and other inflationary increases.

Balance Sheet Summary

(\$000)	2009	2008	Change \$	Change %
Assets	753,177	703,461	49,716	7.1%
Current liabilities	121,153	116,350		
Non-current liabilities	302,231	269,406		
Total liabilities	423,384	385,756	37,628	9.8%
Shareholder's equity	329,793	317,705	12,088	3.8%
Liabilities and shareholder's equity	753,177	703,461	49,716	7.1%

Other Expenses

Depreciation and amortization expenses rose by \$1.4 million primarily due to the Smart Meter program. Smart Meters are depreciated over a 15 year period replacing conventional meters, which were depreciated over 25 years, thereby accelerating depreciation expense. Continued investment in electricity distribution assets also contributes to higher year-over-year depreciation and amortization expenses.

Other expenses increased in 2009 due to an increase in capital taxes and due to a recovery for regulatory asset write-downs, which was received and offset against other expenses in the prior year; there was no similar recovery in the current year.

Payments-in-Lieu of Corporate Taxes (PILs)

The Corporation's effective income tax rate was 31.37 percent in 2009 compared to 33.03 percent the previous year. The year-over-year decrease results from a reduction in the statutory rate from 33.5 percent to 33.0 percent combined with the recovery of taxes from prior years' assessment changes.

Total expenses, excluding purchased power, increased 5.3 percent over 2008.

Net Income

Net income from continuing operations was \$29.4 million in 2009 compared to \$25.3 million in 2008, for a 16.1 percent increase. The increase primarily relates to increased distribution revenue in Hydro Ottawa Limited (due to the increased customer base and the May 1, 2009 rate increase), productivity improvements, and higher commercial services revenue from Energy Ottawa, which more than offset a small decrease in generation revenue.

Net income and comprehensive income of \$29.4 million was 41.2 percent lower than in the previous year, due primarily to the fact that 2008 results included an after-tax gain on sale of the Telecom Ottawa subsidiaries.

Assets

Total assets increased by \$49.7 million from 2008. Cash on hand of \$3.5 million is down compared to the prior year as the 2008 cash on hand position of \$21.3 million included proceeds from the sale of the Telecom Ottawa subsidiaries. However, the cash decrease is more than offset by a number of significant increases. Property, plant and equipment and intangible assets are up \$17.0 million resulting from continued investment in electrical distribution and generation infrastructure, net of contributions in aid of construction, depreciation and amortization. Future income tax assets are up \$29.2 million due to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465 changes adopted prospectively in 2009. There were also increases in the year-end positions of accounts receivable, which increased \$12.2 million over the prior year, and unbilled revenue, which increased \$9.8 million. The higher accounts receivable and unbilled revenue balances were the result of a 10 percent increase in year-over-year fourth quarter electricity revenues.

Investment in Streetlight Intelligence Inc.

In 2009, Hydro Ottawa completed a strategic investment of \$500,000 in Streetlight Intelligence Inc., (SLI) a publicly listed company based in British Columbia that develops advanced street light optimization systems. This investment supports the Corporation's strategy to invest in areas with direct application and synergy with its existing core business lines, in this case energy conservation. A second strategic investment of \$500,000 in SLI was completed in January 2010. These investments secured options to purchase shares in SLI. A third strategic investment of \$500,000 was completed in March 2010, involving the purchase of 4,166,667 common shares in SLI by Hydro Ottawa as well as purchase warrants for additional shares. Hydro Ottawa continues to hold the previously acquired purchase options, and discussions are underway between Hydro Ottawa and SLI regarding a potential distribution agreement for the Province of Ontario.

Beaconhill Station Fire

On March 13, 2009 a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of \$116,000 has been written-off. The Corporation has adequate property insurance coverage and recorded insurance proceeds receivable of \$116,000 in respect of the damaged equipment. As a result, no gain or loss related to damaged equipment has been reflected in 2009 income. The Corporation has also recorded a receivable of \$1,095,000 for the recovery of expenses incurred to clean-up and restore services at the site. The Corporation has submitted a claim for damages and is in the process of negotiating a settlement with the insurance company. Reconstruction will begin in 2010, at an approximate cost of \$6.0 million.

Liabilities

Total liabilities increased by \$37.6 million in 2009. This change is largely attributable to the Corporation's prospective adoption of CICA Handbook Section 3465 changes, which accounts for \$29.2 million. There was also an increase in the year-end position of accounts payable and accrued liabilities of \$5.9 million. Hydro Ottawa continued to see significantly reduced credit facility borrowing requirements throughout the year due to the cash inflow from the Telecom Ottawa sale in 2008.

Asset Retirement Obligations

The Corporation is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean-up related to PCBs. The Federal PCB Regulatory Framework under the *Canadian Environmental Protection Act, 1999* requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025, depending on equipment concentration and physical location. Hydro Ottawa received authorization from Environment Canada to extend the service date beyond December 31, 2009 for 57 distribution vault transformers to December 31, 2011 and for 12 power transformer bushings to December 31, 2014.

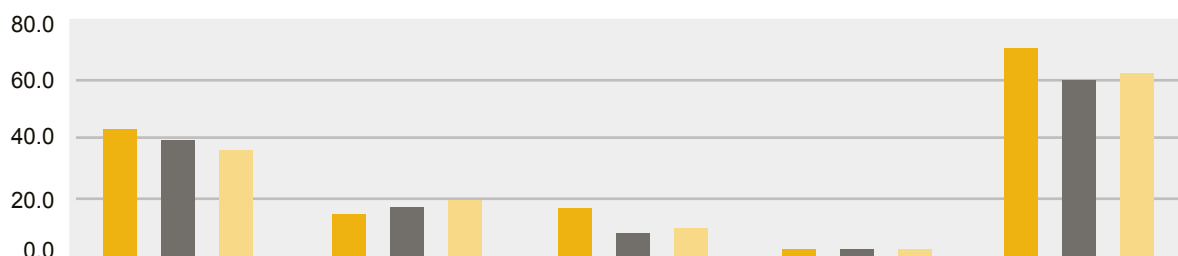
Effective December 31, 2009, the Corporation recorded an asset retirement obligation (ARO) of \$1,167,000. The ARO was calculated using an estimated undiscounted cash flow over four years totaling \$1,255,000, and a discount rate of 5.3 percent. No assets have been legally restricted for settlement of the liability.

An ARO was not previously recorded as it could not be reasonably estimated due to uncertainty around the identification, final removal dates and costs of removal of the related assets.

Net Capital Expenditures

Actual net capital expenditures decreased by \$2.4 million in 2009 compared to 2008, primarily due to the installation of fewer smart meters as the installation program was substantially completed in 2009. In 2010, total net capital expenditures are budgeted to increase by \$9.6 million from the 2009 actual program. The budgeted increase in Sustainment capital spending is due to aging infrastructure and the Beaconhill Station reconstruction. The budgeted increase in General Plant is primarily for additional customer service and financial system solutions and environmental strategies. Sustainment capital spending on Hydro Ottawa's distribution and generation systems, in accordance with asset management plans, is expected to be maintained at or above 2008 levels through to 2012.

Net Capital Expenditures



(\$ millions)	Sustainment	Demand/ Smart Meters	General & CMD	Generating Plant	Total
■ 2010 Budget	44.3	13.1	12.4	1.0	70.8
■ 2009 Actual	38.5	14.9	7.4	0.5	61.2
■ 2008 Actual	34.6	20.2	8.3	0.5	63.6

Significant Accounting Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of commitments and contingencies at the date of the financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could prove to be inaccurate in the future.

The following accounting estimates require management's judgments in preparing our financial statements and, as such, are considered to be critical. Most of these are disclosed in the notes to the Corporation's consolidated financial statements for the year ended December 31, 2009:

- Estimated useful life of major asset categories, Note 2
- Customer deposits, Note 2
- Regulatory asset recovery, Note 8
- Asset retirement obligations, Note 13
- Employee future benefits, Note 14

Allowance for doubtful accounts

The financial statements contain an estimate of bad debt losses arising from uncollectible accounts receivable, calculated based on a combination of reviewing specific accounts and taking a specific percentage of remaining balances over 60 days.

Unbilled revenue

Management establishes unbilled revenue balances based upon an estimate of customer electricity consumption to the end of the financial reporting period. Customer consumption estimates include instances where the meter reading is not scheduled to take place until the next period. This requires management to estimate based on historical usage. Consumption estimates are also necessary when meter readings are not available at the end of a financial reporting period.

Changes in Accounting Policies and Presentation

Accounting for Rate Regulated Entities

As at January 1, 2009, the Corporation prospectively adopted the amendments to the CICA Handbook Section 1100 – "Generally Accepted Accounting Principles" and Handbook Section 3465 – "Income Taxes".

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, Hydro Ottawa Limited must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Section 1100 directs Hydro Ottawa Limited to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in the CICA Handbook Section 1000 – "Financial Statement Concepts". Using professional judgment and guidance issued by bodies authorized to issue accounting standards in other jurisdictions, Hydro Ottawa Limited has determined that its assets and liabilities arising from rate regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Accounting Standards Codification 980 – "Regulated Operations". As a result, there is no effect on the Corporation's financial results for the year ended December 31, 2009.

Effective January 1, 2009, with the amendment to Section 3465 the Corporation is required to recognize Hydro Ottawa Limited's future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. Previously, Hydro Ottawa Limited used the taxes payable method to account for PILs where no provision was made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as it was expected that they would be collected in future rates. With the adoption of the amended Section 3465, the Corporation has recorded a future income tax asset and a corresponding regulatory liability. The implementation of this standard did not impact the Corporation's earnings or cash flows in 2009.

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064 – "Goodwill and Intangible Assets". In accordance with the transitional provisions of Section 3064, the Corporation has restated its prior period comparative figures and related note disclosures. As a result of the adoption of Section 3064, the Corporation has reclassified land and water rights and computer software from property, plant and equipment to intangible assets (Note 10). Also as a result of the adoption of Section 3064, the Corporation has restated prior year opening retained earnings and other assets by \$27,000 as deferred incorporation costs no longer meet the definition of an asset.

Financial Instruments

Effective January 1, 2009, the Corporation adopted a number of amendments to CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement". The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments had no impact on the financial results of the Corporation.

