

Rating Report

Report Date:
November 23, 2009
Previous Report:
November 16, 2007



Insight beyond the rating.

Electricity Distributors Finance Corporation

Analysts

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The Company

EDFIN was incorporated for the purpose of providing Ontario electric distributors with efficient access to the debt capital markets. EDFIN will purchase debentures and other evidences of indebtedness issued by LDCs and sell to investors, by way of private placement, certificates evidencing undivided co-ownership interests in such debentures or evidences of indebtedness. EDFIN has no assets or liabilities. EDFIN is administered by the MEARIE Group, a Canadian insurance supplier dedicated to the electricity sector.

The two participating LDCs in EDFIN are PowerStream Inc., and Enwin Utilities Ltd.

Recent Actions
December 29, 2008
Confirmed

Rating

Debt	Issuing Entity	Rating	Rating Action	Trend
Series 2002-1 Certificates	Electricity Distributors Finance Corporation	A (low)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating on the Series 2002-1 Certificates (the Certificates) issued by Electricity Distributors Finance Corporation (EDFIN) at A (low) with a Stable trend. The rating is based on the lowest-rated of the two participants, Enwin Utilities Ltd. (Enwin), rated A (low).

The Certificates represent undivided co-ownership interests in unsecured debentures issued by two participating local distribution companies (LDC Participants), namely PowerStream Inc. (PowerStream) and Enwin to EDFIN. The obligations of the individual LDC Participants is several and not joint, and each LDC Participant is liable only for its obligations and not for the obligations of any others. Default of the obligations to EDFIN of one LDC Participant will result in a proportionate default of the unsecured debentures issued by EDFIN. Therefore, the rating of the Certificates is based on the rating of the lowest-rated LDC Participant, Enwin.

In December 2008, DBRS confirmed the debt rating of EDFIN at A (low) following the approval from the Ontario Energy Board (OEB) for the amalgamation of PowerStream and Barrie Hydro Distribution Inc. (Barrie Hydro), both rated "A" by DBRS. The combined entity created the second largest electricity local distribution company in Ontario, serving over 300,000 customers, and benefits from better operational efficiencies and cost-effectiveness than the previously separate entities. PowerStream's resultant operating profile, balance sheet and credit metrics were consistent with historical levels, regulatory approved levels and the assigned rating category of "A".

DBRS has confirmed the rating of Enwin at A (low) with a Stable trend. Enwin continues to maintain a reasonable financial profile, reflecting its improving balance sheet and credit metrics. However, DBRS expects Enwin's heightened capital expenditure profile for 2009 to 2011 to result in some moderation in credit metrics over the medium term. While credit metrics are expected to modestly decline, they will remain supportive of Enwin's A (low) rating. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low business risk owing to predominantly regulated electricity distribution operations
- (2) Solid balance sheets and reasonable credit metrics
- (3) PowerStream benefits from strong franchise area and favourable customer mix

Challenges

- (1) Low regulatory returns
- (2) Earnings are sensitive to the volume of electricity sold
- (3) Refinancing risk

Financial Information

For 12 months ended June 30, 2009 (Unaudited)	Underlying Utility Debentures (\$ millions)	Rate Base (\$ millions)	Total Debt- to-Capital	EBIT Interest Coverage (times)	Cash Flow- to-Debt	DBRS Issuer Rating
PowerStream Inc.	125	677	59.5%	2.75	17.4%	A
Enwin Utilities Ltd.	50	165	45.0%	3.96	28.5%	A (low)

Rating Rationale (Continued from page 1.)

The rating of PowerStream has been confirmed at “A” with a Stable trend, as PowerStream continues to benefit from a strong financial profile. However, leverage has increased marginally to 60% over the near term due to the increased capital expenditures from the construction of a new transformer station and the installation of Smart Meters. Given the Company’s stated policy of maintaining leverage at 60%, in line with the OEB-approved deemed capital structure, DBRS expects the credit metrics to remain at a level appropriate for an “A” rating.

Overall, the two LDC Participants continue to benefit from a low level of business risk stemming from their regulated electricity distribution operations, solid financial profile and strong franchise areas with a favourable customer mix. The rating confirmation on the LDC Participants is also supported by the regulatory outlook in Ontario.

Rating Considerations Details

Strengths

- (1) Almost all earnings and cash flows are generated from the LDC Participants’ low-risk, regulated distribution operations. The LDC Participants’ exposure to higher-risk non-regulated businesses remains limited.
- (2) The LDC Participants continue to maintain solid balance sheets and reasonable credit metrics. These ratios are acceptable for their current rating categories given the low business risk for the LDC Participants stemming from their regulated electricity distribution operations.
- (3) The franchise area of PowerStream has experienced net population growth over the past five years. Furthermore, the customer load profile is reasonably well-diversified, consisting predominantly of a residential and small commercial customer base. This provides a relatively stable and predictable demand load year over year, with limited influence from economic cycles.

Challenges

- (1) The approved ROE of 8.01% for 2009 is low and is primarily due to the low-interest rate environment. Lower ROEs have a negative impact on earnings and cash flows.
- (2) Earnings and cash flow for electricity-distribution companies are partially dependent on the volume of electricity sold and, hence, revenue earned from electricity sales. Seasonality, economic cyclicality and year-over-year changes in weather patterns directly affect the volume of electricity sold and revenue earned from electricity sales. In addition, economic growth impacts customer and load growth. However, the LDC Participants’ generally favourable customer mix helps mitigate these risks.
- (3) The two LDC Participants’ long-term debt with EDFIN, totalling \$175 million, matures on August 15, 2012. This bullet maturity poses a refinancing risk, although DBRS notes that the LDC Participants’ credit profile, coupled with stable cash flows generated from strong franchise area with favourable customer mix, moderates this risk.



Electricity Distributors Finance Corporation

Report Date:
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Structure

Issuer:	Electricity Distributors Finance Corporation
Amount:	\$175.0 million
Term:	10 years through August 15, 2012
Interest Rate:	4.45%; payable semi-annually
Amortization:	Bullet maturity
Security:	None
Deposited Securities:	Each debenture is a direct obligation of the LDC Participant that issued the debenture. The LDC Participants' obligations are several and not joint, and each LDC is liable only for its obligations, and not for the obligations of any other LDC Participants.
Ranking:	All ownership interests rank equally with respect to their rights pursuant to each underlying debenture. Each underlying debenture is a direct, unsecured obligation of the LDC that issued it, ranking pari passu with all other debentures and prescribed debt instruments of such LDC. However, the unsecured debentures rank senior to all debt in the form of promissory notes held by the municipal shareholders of each LDC Participant.
Redemption:	Each participating LDC has the right to redeem, in part or in whole, the debenture issued by it, at any time prior to the maturity date, at a price equal to the greater of: (1) par, and (2) the Canada Yield Price plus accrued and unpaid interest.
Key Covenants:	Each LDC will: (1) ensure that its funded obligations do not exceed 75% of its consolidated net worth; (2) not pledge its primary assets; (3) not enter into any sale and leaseback transaction exceeding 10% of its consolidated net worth; (4) not invest in energy retailing beyond 20% of its consolidated net worth.

Regulation

Regulatory Update

Electricity distribution operations in Ontario are regulated by the OEB under the *Electricity Act, 1998* (the Electricity Act), amended in 2009 by the *Green Energy Act, 2009* (the Green Energy Act).

Currently, the LDCs operate under a performance-based incentive mechanism with a ROE of 8.01%, based on a forward-looking cost-of-service for the mid-year rate decision. The OEB's deemed capital structure is 60%/40%.

The purchased power included in distribution rates is a flow-through to consumers determined by the OEB based on a blend of fluctuating, fixed and capped prices paid to generators under the Regulated Price Plan (RPP). The RPP is based on a forecast of expected costs over the next 12 months. If the cost of supplying electricity differs from what was forecast, the OEB may re-adjust electricity prices accordingly in the next price period, in order to true up the RPP prices with the prices paid to generators.