Effective September 30, 2009, the Corporation prospectively adopted CICA amended Handbook Section 3862 – "Financial Instruments – Disclosure", which was released in June 2009. The amended section includes additional disclosure requirements about fair value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments have no impact on the financial results of the Corporation.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the Corporation adopted the CICA Emerging Issues Abstract (EIC) 173 – "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC-173 clarifies that the Corporation's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Corporation's financial statements as a result of adopting EIC- 173.

Emerging Accounting Pronouncements

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises are required to transition to IFRS effective January 1, 2011. Government Business Enterprises (e.g. municipally owned utilities) are required by the Public Sector Accounting Board to also adopt IFRS on January 1, 2011.

The Corporation launched its IFRS conversion project in 2008, involving a steering committee consisting of senior level management and external advisors. Status updates are provided to the Corporation's executive team and the Audit Committee of the Board of Directors on a regular basis. A project to upgrade information systems is also underway as part of the IFRS conversion project.

In December 2008, the International Accounting Standards Board (IASB) initiated a project on the application of IFRS to rate regulated activities. In July 2009, the IASB issued an exposure draft on rate-regulated activities which, among other things, allowed the continued recognition of regulatory assets and liabilities on the Balance Sheet as well as the continued capitalization of certain costs to property, plant and equipment that would otherwise not meet the recognition criteria under IFRS, provided these costs were included in the regulated rate base. As part of the IASB comment letter process, the Corporation supported letters from several industry associations that were supportive of the exposure draft. The IASB received approximately 150 letters relating to this exposure draft, many of which were not supportive.

The IASB staff prepared an analysis of all the comment letters and the IASB Board met in February 2010 to review the analysis and the project. The IASB Board has requested that IASB staff prepare a technical analysis on one of the key areas of debate – namely, whether or not regulatory assets and liabilities exist within the definition of assets and liabilities in the IFRS conceptual framework. Prior to this, a rate-regulated standard was expected to be issued in advance of Canada's adoption date; however, given these recent developments, the issuance of a standard will be delayed and/or possibly cancelled which will most likely affect the Corporation's IFRS conversion project.

The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010 and the opening balance sheet as at January 1, 2010. The Corporation is currently assessing the impact of the adoption of IFRS on its financial results; however, the financial impact cannot be reasonably estimated at this time due to continuing uncertainty regarding the treatment of rate-regulated activities. The Corporation expects a significant increase in financial statement note disclosure as a result of adopting IFRS.

RISKS AND UNCERTAINTIES

The ability to manage and mitigate risk, to maintain flexibility, and to respond effectively to changes in our business environment will be critical to the Corporation's continued success.

The Corporation's Enterprise Risk Management (ERM) system establishes the framework to help the Corporation track and respond to risks and opportunities impacting strategic direction and business activities, in a consistent and integrated manner across the enterprise. A three-year Business Planning cycle, with annual updates, enables continuous review of assumptions and the state of the market in which the Corporation operates.

Hydro Ottawa continues to monitor and manage traditional risks and sources of risk that are structural within the industry and the regulated environment. It is possible, nonetheless, that some of these risks could adversely impact Hydro Ottawa's results and objectives. These include but are not restricted to, the weather, the regulatory and policy environment, the state of the economy and macro-economic trends, government policies relating to the production and procurement of renewable and clean energy as well as carbon emissions and conservation, labour force demographics with a particular emphasis on the renewal of human resources in the trades, and the impact of fiscal policies on customers. In addition, the evolution of the industry presents new and emerging risks that need to be managed effectively.

The emerging as well as the traditional risks are discussed below.

Technology Infrastructure

The Corporation's business performance is dependent upon complex technology systems, including administrative information technology, customer information systems, advanced metering, and operational technologies such as geographic information systems, system control and outage management systems. Increasing automation, the integration of systems, and extensive use of common technology in facilitating such integration and connectivity present emerging risks that the Corporation must manage effectively. The failure of one or more of these key systems, or a failure of the Corporation to plan effectively for future technology needs or transition effectively to new technology systems, such as the provincial MDM/R, could adversely impact the Corporation's business operations.

LDCs in Ontario will be required to comply with mandatory reliability standards prescribed by the North American Electric Reliability Corporation (NERC). Considerable investments may need to be made to conform to, and sustain, NERC standards for Critical Infrastructure Protection in respect of IT and physical security, as well as to create mechanisms to monitor and demonstrate compliance.

Cyber Security

An environment marked by increasing automation and higher integration and connectivity between utility control systems could magnify cyber security risks for Hydro Ottawa Limited as well as for other market participants with whom it is integrated. A security breach, data corruption or system failure at the shared resources or common service providers could put at risk Hydro Ottawa Limited's information systems and information assets.

Time-of-Use Technology

Given the number of devices, systems and web interfaces involved in the Smart Meter – TOU billing process, as well as the number of external and internal service providers engaged, risks arising from the reliability and performance of any single component of this integrated network or of the system as a whole could lead to a disruption of the meter-to-cash cycle. This could present a risk of billing errors and customer dissatisfaction.

Economy

The state of the local and national economy could have a significant impact on the Corporation's business performance, through factors such as interest rates, inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners, notably in pension plans and insurance.

Reduced Demand for Electricity and its Impact

Through the latter half of 2009, energy commodity prices moved consistently downwards, at least in part owing to recessionary conditions, which could persist in the medium term and lead to a reduction in the Corporation's revenues and net income from energy generation.

Further, as spot market commodity prices slide, the Global Adjustment that the IESO charges to LDCs, to account for the difference between spot market commodity prices and prices paid to OPG for regulated generation assets, could have a significant and adverse impact on Hydro Ottawa's operating cash flows, mainly owing to timing differences.

Pension Plan Risk

For 2008, the Ontario Municipal Employees Retirement System (OMERS), to which the Corporation and its employees contribute, posted a total rate of return of -15.3 percent and reported a \$279 million funding shortfall, which could grow to more than \$6 billion over the next few years. For 2009, OMERS posted a total rate of return of 10.6 percent and reported a gain of \$4.3 billion in investment income, recovering from an \$8 billion loss for 2008. However, OMERS continues to report a plan deficit based on actuarial value of net assets of \$1.5 billion. OMERS may choose to eliminate its deficit through higher contribution increases from members and employers, perhaps along with changes (reductions) to benefits.

Policy and Regulatory Environment

Hydro Ottawa's businesses operate in a regulated environment. Business performance could be adversely affected by significant policy and regulatory changes, including but not limited to changes in rate regulation, policies relating to the production and procurement of renewable and clean energy, carbon emissions, conservation and demand management (CDM), the consolidation of electrical utilities, or restrictions on utility service provisioning.

The OEB approves local electricity distribution rates based on projected load growth and consumption levels. If actual experience varies from the projections, the Corporation's net income will be affected. CDM programs call for a 5 percent reduction in Ontario's peak electricity demand by 2010. The OEB has recognized the need to compensate for such lost revenue, but there is no certainty that such compensation will be sufficient to cover all lost revenue.

The ability to maintain and operate the electrical distribution system reliably and safely depends on sufficient funding and the OEB allowing recovery of capital expenditures on distribution infrastructure repair and replacement.

Weather

Severe weather can significantly impact financial results. Storms increase maintenance costs to repair or replace damaged equipment and infrastructure, to ensure the continuing reliability of the electricity distribution system. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather, and renewable energy production, which depends upon factors such as water flows (hydroelectric), wind, and sun (solar).

Labour Force Demographics

An inability to recruit and retain a sufficient number of skilled employees would negatively impact the Corporation's ability to deliver on the objectives set out in the strategic plan. Current workforce demographics across the electricity sector present an emerging risk that must be managed, particularly in the trades, as retirements are outpacing new entrants to the workforce. Apprentice training and succession planning programs are underway.

OUTLOOK

Subject to the risks and uncertainties already discussed in this document, Hydro Ottawa will continue to provide efficient, reliable electricity distribution services to customers at a competitive cost, while creating sustainable growth in earnings. The Corporation will achieve this by continuing to invest in core distribution assets, improving productivity and pursuing business growth opportunities that leverage corporate strengths.

The Corporation will pursue positive long-term financial performance through strategies such as stabilizing and protecting revenues, managing net controllable costs, and maximizing operating cash flow and rate-of-return. The Corporation will continue to make prudent investments in maintaining and building its infrastructure, subject to rate-of-return and other financial considerations.

In June 2008, the City of Ottawa endorsed a targeted growth strategy for the Corporation involving three basic components: expanding the electricity distribution business beyond its current service territory, expanding hydroelectric and other renewable generation capacity, and diversification of business lines with a focus on compatible, low-risk opportunities that offer stable long-term returns. The Corporation continues to actively pursue opportunities for expansion in accordance with the endorsed strategy.

Hydro Ottawa is projected to continue the trend of solid financial performance, in line with its *2008 – 2012 Strategic Direction and Financial Outlook*.

Consolidated Financial Statements

December 31, 2009

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REPORT OF MANAGEMENT

Management is responsible for the integrity of the financial data reported by the Corporation. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment, estimates and Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and at regular meetings reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,



Rosemarie T. Leclair
President and Chief Executive Officer



Alan Hoverd
Chief Financial Officer

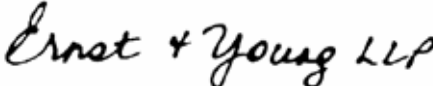
AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the consolidated balance sheet of Hydro Ottawa Holding Inc. as at December 31, 2009 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Ottawa, Canada
February 26, 2010 (except for Note 23(i) and,
Note 26 which are as of March 11, 2010).

Chartered Accountants
Licensed Public Accountant

CONSOLIDATED STATEMENT OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Year ended December 31 (tabular amounts are in thousands of dollars)	2009	2008
Revenues (Note 25)		
Power recovery	587,958	544,192
Distribution sales	141,213	134,227
Other revenue	25,561	19,341
	754,732	697,760
Expenses (Note 25)		
Purchased power	584,282	537,979
Operating costs	71,765	68,125
Depreciation (Note 2)	34,814	33,323
Amortization (Notes 2, 7 and 10)	7,141	7,279
	698,002	646,706
Income from continuing operations before other expenses (recoveries), non-controlling interest and payments in lieu of corporate income taxes	56,730	51,054
Financing costs (Note 17)	12,315	11,770
Recovery of regulatory asset write-down	-	(676)
Payments in lieu of provincial capital tax	1,639	966
	13,954	12,060
Non-controlling interest in PowerTrail Inc. (Note 15)	(7)	(133)
Income from continuing operations before payments in lieu of corporate income taxes	42,769	38,861
Payments in lieu of corporate income taxes (Note 22)	13,416	13,571
Income from continuing operations	29,353	25,290
Income from discontinued operations (Note 18)	-	1,775
Gain on disposal of discontinued operations (Note 18)	20	22,931
Net income and comprehensive income	29,373	49,996
Retained earnings, beginning of year (Note 2)	89,252	69,034
Refundable dividend tax paid	(85)	(1,403)
Dividends paid (Note 20)	(17,200)	(28,375)
Retained earnings, end of year	101,340	89,252

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

CONSOLIDATED BALANCE SHEET

As at December 31 (tabular amounts are in thousands of dollars)

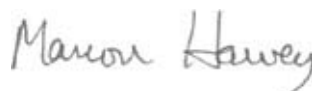
	2009	2008
Current assets		
Cash	3,489	21,332
Accounts receivable (Note 4)	61,225	49,046
Unbilled revenue (Note 5)	86,426	76,660
Inventory (Note 6)	7,088	6,512
Regulatory assets (Note 8)	3,039	3,039
Other assets (Note 7)	1,334	773
Future income tax assets (Note 22)	867	-
Assets related to discontinued operations (Note 18)	-	566
	163,468	157,928
Non-current assets		
Net regulatory assets (Note 8)	11,859	12,084
Property, plant and equipment (Notes 2 and 9)	521,727	501,118
Intangible assets (Notes 2 and 10)	25,773	29,428
Other assets (Notes 2 and 7)	1,986	2,903
Future income tax assets (Note 22)	28,364	-
	753,177	703,461
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	120,286	114,371
Regulatory liabilities (Note 8)	-	1,705
Regulatory liability for future income tax assets (Note 22)	867	-
Liabilities related to discontinued operations (Note 18)	-	274
	121,153	116,350
Non-current liabilities		
Net regulatory liabilities (Note 8)	1,434	1,622
Regulatory liability for future income tax assets (Note 22)	28,364	-
Employee future benefits (Note 14)	5,144	5,041
Asset retirement obligations (Note 13)	1,167	-
Customer deposits	10,618	8,230
Future income tax liabilities (Note 22)	3,106	2,338
Repayable grant (Note 9)	85	93
Non-controlling interest (Note 15)	608	601
Notes payable (Note 16)	251,705	251,481
	423,384	385,756
Contingent liabilities (Note 23)		
Commitments (Note 24)		
Shareholder's equity		
Share capital (Note 20)	228,453	228,453
Retained earnings	101,340	89,252
	329,793	317,705
Total liabilities and shareholder's equity	753,177	703,461

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

ON BEHALF OF THE BOARD:



Director



Director

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (tabular amounts are in thousands of dollars)	2009	2008
Net inflow (outflow) of cash related to the following activities:		
Operating		
Income from continuing operations	29,353	25,290
Adjustments for non-cash items		
Depreciation	34,814	33,323
Amortization	7,141	7,279
Gain on disposal of property, plant and equipment	(12)	(199)
Allowance for funds used during construction (Note 9)	(895)	(687)
Amortization of debt issue costs	224	226
Write off of property, plant and equipment	-	18
Employee future benefits (Note 14)	103	207
Future payments in lieu of corporate income taxes	768	817
Non-controlling interest in PowerTrail Inc.	7	133
Changes in non-cash operating working capital items		
(Increase) decrease in accounts receivable	(12,179)	8,474
(Increase) decrease in unbilled revenue	(9,766)	5,716
(Increase) decrease in inventory	(576)	1,482
Decrease in regulatory assets, net of liabilities	186	3,747
Decrease (increase) in other assets	745	(169)
Increase in accounts payable and accrued liabilities	5,402	2,298
	55,315	87,955
Financing		
Contributions in aid of construction	25,353	17,156
Notes payable	-	(160)
Dividends paid	(17,200)	(28,375)
Refundable dividend tax paid	(85)	-
Repayable grant	(16)	(8)
Customer deposits received	3,231	396
	11,283	(10,991)
Investing		
Proceeds from disposal of property, plant and equipment	128	230
Acquisition of property, plant and equipment	(80,872)	(79,372)
Acquisition of intangible assets	(3,509)	(4,500)
Available-for-sale investments	(500)	-
Net investing activities related to discontinued operations	-	(791)
	(84,753)	(84,433)
Net cash outflow from continuing operations	(18,155)	(6,678)
Net cash inflow from discontinued operations	312	52,586
Cash (bank indebtedness), beginning of year	21,332	(24,576)
Cash, end of year	3,489	21,332
Supplementary cash flow information		
Interest paid	12,402	12,625
Payments in lieu of corporate income taxes paid	14,223	12,477

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts are in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Holding Inc. ("Hydro Ottawa" or the "Corporation") was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly owned by the City of Ottawa (the "Shareholder"). Hydro Ottawa owns 100% of each of Hydro Ottawa Limited, Energy Ottawa Inc. ("Energy Ottawa") and Telecom Ottawa Holding Inc. ("Telecom Ottawa").

Hydro Ottawa Limited – A regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

Energy Ottawa – A power generation company that generates and markets *EcoLogo*-certified green power. Energy Ottawa also offers a range of expert energy management and procurement services to large energy-consuming organizations and corporations. Energy Ottawa holds a 60% interest in PowerTrail Inc. ("PowerTrail"), which was incorporated on August 10, 2005, to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. PowerTrail commenced commercial operations on January 31, 2007.

Telecom Ottawa – In 2008, Telecom Ottawa sold the shares of all of its wholly-owned subsidiaries (Note 18). Telecom Ottawa was a broadband data carrier and Internet service provider based in Ottawa. Telecom Ottawa owned and operated a metropolitan-wide network and provided fibre optic services to both public and private sector organizations. This broadband infrastructure enabled the provision of transparent LAN services, high-speed Internet transit and dark fibre services. The following is the list of the subsidiaries that were sold: Telecom Ottawa Limited, 2038455 Ontario Inc. and Telecom Ottawa Regional Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities, including principles prescribed by the Ontario Energy Board ("OEB") in the Accounting Procedures Handbook ("AP Handbook"). In the opinion of management, all adjustments necessary for fair presentation are reflected in the consolidated financial statements. The consolidated financial statements reflect the significant accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of Hydro Ottawa and its subsidiaries: Hydro Ottawa Limited, Energy Ottawa, which includes the accounts of PowerTrail, and Telecom Ottawa, which in 2008 included the accounts of Telecom Ottawa Limited, Telecom Ottawa Regional Limited and 2038455 Ontario Inc. (Note 18). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Consolidation of variable interest entities

The consolidation of a variable interest entity ("VIE") is required by a corporation if that corporation is subject to a majority of the risk of loss from the VIE's residual returns. The initial equity investment at risk was not sufficient to permit PowerTrail to finance its activities without additional subordinated financial support from its shareholders and as such PowerTrail is consolidated in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Long-term investments

Investments in which the Corporation has significant influence are accounted for using the equity method.

The Corporation holds a 28.33% interest in Chaudière Water Power Inc. ("CWPI"), a company incorporated to act as an agent for the three principals of CWPI, with the mandate to control, operate and maintain the Chaudière dam. This investment is recorded at cost plus the Corporation's share of income or loss which to date has been \$nil in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the

consolidated financial statement date. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

Regulation

Effective January 1, 2009, the Corporation adopted the amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100 – "Generally Accepted Accounting Principles", which withdrew the temporary exemption permitting the recognition and measurement of assets and liabilities arising from rate regulation, and Section 3465 – "Income Taxes", requiring the recognition of future income tax assets and liabilities for regulated enterprises that were previously not subject to these provisions. These amendments apply prospectively to fiscal years beginning on or after January 1, 2009.

Hydro Ottawa Limited is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues 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.

The following regulatory treatments have resulted in accounting treatments that comply with GAAP for publicly accountable enterprises, but differ from GAAP for enterprises operating in a non-regulated environment:

a) *Regulatory assets and liabilities*

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, Hydro Ottawa Limited must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Section 1100 directs Hydro Ottawa Limited to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in the CICA Handbook Section 1000 – "Financial Statement Concepts". Using professional judgment and guidance issued by bodies authorized to issue accounting standards in other jurisdictions, Hydro Ottawa Limited has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Accounting Standards Codification 980 – "Regulated Operations". As a result, there is no effect on Hydro Ottawa Limited's financial results for the year ended December 31, 2009.

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa Limited incurs to purchase these services.

Regulatory balances are comprised principally as follows:

Regulatory assets recovery account and regulatory liabilities refund account – On March 17, 2008, Hydro Ottawa Limited received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007. Hydro Ottawa Limited has not filed any further applications for the recovery of regulatory assets or disposition of regulatory liabilities.

Retail services and settlement variances – The retail settlement variances relate to the charges Hydro Ottawa Limited incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Hydro Ottawa Limited has also recognized the net cost of providing retailer billing services and service transaction request services as a variance amount.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters and program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed at the time of installation of smart meters.

Other variances and deferred costs – The OEB allows electricity distributors to record the difference between low voltage charges paid to Hydro One Networks Inc. and charged to customers. In 2009, the OEB approved a deferral account for

distributors to record one-time administrative incremental International Financial Reporting Standards (“IFRS”) transition costs, which were not already approved and included for recovery in distribution rates.