The costs associated with the installation of Smart Meters is expected to be recovered through the imposition of a rate rider and the maintenance of a capital-variance account that will incorporate return-on-investment and amortization components, as well as an Operations Maintenance & Administration (OM&A) variance account that will reflect actual amounts spent plus carrying costs.

DBRS notes that in February 2009, the OEB announced that it will be reviewing its policy regarding cost of capital and will consider the appropriateness of the parameters in different economic and financial conditions, and their impact on investment. The extent and likely outcome of this review is unclear at this time.

Rating

Debt	Issuing Entity	Rating	Rating Action	Trend
Series 2002-1 Certificates	Electricity Distributors Finance Corporation	A (low)	Confirmed	Stable

Rating History

	Current	2008	2007	2006	2005	2004
Series 2002-1 Certificates	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)



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Finance
Corporation**

Report Date:
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The Company

Enwin Utilities Ltd. was created through the amalgamation of Enwin Powerlines Ltd., a regulated electricity distribution company, and Enwin Utilities Ltd., a management services company on January 1, 2007. The LDC serves approximately 85,000 customers in the Windsor service area. The newly amalgamated Enwin Utilities Ltd. is wholly owned by Windsor Canada Utilities Ltd., which in turn is wholly owned by the City of Windsor.

Enwin Utilities Ltd.

Rating

Debt Issuer Rating	Issuing Entity	Rating	Rating Action	Trend
	Enwin Utilities Ltd.	A (low)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating of Enwin Utilities Ltd. (Enwin; formerly Enwin Powerlines Ltd.) at A (low) with a Stable trend. Enwin continues to benefit from a low level of business risk stemming from its regulated electricity distribution operations, its reasonable financial profile and a strong record of cost-containment.

Enwin continues to maintain a reasonable financial profile, reflecting its improving balance sheet and credit metrics. All credit metrics have improved from 2004 levels and continue to support the A (low) rating. The improved leverage is primarily attributable to positive free cash flows stemming from moderate dividend payouts in recent years and relatively modest capital expenditures.

Enwin has significant exposure to large industrial customers, particularly the auto sector. Going forward, continued weakness in the auto sector, as well as among ancillary suppliers, could pressure future cash flows. However, DBRS notes that financial results have not been affected over the past twelve months. Enwin also projects significantly heightened capital expenditures for 2009 to 2011, primarily due to the replacement of aging infrastructure, improving reliability and installation of Smart Meters.

With the amortizing promissory notes in 2009, DBRS expects some moderation in credit metrics over the medium term. While the increased leverage will have a modest impact on the credit metrics of Enwin, the leverage is expected to be within 60%, thus supporting Enwin's A (low) rating. Cash flow from operations over the next two years will be primarily driven by population and load growth, cost savings and industrial demand, with cash flows beyond 2009 depending largely on the re-basing of rates and the 3rd Generation Incentive Mechanism. The Company's regulated electricity distribution operations are expected to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

Rating Considerations

Strengths

- (1) Successful ongoing cost reduction program
- (2) Expected efficiency improvement from amalgamation
- (3) Strong financial profile

Challenges

- (1) Managing the heightened capital expenditure profile
- (2) Large exposure to industrial customers
- (3) Low regulated returns
- (4) Political and regulatory uncertainty

Financial Information

ENWIN Utilities Ltd.	12 months ended	For the year ended December 31				
	June 30, 2009	2008	2007	2006 (R)	2005	2004
EBIT interest coverage (times)	3.96	3.53	3.09	2.05	1.51	1.27
Total debt-to-capital	45.0%	44.2%	48.5%	53.1%	63.0%	65.9%
Cash flow-to-total debt	26.8%	29.1%	25.8%	18.2%	12.4%	9.7%
Operating cash flow (\$ millions)	19.71	19.69	19.96	17.35	12.42	10.77
Net income before extras. (\$ millions)	7.64	7.39	15.44	10.23	2.45	1.25
Operating margin	26.7%	26.5%	27.8%	20.3%	21.2%	18.0%
Return on average equity	8.9%	8.7%	22.0%	14.5%	4.2%	2.1%
Electricity throughput (GWh)	2,581	2,730	2,979	3,137	3,137	1,985
Customer base	84,261	84,646	84,759	84,703	84,256	83,816