Deferred payments in lieu of taxes (“PILs”) – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

Hydro Ottawa Limited has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

b) Allowance for funds used during construction (“AFUDC”)

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects. Effective May 1, 2006, the OEB adopted the Scotia Capital Inc. All Corporates Mid-Term Average Weighted Yield as the approved rate of interest. The average annual interest rate for 2009 was 5.9% (2008 – 5.3%).

c) Payment in lieu of corporate income taxes

Effective January 1, 2009, with the amendment to CICA Handbook Section 3465, Hydro Ottawa Limited is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. The requirement for rate-regulated enterprises to recognize future income taxes, as well as regulatory liabilities and assets, applies for fiscal years beginning on or after January 1, 2009 without restating the financial statements of prior periods. Previously, Hydro Ottawa Limited used the taxes payable method to account for PILs where no provision was made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as it was expected that they would be collected in future rates. With the adoption of the amended Section 3465, Hydro Ottawa Limited has recorded a future income tax asset and a corresponding regulatory liability (Note 22). The implementation of this standard did not impact Hydro Ottawa Limited’s income or cash flows in 2009.

Hydro Ottawa Limited is considered to be a Municipal Electric Utility (“MEU”) for purposes of the payments in lieu of taxes regime contained in the *Electricity Act, 1998* as all of its share capital is owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. *The Electricity Act, 1998* provides that an MEU that is exempt from tax under the *Income Tax Act (Canada)* (“ITA”) and the *Taxation Act Ontario* (“TAO”) is required to make, for each taxation year, a “PILs” payment to the Ontario Electricity Financial Corporation (“OEF”) in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The AP Handbook provides for the recovery of PILs by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB.

Hydro Ottawa, Energy Ottawa, and Telecom Ottawa are MEUs that provide for PILs using the liability method. Under the liability method, future income tax assets and liabilities are recognized for unused tax losses and the temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized only to the extent that it is more likely than not that these assets will be realized.

In the prior year, Telecom Ottawa Limited and 2038455 Ontario Inc. were MEUs that provided for PILs using the liability method (Note 18).

In the prior year, Telecom Ottawa Regional Limited was taxable under the ITA and CTA since more than 10% of the Company’s income was from activities carried on outside the municipal boundaries of the City of Ottawa. Telecom Ottawa Regional Limited provided for income taxes using the liability method (Note 18).

PowerTrail is taxable under the ITA and TAO as less than 90% of its share capital is owned by the City of Ottawa. The Company provides for corporate income taxes using the liability method.

Financial instruments

Effective January 1, 2009, the Corporation adopted a number of amendments to CICA Handbook Section 3855 – “Financial Instruments – Recognition and Measurement”. The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments had no impact on the financial results of the Corporation (Note 21).

In June 2009, the CICA amended Handbook Section 3862 – “Financial Instruments – Disclosures” to further converge Canadian standards with IFRS 7 - “Financial Instruments: Disclosures”. Amendments included additional disclosure requirements about the fair

value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009. The amendments had no impact on the financial results of the Corporation (Note 21).

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the balance sheet classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

- (i) Cash is classified as “Held-for-trading” and is measured at fair value.
- (ii) Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions, which are measured at the carrying amount determined in accordance with Section 3840 – “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.
- (iii) Accounts payable and accrued liabilities and notes payable are classified as “Other Financial Liabilities” and are initially measured at their fair value with the exception of related party transactions, which are measured at the carrying amount determined in accordance with Section 3840 – “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.
- (iv) Equity instrument investments that do not have a quoted market price in an active market are classified as “Available-for-sale” investments and are measured at cost. Transaction costs that are directly attributable to the acquisition of available-for-sale investments are recognized immediately in income.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the Corporation adopted the CICA Emerging Issues Committee Abstract – “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” (“EIC – 173”), which was issued on January 20, 2009. EIC – 173 clarifies that the Corporation’s own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Corporation’s consolidated financial statements as a result of adopting EIC – 173.

Property, plant and equipment

Property, plant and equipment include generation plant, distribution equipment, facilities and buildings, as well as construction and operating equipment.

Hydro Ottawa Limited treats spare transformers, switchgear and meters as property, plant and equipment. Spare transformers, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant-in-service as opposed to assets available for other uses. Hydro Ottawa Limited begins depreciating these assets as soon as they are designated as standby equipment in order to align GAAP accounting treatments with regulatory accounting requirements.

Energy Ottawa classifies major spare parts and standby equipment as property, plant and equipment when the Company expects to use them during more than one period. Energy Ottawa does not depreciate these assets until they are put into service.

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account and are included in property, plant and equipment. The amount is amortized by a charge to accumulated depreciation and a credit to depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for property, plant and equipment classes are as follows:

Buildings and fixtures	25 to 50 years
Furniture and equipment	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years
Generating plant and equipment	10 to 60 years

Assets under construction are not subject to depreciation.

The Corporation reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Asset retirement obligations

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to income. A gain or loss may be incurred upon settlement of the liability.

Goodwill and intangible assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064 – “Goodwill and Intangible Assets”. In accordance with the transitional provisions of Section 3064, the Corporation has restated its prior period comparative figures and related note disclosures. As a result of the adoption of Section 3064, the Corporation has reclassified land and water rights and computer software from property, plant and equipment to intangible assets (Note 10). Also as a result of the adoption of Section 3064, the Corporation has restated prior year opening retained earnings and other assets by \$27,000 as deferred incorporation costs no longer meet the definition of an asset.

Amortization is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for intangible assets are as follows:

Land and water rights	50 years
Computer software	5 to 10 years

Assets which are not ready for use are not subject to amortization.

The Corporation reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Leases

The Corporation classifies leases as capital or operating at the outset of the lease agreement based on whether the terms transfer substantially all of the benefits and risks incidental to ownership to the Corporation.

Deferred costs

Deferred debt issue costs

The Corporation incurred debt issue costs that were external, direct and incremental in nature arising from the Corporation’s debenture offerings and credit facility restructuring. The debt issue costs were netted against the proceeds of debt and amortized using the effective yield method. Credit facility restructuring costs were amortized over the initial term of the revolving term credit facility.

Deferred royalty costs

Deferred royalty costs consist of royalties paid under a long-term contract for the utilization of landfill gas to generate electricity at the Trail Road landfill site in Ottawa, Ontario. Deferred royalty costs are amortized on a straight-line basis over the term of the contract.

Employee future benefits

Pension plan

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees’ Retirement System (“OMERS”) Fund (the “Fund”). OMERS is a multi-employer pension plan, which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory-defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Corporation recognizes the expense related to this Fund as contributions are made.

In 2008, prior to the sale of the telecommunications business, Telecom Ottawa had a defined contribution plan, whereby the Company matched employee contributions made to a retirement savings plan. Telecom Ottawa recognized the expenses related to the defined contribution plan as the contributions were made (Note 18).

Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Corporation include medical and life insurance benefits, supplemental pensions, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefit expense is recognized in the period in which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over a 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2009 is 13 years.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability.

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or determinable and collection is reasonably assured.

Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by Hydro Ottawa Limited from the IESO and Energy Ottawa. Hydro Ottawa Limited's cost of purchased power from Energy Ottawa is eliminated on consolidation. The cost of the electricity generated by Energy Ottawa is included in operating costs.

Distribution sales

Electricity distribution sales represents charges for providing distribution services, and are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Other revenue includes contract revenue, generation revenue and commercial services.

Contract revenue and commercial services revenue are accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident. Commercial services revenue includes energy management and procurement services.

Generation revenue is recorded on the basis of regular meter readings.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES**Emerging Changes****International Financial Reporting Standards**

On February 13, 2008, the Accounting Standards Board confirmed that 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, 2011. The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010 and the opening balance sheet as at January 1, 2010. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change-over date. While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Corporation does expect a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as information system changes that may be necessary to gather and process the information.

4. ACCOUNTS RECEIVABLE

	2009	2008
Trade receivables, net of allowance for doubtful accounts of \$641,000 (2008 – \$817,000)	51,863	43,360
Other receivables, net of allowance for doubtful accounts of \$112,000 (2008 – \$304,000)	9,362	5,686
	61,225	49,046

5. UNBILLED REVENUE

	2009	2008
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,116)	(810)
	86,426	76,660

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost and net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Corporation and recognized as an expense during the year was \$1,066,000 (2008 - \$1,083,000).

7. OTHER ASSETS

	2009	2008
Available-for-sale investments	500	-
Accounts receivable, net of allowance for doubtful accounts of \$28,000 (2008 – \$100,000)	156	832
Server deferred credits	130	260
Deferred costs	1,830	1,941
Prepays	704	643
	3,320	3,676
Less: current portion	(1,334)	(773)
	1,986	2,903

During the year, the Corporation paid \$500,000 to acquire a non-transferable option to purchase up to 5,000,000 Streetlight Intelligence Inc. ("SLI") common shares ("Purchase Option") at an exercise price of \$0.11 per share, exercisable on or before August 19, 2010. The Purchase Option includes a put right ("Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Purchase Option for \$500,000 plus interest of approximately 10% per annum. To secure the Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. The investment is an equity instrument that has been accounted for as an available-for-sale investment. The investment does not have a quoted market price in an active market and is recorded at cost. SLI is a Canadian public company that develops advanced street light optimization systems.

The accounts receivable balance included in other assets represents electricity receivables due from customers who have been placed on extended payment arrangements. These payment arrangements generally range from 24 to 36 months.

In 2004, the Corporation sold a server valued at \$541,000. The sale of the server did not result in any gain or loss on disposal. Consideration for the server consisted of credits to be applied against fees payable under the maintenance agreement. As at December 31, 2009, \$411,000 in credits has been applied against fees payable under the maintenance agreement with the remaining \$130,000 to be applied in 2010.

During the year, the Corporation amortized deferred costs by \$111,000 (2008 – \$130,000).

8. NET REGULATORY ASSETS AND LIABILITIES

Information about the Corporation's net regulatory assets and liabilities is as follows:

	2009	2008
Regulatory assets		
Regulatory assets recovery account	569	-
Deferred smart meter costs	9,867	10,942
Retail services and settlement variances	4,408	3,833
Other variances and deferred costs	228	388
	15,072	15,163
Provision for doubtful recovery	(174)	(40)
Total net regulatory assets	14,898	15,123
Less: current portion	(3,039)	(3,039)
	11,859	12,084
Regulatory liabilities		
Regulatory liabilities refund account	-	1,860
Deferred payments in lieu of taxes	209	206
	209	2,066
Provision for doubtful recovery	1,225	1,261
Total net regulatory liabilities	1,434	3,327
Less: current portion	-	(1,705)
	1,434	1,622

The regulatory assets recovery account of \$569,000 (2008 – regulatory liabilities refund account of \$1,860,000) is the aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition plus accrued interest earned of \$1,649,000 (2008 – \$1,673,000) up to December 31, 2009, less amounts already settled through distribution rates.

Regulatory assets are comprised of deferred smart meter costs of \$9,867,000 which include accrued interest costs of \$103,000 (2008 – \$10,942,000 which includes accrued interest costs of \$82,000), retail services and settlement variances of \$4,408,000 which includes accrued interest earned of \$31,000 (2008 – \$3,833,000 which includes accrued interest costs of \$431,000) and other variances and deferred costs of \$228,000 which includes accrued interest earned of \$7,000 (2008 – \$388,000 which includes accrued interest earned of \$2,000).

Regulatory liabilities are comprised of deferred payments in lieu of taxes of \$209,000, which include accrued interest costs of \$8,000 (2008 – \$206,000 which includes accrued interest earned of \$6,000).

In the absence of rate regulation, the income before PILs for the year ended December 31, 2009 would be \$1,668,000 lower (2008 – \$2,167,000 lower).

The regulatory process has provided for the clearing of regulatory assets and liabilities. The Corporation files a rate application to settle its regulatory assets and liabilities as required, and the time period for settlement is determined based on the magnitude of the balances to be cleared.

The Corporation continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Corporation has recorded a net provision of \$1,399,000 (2008 – \$1,301,000) against regulatory assets. If future recovery becomes assured, the Corporation will recognize the recovery in the income for the period such a decision is made.

9. PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net book value
Land	3,793	-	3,793
Buildings and fixtures	65,495	15,908	49,587
Furniture and equipment	16,114	9,757	6,357
Rolling stock	21,438	13,424	8,014
Electricity distribution infrastructure	902,083	381,045	521,038
Generating plant and equipment	44,973	9,118	35,855
Assets under construction	24,337	-	24,337
	1,078,233	429,252	648,981
Contributions in aid of construction	(152,605)	(25,351)	(127,254)
	925,628	403,901	521,727

	2008		
	Cost	Accumulated amortization	Net book value
Land	3,430	-	3,430
Buildings and fixtures	62,774	14,726	48,048
Furniture and equipment	15,438	7,584	7,854
Rolling stock	20,969	12,165	8,804
Electricity distribution infrastructure	904,327	418,564	485,763
Generating plant and equipment	44,817	8,112	36,705
Assets under construction	17,874	-	17,874
	1,069,629	461,151	608,478
Contributions in aid of construction	(127,597)	(20,237)	(107,360)
	942,032	440,914	501,118

Included in the cost of generating plant and equipment is \$1,287,000 (2008 – \$1,265,000) related to Energy Ottawa's undivided interest in the Chaudière dam (Note 2).

During the year, the Corporation capitalized an AFUDC of \$895,000 (2008 – \$687,000).

The OEB permits a deemed AFUDC to be attributed to the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income from continuing operations before payments in lieu of corporate income taxes for the year ended December 31, 2009 would be \$76,000 lower (2008 – \$1,000 higher).

During the year, the Corporation incurred a gain on disposal of property, plant and equipment of \$12,000 (2008 – \$199,000). This gain does not include the effects of the Ontario government's smart meter initiative which resulted in \$4,549,000 (2008 – \$19,021,000) in conventional meters being removed from service, and would have resulted in a loss on disposal of \$1,854,000 (2008 – \$5,914,000) under GAAP for non-regulated entities. This loss on disposal is deemed by the OEB to be a regulatory asset, to be recovered through future rates.

On March 13, 2009, a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of \$116,000 has been written off. The Corporation has adequate property insurance coverage and recorded insurance proceeds receivable of \$116,000 in respect of the damaged equipment. As a result, no gain or loss related to damaged equipment has been reflected in income. The Corporation has also recorded a receivable of \$1,095,000 for the recovery of expenses incurred to clean up and restore services at the site. The Corporation has submitted a claim for damages and is in the process of negotiating a settlement with the insurance company.

Energy Ottawa entered into an agreement with the federal government's Department of Natural Resources, whereby project funding of up to \$220,000 would be provided to Energy Ottawa to field trial a mini-hydro turbine developed by the CANMET Small Hydro Program. Under the terms of the agreement, up to \$150,000 of the funding received is repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2009, the funding received has been allocated: \$53,000 (2008 – \$56,000) to contributions in aid of construction, \$14,000 (2008 – \$21,000) to accounts payable and accrued liabilities and \$85,000 (2008 – \$93,000) to repayable grant.

10. INTANGIBLE ASSETS

	2008	Acquisitions	Retirements	2009
Cost				
Land and water rights	3,536	1	-	3,537
Computer software	50,677	3,374	(26)	54,025
	54,213	3,375	(26)	57,562
	2008	Amortization	Retirements	2009
Accumulated amortization				
Land and water rights	1,615	47	-	1,662
Computer software	23,170	6,983	(26)	30,127
	24,785	7,030	(26)	31,789
		Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2009				
Land and water rights		3,537	(1,662)	1,875
Computer software		54,025	(30,127)	23,898
		57,562	(31,789)	25,773

	2007	Acquisitions	Retirements	2008
Cost				
Land and water rights	3,142	394	-	3,536
Computer software	59,586	3,490	(12,399)	50,677
	62,728	3,884	(12,399)	54,213
	2007	Amortization	Retirements	2008
Accumulated amortization				
Land and water rights	1,568	47	-	1,615
Computer software	28,467	7,102	(12,399)	23,170
	30,035	7,149	(12,399)	24,785
		Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2008				
Land and water rights		3,536	(1,615)	1,921
Computer software		50,677	(23,170)	27,507
		54,213	(24,785)	29,428

Included in intangible assets at December 31, 2009 is \$3,112,000 (2008 – \$1,277,000) in computer software that has not yet commenced being amortized as software is not ready for use.

There was no impairment of intangible assets for the year ended December 31, 2009 or for the year ended December 31, 2008.

11. CREDIT FACILITY

On January 16, 2009, the Corporation entered into a new credit facility for \$140,150,000. The facility is structured into four types of credit availability and it was renewed on October 7, 2009. The facility consists of a \$75,000,000, 364-day revolving operation line which matures on July 15, 2010, a \$50,000,000 line to fund capital expenditures and growth opportunities which matures January 16, 2014, a \$15,000,000 line to fund letters of credit and other guarantees, and a \$150,000 corporate Visa facility. This new credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of \$175,000,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2008, the Corporation had two credit facilities available, which were subsequently replaced by the new credit facility. The first one was a \$150,000,000 three-year, extendible, revolving term credit facility, and the second one was a \$25,000,000 credit facility which consisted of a \$24,850,000, 364-day revolving term operating credit line and a \$150,000 corporate Visa facility.

As at December 31, 2009, the Corporation had drawn \$11,831,000 (2008 – \$11,831,000) against its facilities in standby letters of credit.

PowerTrail maintains a credit facility. The facility consists of \$100,000 in standby letters of credit. The facility also contains customary covenants and events of default, including a covenant to maintain a net worth of \$1,000,000. As at December 31, 2009, PowerTrail had outstanding standby letters of credit of \$100,000 (2008 – \$100,000).

CWPI maintains a credit facility. The facility consists of a \$500,000 operating credit line, which is secured by the three principals. The operating credit line is repayable on demand, bears interest at the bank's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2009, CWPI had drawn down the operating credit line by \$16,000 (2008 – \$119,000).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Purchased power payable	64,864	56,934
Rebates payable to eligible customers	2,571	2,213
Customer credit balances	9,633	9,708
Collateral funds held	16,870	16,027
Other accounts payable and accrued liabilities	22,224	22,878
Deferred revenue	-	510
Payments in lieu of corporate taxes payable	223	2,189
Accrued interest on notes payable (Note 16)	3,901	3,912
	120,286	114,371

13. ASSET RETIREMENT OBLIGATIONS

	2009	2008
Balance, beginning of year	-	-
Liabilities incurred in the year	1,167	-
Liabilities settled in the year	-	-
Accretion expense	-	-
Revisions in estimated cash flows	-	-
Balance, end of year	1,167	-

The Corporation is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean-up related to PCBs. The Federal PCB Regulatory Framework under the *Canadian Environmental Protection Act, 1999* requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025, depending on equipment concentration and physical location.

Effective December 31, 2009, the Corporation recorded an asset retirement obligation ("ARO") of \$1,167,000. The ARO was calculated using an estimated undiscounted cash flow over four years totaling \$1,255,000 and a discount rate of 5.3%. No assets have been legally restricted for settlement of the liability.

An ARO was not previously recorded as it could not be reasonably estimated as uncertainty existed around the identification, final removal dates and costs of removal of the related assets.

14. EMPLOYEE FUTURE BENEFITS

Pension plan

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2009 were approximately \$3,205,000 (2008 – \$3,095,000). In 2008, prior to the sale of the telecommunications business, the Corporation contributed \$98,000 to defined contribution plans (Note 18).

Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2008 – 3.1%) and a discount rate of 6.0% (2008 – 7.25%) to calculate the liabilities.

Information about the Corporation's defined benefits plans is as follows:

	2009		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,939	522	369
Retirement grant provision	793	83	16
Supplemental pensions	5	(6)	1
Sick leave	9	-	3
	5,746	599	389
Projected benefit obligation	7,486		
Actuarial deficit	(1,740)		
	2008		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,786	551	328
Retirement grant provision	726	66	-
Supplemental pensions	12	(3)	1
Sick leave	12	-	-
	5,536	614	329
Projected benefit obligation	6,568		
Actuarial deficit	(1,032)		

An update of the actuarial valuation was performed as of January 1, 2010. The actuary has updated the assumptions and estimates at December 31, 2009. As a result of this exercise, the Corporation increased the projected benefit obligation by \$918,000 (2008 – decreased by \$886,000). As at December 31, 2009, there were \$1,754,000 (2008 – \$1,058,000) of unamortized losses. The excess over the 10% corridor will be charged to income over the average remaining service life of current employees of 13 years, beginning January 1, 2010.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities is \$602,000 (2008 – \$495,000) and the non-current portion of \$5,144,000 (2008 – \$5,041,000) is included in non-current liabilities.

15. NON-CONTROLLING INTEREST IN POWERTRAIL INC.

The non-controlling interest at December 31, 2009 consists of Integrated Gas Recovery Services Inc.'s ("IGRS") non-controlling interest in the assets of PowerTrail. PowerTrail commenced commercial operations on January 31, 2007.

16. NOTES PAYABLE

	2009	2008
4.968% Senior Unsecured Debentures, series 2006-1 due December 19, 2036	49,720	49,710
4.93% Senior Unsecured Debentures, series 2005–1, due February 9, 2015	198,905	198,691
Integrated Gas Recovery Services Inc., non-interest bearing note	3,080	3,080
	251,705	251,481

On December 20, 2006, the Corporation issued \$50,000,000 4.968% Senior Unsecured Debenture, series 2006–1 due December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal installments on June 19 and December 19 commencing June 19, 2007. The debentures were purchased at 100% of their principal amount.

On February 9, 2005, the Corporation issued \$200,000,000 4.93% Senior Unsecured Debentures, series 2005–1 due February 9, 2015. The debentures bear interest at a rate of 4.93% per annum, payable semi-annually in arrears in equal installments on February 9 and August 9 commencing August 9, 2005. The debentures were purchased at 100% of their principal amount.

These debentures contain customary covenants and events of default, including a covenant to ensure the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization.

Interest payments on these debentures over the next five years will be \$12,344,000 per year.

The IGRS promissory note for \$3,080,000 (2008 – \$3,080,000) was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholder Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is non-interest bearing, and subject to certain conditions. The management of IGRS has confirmed that it does not intend on calling this note within one year.

17. FINANCING COSTS

	2009	2008
Short-term interest (net of interest income)	(115)	(345)
Interest on notes payable	12,558	12,547
Amortization of debt issue costs	-	3
Other	767	252
Less: allowance for funds used during construction	(895)	(687)
	12,315	11,770

18. DISCONTINUED OPERATIONS

In November 2007, the Board of Directors of Hydro Ottawa approved a plan to sell the Telecom Ottawa group of companies and to exit this business segment, subject to final approval of the terms and conditions of sale. On May 1, 2008, Telecom Ottawa sold the shares of all its subsidiaries for gross proceeds of approximately \$63,000,000, subject to post-closing adjustments. Accordingly, the results of operations and financial position of the telecommunications business have been segregated and presented as discontinued operations in these consolidated financial statements.

As at December 31, 2009 and 2008, the assets and liabilities of the business segment are as follows:

	2009	2008
Assets related to discontinued operations		
Accounts receivable and other current assets	-	566
Liabilities related to discontinued operations		
Accounts payable and accrued liabilities	-	274

For the four-month period ended April 30, 2008, the following revenue and expenses of the telecommunications business have been reclassified from continuing operations to discontinued operations.

	Four-month period ended April 30, 2008
Revenue	
Telecommunications and service revenue	5,755
Expenses	
Operating costs	2,929
Amortization of capital and intangible assets	1,274
Income before recoveries of payments in lieu of corporate income taxes	1,552
Recoveries of payments in lieu of corporate income taxes	(223)
Income from discontinued operations	1,775

For the year ended December 31, 2009, an after-tax gain of \$20,000 (2008 – \$22,907,000) was recognized as a result of the sale of the Telecom Ottawa subsidiaries.

During the year ended December 31, 2006, the Corporation sold its Voice Over Internet Protocol business line (effective September 1, 2006) and its Internet Service Provider business (effective December 1, 2006). These non-core telecommunications business line dispositions were treated as discontinued operations. A gain on sale of \$nil (2008 – \$24,000) was recorded in relation to these non-core telecommunications dispositions.

The net cash flow from discontinued operations is generated from operating activities, including income from discontinued operations adjusted for non-cash items and changes in non-cash working capital. Net investing activities related to discontinued operations has been disclosed as a separate line in the investing activities on the Consolidated Statement of Cash Flows.

19. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- (i) Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- (ii) Ensure compliance with covenants related to the credit facilities and senior unsecured debentures; and
- (iii) Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2009	2008
Notes payable	251,705	251,481
Shareholder's equity	329,793	317,705
	581,498	569,186
Debt capitalization ratio	43%	44%

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

Prior to May 1, 2008, Hydro Ottawa Limited was deemed by the OEB to have a capital structure that was funded by 60% long-term debt and 40% equity. Effective May 1, 2008, the deemed capital structure for Hydro Ottawa Limited has changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, Hydro Ottawa Limited's actual capital structure may differ from the OEB deemed structure.

As at December 31, 2009, Hydro Ottawa Limited's capital structure is aligned with the debt to equity structure recommended by the OEB.

The Corporation is meeting its capital management objectives and the objectives have not changed during the year.

20. SHARE CAPITAL

Authorized

Unlimited voting first preferred shares, redeemable at \$1 per share
 Unlimited non-voting second preferred shares, redeemable at \$10 per share
 Unlimited non-voting third preferred shares, redeemable at \$100 per share
 Unlimited voting (10 votes per share) fourth preferred shares, redeemable at \$100 per share
 Unlimited voting Class A common shares
 Unlimited non-voting Class B common shares
 Unlimited non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

	2009	2008
Issued		
214,901,003 Class A common shares	228,453	228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

In June 2008, the shareholder passed a resolution approving a new dividend policy for Hydro Ottawa. The new policy directs Hydro Ottawa to target dividends at the greater of 60% of its annual consolidated net income or \$14,000,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)*, relevant OEB guidelines, is not in breach of any covenants on its bond or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On April 2, 2009, the Board of Directors declared a \$17,200,000 dividend to the City of Ottawa, which was paid on April 9, 2009 (2008 - April 10, 2008, the Board of Directors declared a \$16,375,000 dividend to the City of Ottawa, which was paid on April 18, 2008). On May 29, 2008, the Board of Directors declared a \$12,000,000 dividend to the City of Ottawa, which was paid on June 25, 2008, which related to the gain on sale of the Telecom Ottawa subsidiaries.

21. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, available-for-sale investments, accounts payable and accrued liabilities and notes payable. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The only financial instrument recorded at fair value is cash and it is classified as level 1 in the Section 3862 fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for the available-for-sale investment and notes payable, approximate their fair values because of the short maturity of the instruments.

The Corporation's financial instruments' carrying values and fair values are as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash	3,489	3,489	21,332	21,332
Accounts receivable, net of allowance for doubtful accounts	61,225	61,225	49,046	49,046
Unbilled revenue, net of allowance for doubtful accounts	86,426	86,426	76,660	76,660
Accounts receivable in other assets, net of allowance for doubtful accounts	156	156	832	832
Available-for-sale investments	500	n/a	-	-
Assets related to discontinued operations	-	-	566	566
Accounts payable and accrued liabilities	120,063	120,063	112,182	112,182
Liabilities related to discontinued operations	-	-	274	274
4.93% Senior Unsecured Debentures, series 2005-1	198,905	203,142	198,691	203,127
4.968% Senior Unsecured Debentures, series 2006-1	49,720	50,170	49,710	50,174
Integrated Gas Recovery Services Inc., non-interest bearing note	3,080	n/a	3,080	n/a

The available-for-sale investment consists of the Corporation's investment in SLI. The fair value of this investment has not been recognized or disclosed because it is not actively traded in an open market.

The Corporation has determined the fair value of the notes payable based on discounting all future payments of interest and the principal repayment on February 9, 2015 and December 19, 2036 for the Senior Unsecured Debentures, at the estimated interest rate of 5.0 % (2008 - 5.0 %) that would be available to the Corporation on December 31, 2009.

The Corporation cannot determine the fair value of the IGRS note payable as the amount is non-interest bearing and has no specific repayment terms. It is unlikely that the Corporation would be able to enter into a similar loan agreement with a third party.

The Corporation determined that the fair value of the accounts receivable included in other assets as at December 31, 2009 based on discounting all future payment arrangements approximates their carrying value.

Risk Factors

In the normal course of business, the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation's exposure and strategies to mitigate these risks are noted below.

- (a) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity risk.
 - (i) The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under Hydro Ottawa's credit facility, any advances on its operating line would expose the Corporation to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. In addition, the fees payable on bankers' acceptances and the operating line are based on a margin determined by reference to the Corporation's credit rating. As at December 31, 2009, the Corporation has not drawn down on its operating line and it does not have any outstanding bankers' acceptances; therefore, interest rate risk is minimal.

- (ii) As at December 31, 2009, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase goods and services which are denominated in foreign currencies, predominantly the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.
- (iii) As at December 31, 2009, the Corporation has not entered into any hedging transactions or derivative contracts.
- (b) Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has over 296,000 customers, of which 91% are residential. As a result, Hydro Ottawa Limited did not earn a significant amount of revenue and does not have a significant receivable from any individual customer. Hydro Ottawa Limited also performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2009, Hydro Ottawa Limited held customer deposits and collateral funds in the amount of \$27,488,000 (2008 – \$24,257,000). Energy Ottawa limits its credit risk by dealing with customers that are considered to be of high credit quality. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period such a decision is made. When the receivable amount is deemed to be uncollectible it is written off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off are credited to income. As at December 31, 2009, the allowance for doubtful accounts was \$1,897,000 (2008 – \$2,031,000) and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2009	2008
Total accounts receivable	61,978	50,167
Total unbilled revenue	87,542	77,470
Total accounts receivable in other assets	184	932
Less: allowance for doubtful accounts	(1,897)	(2,031)
	147,807	126,538
Of which:		
Outstanding for less than 30 days	53,365	41,537
Outstanding for more than 31 days but not more than 120 days	7,369	8,056
Outstanding for more than 121 days	1,428	1,506
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,897)	(2,031)
	147,807	126,538

As at December 31, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 14 % (2008 – 19 %) of the Corporation's accounts receivable was aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less deposits held.

- (c) Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2009		
	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
Accounts payable and accrued liabilities	120,063	-	-
Notes payable			
4.93% Senior Unsecured Debentures, Series 2005-1	-	-	198,905
4.968% Senior Unsecured Debentures, Series 2006-1	-	-	49,720
Integrated Gas Recovery Services Inc., non-interest bearing note	-	3,080	-
	120,063	3,080	248,625

22. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2009	2008
Federal and Ontario statutory income tax rate	33.00%	33.50%
Income before provision for PILs, including discontinued operations	42,769	40,413
Provision for PILs at statutory rate	14,114	13,538
Increase (decrease) resulting from:		
Permanent differences	822	483
Temporary differences	1,099	(2,252)
Change in valuation allowance	(27)	(515)
Rate differential on current year temporary differences	(95)	(98)
Changes in future tax rates	1,219	1,480
Income taxed at different rate	50	(48)
Corporate minimum tax	-	(54)
Income tax reassessments	(537)	-
Regulatory offset to temporary differences and changes in future tax rates	(2,579)	260
Other	(650)	554
	13,416	13,348
Effective income tax rate	31.37%	33.03%
Reported as:		
Payments in lieu of corporate income taxes	13,416	13,571
Income from discontinued operations (Note 18)	-	(223)
	13,416	13,348

Effective January 1, 2009, with the amendment to Section 3465, Hydro Ottawa Limited is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. Prior to that Hydro Ottawa Limited, as a rate-regulated utility, did not recognize future income taxes to the extent they were expected to be included in future approved rates charged to customers and recovered from them.

As at December 31, 2009, Hydro Ottawa Limited had deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$77,862,000 (2008 – \$81,716,000). These amounts translate into a future tax asset of approximately \$29,231,000 (2008 – \$23,828,000). The 2008 future tax asset was not recognized in the consolidated financial statements. In the absence of rate regulation, the income for the year ended December 31, 2008 would have been \$260,000 higher.

As at December 31, 2009, Energy Ottawa had \$4,489,000 (2008 – \$6,205,000) of non-capital tax loss carryforwards, which have been applied to reduce its future PILs liability. These losses expire between 2015 and 2029.

As at December 31, 2009, Hydro Ottawa has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$365,000 (2008 – \$436,000). These amounts translate into a future tax asset of approximately \$99,000 (2008 – \$126,000), the benefit of which has not been recognized in these consolidated financial statements.

Hydro Ottawa has unused non-capital tax losses of approximately \$1,684,000 (2008 – \$1,432,000) which expire between 2010 and 2029.

Non-capital losses are available to offset taxable income in future years for purposes of the PILs regime. The companies considered to be MEUs are subject to PILs as long as they are exempt from federal taxation under paragraph 149(1)(d.6) of the ITA. The non-capital tax losses generated from the PILs regime will not be available to offset taxable income of these companies if the companies are no longer exempt for federal and provincial tax purposes.

Provision for PILs consists of the following:

	2009	2008
Current PILs corporate income tax provision	12,648	13,091
Future PILs corporate income tax provision		
Future income tax (recovery) provision before regulatory adjustment	(28,463)	257
Regulatory adjustment for the disposition of future income tax recovery in future customer rates	29,231	-
Future PILs corporate income tax provision	768	257
	13,416	13,348

The Corporation's future income tax assets and liabilities are presented on the consolidated balance sheet as follows:

	2009	2008
Future income tax assets, current	867	-
Future income tax assets, non-current	28,364	-
Future income tax liabilities, non-current	(3,106)	(2,338)
	26,125	(2,338)

Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2009	2008
Property, plant and equipment and intangible assets	21,354	(5,423)
Employee future benefits	2,132	-
Non-capital loss carryforwards	1,249	1,914
Other taxable temporary differences	1,390	1,171
	26,125	(2,338)

23. CONTINGENT LIABILITIES

- (i) On November 18, 1998, a class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ("LDCs"), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347(1)(b) of the Criminal Code.

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. ("EGD") case, a case in which the Corporation is not a party to; however, the issues are analogous. The Supreme Court rejected all of the defences, which had been raised by EGD; however, it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved the recovery of the amounts from ratepayers over a five-year period.

On March 2, 2010, the Electricity Distributors Association informed distributors of a conditional settlement in the class action suit. If any utility opts out of the settlement the plaintiff would likely withdraw from the proposed settlement and the matter would proceed at increased cost to the parties. The tentative settlement is also conditional upon court approval. The amount paid by each utility will be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The proposed settlement would involve payment of \$18,382,000 by all utilities imposing late payment charges. The Corporation's share, relating to late payment charges collected between 1998 and 2001, would be approximately one million dollars, and any payment of settlement funds would not be required until June 30, 2011. In the interim utilities involved in the settlement, including the Corporation, are expected to request an order from the OEB allowing for the future recovery from customers of all costs related to the proposed settlement. There is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. The Corporation has not accrued any liabilities in relation to this proposed settlement as there is ultimate uncertainty as to whether any utility will opt out of the settlement by April 12, 2010, and if the settlement will be approved by the court.

- (ii) Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2009, the Corporation had drawn standby letters of credit of \$11,738,000 (2008 – \$11,738,000) against its credit facility to cover its prudential support obligation. In addition, the Corporation provided bank letters of credit of \$93,000 (2008 – \$93,000) to the City of Ottawa as security for construction projects.
- (iii) Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation's insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.
- (iv) Energy Ottawa was awarded a \$70,000,000, twenty-year contract to supply the Government of Ontario with renewable energy. This contract was subsequently assigned to PowerTrail. Under the terms of the contract, PowerTrail constructed a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. The Corporation has a standby letter of credit in the amount of \$100,000 (2008 – \$100,000), expiring on January 31, 2011 related to this contract.
- (v) The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year in which they occur.
- (vi) In 2008, Telecom Ottawa sold the shares of its subsidiaries. Part of this transaction included the Corporation posting a three-year guarantee for Telecom Ottawa's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a \$630,000 threshold to a maximum of \$10,000,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

24. COMMITMENTS

- (i) Hydro Ottawa Limited has \$44,281,000 in total open commitments, of which \$37,373,000 are for 2010, \$3,077,000 for 2011, \$1,815,000 for 2012, \$1,991,000 for 2013 and \$25,000 for 2014. This includes a customer information system services agreement, an arrangement for call centre services, purchase and installation of smart meters and overhead and underground services.
- (ii) The Corporation entered into a Gas Utilization License of Occupation Agreement with the City of Ottawa, which was subsequently assigned to PowerTrail. Under this agreement, the City of Ottawa is to provide facilities for the collection and use of the gas generated by the Trail Road landfill site in consideration for a royalty of 5.5 % of PowerTrail's gross annual receipts derived from the sale of electricity associated with the use of gas from the landfill payable over the term of the agreement and a one-time royalty of up to \$2,000,000, represented by the initial repairs to the gas collection system (Note 25). As at December 31, 2009, the Corporation has fulfilled its obligation related to the one-time royalty, and the 2009 obligation related to the gross annual receipts royalty.
- (iii) Operating lease obligations:

2010	261
2011	242
2012	103
2013	48
2014	44
Thereafter	390
Total minimum lease payments	1,088

25. RELATED PARTY TRANSACTIONS

The Corporation and its subsidiaries provide certain services to the City of Ottawa in the normal course of business at commercial rates.

For the year ended December 31, 2009, the Corporation earned revenues related to the sale of electricity, energy management consulting and other services in the amount of \$39,022,000 (2008 – \$30,482,000) from the City of Ottawa. In 2008, prior to the sale of the telecommunications business, the Corporation earned revenues related to telecommunications products and services in the amount of \$427,000 from the City of Ottawa (Note 18).

For the year ended December 31, 2009, the Corporation purchased certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$374,000 (2008 – \$687,000); and property taxes in the amount of \$1,757,000 (2008 – \$1,731,000). By agreement, Energy Ottawa agreed to repair the City of Ottawa's gas collection system at the Trail Road landfill site in Ottawa, Ontario. In 2009, the royalties paid related to this agreement amounted to \$114,000, (2008 – \$119,000). The Corporation also paid the City of Ottawa \$1,000 (2008 – \$291,000) in support of its conservation and demand management initiatives.

By agreement, all costs incurred by CWPI are recovered from the three principals based on their pro-rata interest in CWPI. The Corporation's share of these costs included in operating costs, prepaids and property, plant and equipment are as follows:

	2009	2008
Operating costs	398	387
Prepaids	16	8
Property, plant and equipment	22	12

IGRS provided construction and management services to PowerTrail in the amount of \$1,756,000 (2008 – \$1,237,000).

As at December 31, 2009, the Corporation had \$4,304,000 (2008 – \$2,373,000) due from the City of Ottawa and \$11,000 (2008 – \$nil) due from IGRS.

As at December 31, 2009, the Corporation had \$212,000 (2008 – \$94,000) due to the City of Ottawa, \$260,000 (2008 – \$177,000) due to IGRS and \$37,000 (2008 – \$54,000) due to CWPI.

26. SUBSEQUENT EVENTS

Streetlight Intelligence Inc.

On January 13, 2010, the Corporation paid \$500,000 to acquire a non-transferable option to purchase up to 5,000,000 SLI common shares ("Second Purchase Option") at an exercise price of \$0.12 per share, exercisable on or before January 13, 2011. The Second Purchase Option includes a put right ("Second Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Second Purchase Option for \$500,000 plus interest of approximately 10 % per annum. To secure the Second Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. This additional investment in SLI will receive the same accounting treatment as the initial investment in SLI.

On March 5, 2010, the Corporation paid \$500,000 to acquire 4,166,667 units of SLI at a price of \$0.12 per unit, as part of a private placement. Each unit is to consist of one SLI common share and one-half of one SLI common share purchase warrant ("Unit"). Each whole SLI common share purchase warrant ("Warrant") entitles the holder thereof to purchase one common share ("Warrant Share") at an exercise price of \$0.24 per Warrant Share for a period of 12 months from the closing date.

The consolidated financial statements have not been adjusted for the two additional SLI investments as the acquisitions occurred after year end.

27. COMPARATIVE FIGURES

In certain instances, the 2008 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, made up entirely of independent directors, is responsible for developing and approving the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation levels are reviewed on an annual basis and are compared to market data, with the assistance of independent consultants, every two to three years to

ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation (e.g. Transportation and Utilities sector), and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components: base salary and an at risk performance incentive. Total cash is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of individual and corporate objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets

are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive 5-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal plan contributions based on the participating employees' contributory earnings. All full-time employees of the Corporation are required to participate in OMERS.

Summary of Compensation

President and Chief Executive Officer and Chief Financial Officer of the Corporation and the Chief Operating Officers of the Subsidiary Companies

Name and Principal Position ¹	Year	Base Salary (\$)²	At Risk Performance Incentive (\$)³	Other Annual Compensation (\$)⁴
Rosemarie T. Leclair <i>President and Chief Executive Officer</i>	2009	257,500	149,350	14,577
	2008	251,616	140,700	29,335
	2007	234,040	124,550	11,902
Alan Hoverd <i>Chief Financial Officer</i>	2009	215,000	107,984	17,375
	2008	65,327 ⁵	34,496	12,450
	2007	N/A	N/A	N/A
Norm Fraser <i>Chief Operating Officer Hydro Ottawa Limited</i>	2009	195,000	92,479	11,390
	2008	194,885	85,654	11,949
	2007	183,423	75,873	15,187
Gregory Clarke <i>Chief Operating Officer Energy Ottawa Inc.</i>	2009	163,132	72,765	11,276
	2008	150,000	68,434	11,233
	2007	142,370 ⁶	51,203	8,560

¹ Executives whose earnings are reported are those who occupied the position at December 31, 2009.

² Amounts shown in this column have been rounded to the nearest dollar.

³ Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the reporting year, paid in the subsequent year.

⁴ Amounts in this column include Board Approved discretionary payments such as payment of earned and unused vacation credits, car allowance, computer allowance, taxable relocation allowance and employer's share of basic life insurance premiums.

⁵ Mr. Hoverd assumed this position on September 2, 2008. Had Mr. Hoverd been employed for the entire year, his base salary would have been \$215,000.

⁶ Mr. Clarke assumed this position on March 21, 2007. Prior to that he was employed by the corporation in another position. The amount reported is his actual remuneration for 2007. Had Mr. Clarke held this position for the entire year, his base salary would have been \$150,000.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. This goal requires constant attention, because governance standards are continuously evolving. As such, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private company, incorporated under the *Business Corporations Act (Ontario)*. At the same time, the company has a public sector shareholder and a public mandate, and is mindful of its responsibility to be accountable both to the shareholder and to the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the *Securities Act*, and, therefore, is not required to meet governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares itself to the practices of both private and public sector organizations, and to the standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

Governance Structure

Accountability for the effective oversight of the Corporation and its subsidiaries rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the company and its subsidiaries.

In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time (most recently in June 2006). The company's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the *Affiliate Relationships Code for Electricity Distributors and Transmitters* issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. Ottawa City Council appoints the members of the Board of Directors of Hydro Ottawa Limited. A majority of the members of both Boards are independent of management and the shareholder.

On a day-to-day basis, the Corporation is led by an Enterprise Executive Team, comprised of the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

2009 Governance Achievements

In 2009, the Corporation continued to refine its governance practices and improve the functioning of its Boards.

The Board of Directors completed a review of its governance framework with assistance from an external expert in 2009, to streamline the respective roles of the Boards of Directors and their committees and enhance their effectiveness. Changes made as a result of this process have permitted the Board to increase its focus on the consideration and implementation of strategic initiatives. In addition, the separate Audit Committees of the two Boards were consolidated into one, and the mandate of the Governance and Compensation Committee was revised, resulting in a change of name to Governance and Management Resources Committee.

The Corporation also completed the development of a Business Continuity Plan (BCP) and a management succession planning process. Departmental business continuity plans were also prepared for critical processes, to ensure maintenance of these processes during a pandemic or other disruption.

Appointments to the Boards of Directors

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is required to utilize the services of a recognized recruitment firm to search for candidates for appointment to the Board.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following competencies among one or more directors: strong business background; a strong financial background including financial accreditation; industry sector experience in the areas of business of the Subsidiary companies; strategic planning and corporate stewardship experience; competitive business experience; an awareness of the needs of the Corporation's customers; public or private market financing experience; and board experience.

Committees

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

HYDRO OTTAWA HOLDING INC.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. In 2009, the committee was consolidated with the Audit Committee of Hydro Ottawa Limited to improve the efficiency of committee oversight, and its membership includes representatives of the Board of Directors of Hydro Ottawa Limited. This committee met five times in 2009.

Governance and Management

Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. The name of the Committee was changed in 2009 from the Governance and Compensation Committee to better reflect the scope of its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management personnel. It also reviews and assesses the performance of executive management, oversees the Board Assessment process, and monitors compliance with codes of conduct. This committee met five times in 2009.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of directors.

Board and Committee Meeting Attendance

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	10/10
Patrick Dion	6/6	5/5
Shawn Gibbons	5/6	6/6
Manon Harvey	2/2	1/1
Jan Harder	5/6	N/A
Peter Hume	3/6	N/A
John Kelly	6/6	5/5
Rosemarie Leclair	6/6	N/A
Larry O'Brien	1/6	N/A
Ford Ralph	6/6	5/5
Ken Wigglesworth	5/6	5/5

HYDRO OTTAWA LIMITED

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	1/1
George Anderson	6/6	N/A
Alex Cullen	3/6	N/A
Manon Harvey	6/6	4/4
O. Allan Kupcis	6/6	3/3
Rosemarie Leclair	6/6	N/A
Duncan Watt	5/6	4/4

Members of the Boards of Directors

Hydro Ottawa Holding Inc.



Pierre Richard
(Chair), Q.C.



Mayor Larry O'Brien



Patrick Dion



Shawn Gibbons



Councillor
Jan Harder



Manon Harvey, C.A.



Councillor Peter
Hume



John Kelly



Rosemarie Leclair,
LL.B.



L. Gerald Levitz,
F.C.A.



Ford Ralph



Ken Wigglesworth,
C.A.

Hydro Ottawa Limited



Pierre Richard
(Chair), Q.C.



George Anderson



Councillor
Alex Cullen



Manon Harvey, C.A.



O. Allan Kupcis



Rosemarie Leclair,
LL.B.



Duncan Watt

Note: L. Gerald ("Gerry") Levitz F.C.A. served on the Board of Directors of Hydro Ottawa Holding Inc. from July 2006 until his resignation in August 2009. He also served as Chair of the Audit Committee throughout his tenure on the Board. Gerry passed away on October 3, 2009. The Corporation and the members of the Board of Directors wish to convey their sincere appreciation for his dedicated service, wise counsel and thoughtful consideration of all matters that came before the Board throughout his tenure on the Board of Directors.

Glossary of Terms

ELECTRICITY INDUSTRY

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system. It operates the wholesale electricity market, forecasting demand and ensuring an adequate supply to meet that demand.

MDM/R The Meter Data Management and Repository system will store and manage consumption data received from Smart Meters, enabling Time-of-Use billing and the provision of consumption information to customers as part of the provincial Smart Meter Initiative.

OEB The Ontario Energy Board regulates the provincial electricity and natural gas industries in the public interest.

OPA The Ontario Power Authority is responsible for ensuring an adequate long-term supply of electricity for Ontario. It creates and implements conservation and demand management programs, ensures adequate investment in new supply infrastructure, performs long-term electricity system planning, and facilitates the development of a more sustainable and competitive electricity system.

Smart Meters Smart Meters measure and store data about when customers use electricity as the foundation for future Time-of-Use (TOU) billing.

TOU A Time-of-Use rate structure charges customers higher rates for electricity used during peak times of the day and lower rates for off-peak usage.

INTERNAL SYSTEMS AND PROCESSES

GIS Geographic information systems capture, store, analyze, and display geographically referenced spatial information.

OMS The Outage Management System, when integrated with the GIS (see above) results in a single computerized map of the electricity distribution system to facilitate system planning and outage response.

SCADA Supervisory control and data acquisition refers to large-scale measurement and control systems used to monitor power generation and distribution processes.

FINANCIAL REPORTING

AcSB Accounting Standards Board is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

CICA Canadian Institute of Chartered Accountants represents the CA profession nationally. It supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and issues guidance on control and governance.

GAAP Generally accepted accounting principles are a common set of accounting principles, standards and procedures companies use to prepare their financial statements.

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). All Publicly Accountable Enterprises in Canada, including Hydro Ottawa Holding Inc., will be required to report under International Financial Reporting Standards rather than GAAP (see above) for years beginning on or after January 1, 2011.

EARNINGS

There are a number of different ways of looking at how much a company earns. The most common is "net income" but other measurements, such as EBITDA, can be useful in judging the company's ability to borrow and to expand its business.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization is a measure of financial health that helps to show how much money a company generates to pay for its obligations (such as interest on money borrowed and taxes) and fund its future growth (through depreciation and amortization).

EBIT Earnings Before Interest and Taxes is the same as EBITDA, except that amounts for depreciation and amortization have been deducted in computing EBIT.

Net income This is what is left over after the company has met all its expenses and obligations.

CASH SOURCES AND USES

While most companies are concerned about profitability, they also must ensure that they have enough cash to pay their expenses on a day-to-day basis.

Generated from operations Similar to EBITDA, this is the amount of money that Hydro Ottawa produced during 2009, after all the expenses paid during the year and adding back non-cash "accounting" items such as amortization and depreciation. Essentially, it is net income adjusted for all expenses and revenues that do not include a cash outlay or receipt.

Capital Assets This is primarily the amount Hydro Ottawa Limited invested across its distribution system in 2009 to improve and expand service and to ensure its reliability. The total also includes expenditures made at Energy Ottawa.

Financing The process that makes money available for projects and activities. Financing can come from many sources - from existing resources or corporate cash flow or from money raised in financial markets through bank loans or the issuance of bonds, debentures or shares, for instance.

RATIOS

Managers and analysts use a host of ratios to help determine the financial health of the company.

Working Capital This measure compares the company's easy access to funds (through its cash, accounts receivables, inventories and other assets that can be readily turned into cash) versus its immediate liabilities (such as bank debt, accounts payable, etc.). Healthy companies have more current assets than liabilities, represented by a ratio greater than 1.0.

Debt Capitalization Ratio This value computes the proportion of a company's long-term debt compared to its available capital. By using this ratio, investors can identify the amount of leverage utilized by a specific company and compare it to others to help analyze the company's risk exposure.

MISCELLANEOUS

OMERS Ontario Municipal Employees' Retirement System is one of Canada's largest pension plans, providing pension services to 400,000 active and retired members and about 928 employers.



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