(R) Restated



**Electricity
Distributors
Finance
Corporation**

Report Date:
November 23, 2009

Financial Profile and Outlook

ENWIN Utilities Ltd. (\$ millions)	<u>12 months ended</u>	For the year ended December 31			
	<u>June 30, 2009</u>	<u>2008</u>	<u>2007</u>	<u>2006 (R)</u>	<u>2005</u>
EBITDA	27.38	26.86	26.94	23.98	17.66
EBIT	16.07	15.72	15.96	11.63	8.40
Interest Expense	4.05	4.46	5.17	5.68	5.57
Net income (before extras)	7.64	7.39	15.44	10.23	2.45
Depreciation	11.31	11.14	10.99	12.35	9.27
Other non-cash items	0.76	1.17	(6.47)	(5.23)	0.71
Cash Flow From Operations	19.71	19.69	19.96	17.35	12.42
Common dividends	(5.75)	(5.00)	(3.00)	(2.00)	(1.10)
Capex (net of capital contrib.)	(12.20)	(10.04)	(10.31)	(12.57)	(6.27)
Cash Flow Before Working Capital	1.76	4.66	6.65	2.78	5.06
Changes in working capital	1.89	0.20	3.02	(3.44)	2.47
Free Cash Flow	3.66	4.86	9.67	(0.66)	7.52
Adjusted for non-recurring non-cash	1.37	-	-	-	-
Share capital reduction	-	-	-	-	-
Other (investments)/dispositions	0.05	0.17	1.38	0.22	0.51
Settlement of regulatory assets/liabilities	-	-	-	-	-
Increase in regulatory assets	(2.40)	4.71	4.51	(0.23)	5.59
Due to (from) related parties	14.29	(0.71)	3.00	(2.59)	(1.48)
Net change in debt	(10.04)	(9.03)	(18.56)	(8.29)	(12.15)
Net Change in Cash	6.93	0.00	0.00	(11.55)	0.00

Key Financial Ratios	<u>12 months ended</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<u>June 30, 2009</u>					
Debt/capital	45.0%	44.2%	48.5%	53.1%	63.0%	65.9%
EBITDA interest coverage	6.76	6.03	5.21	4.22	3.17	2.88
EBIT interest coverage	3.96	3.53	3.09	2.05	1.51	1.27
Cash flow-to-debt	26.8%	29.1%	25.8%	18.2%	12.4%	9.7%
Return on Equity	8.9%	8.7%	22.0%	14.5%	4.2%	2.1%
Dividend payout	75.3%	67.7%	19.4%	19.6%	44.9%	0.0%

(R) Restated

Summary

Enwin maintains a reasonable financial profile, reflecting its improving balance sheet and credit metrics. Leverage, cash flow-to-debt and interest coverage ratios have improved significantly from 2004 levels and continue to support the current rating.

Positive free cash flow stemming from reasonable dividend payouts and relatively modest capital expenditures have been largely responsible for the considerably improved debt-to-capital ratio of 45% compared with 2004 levels.

The large swings in working capital are mainly due to timing differences in when the Company pays for, and is paid for, power costs.

Outlook

Continuing to manage credit exposure will be a key initiative for Enwin as it has exposure to large industrial customers (approximately 20% of total load) which are primarily tied to the auto sector. Recognition of bad debt expense could have an impact on earnings going forward.

Earnings and cash flow from operations are expected to remain stable over the short term due to the restart of some manufacturing activity in the area, resulting in higher throughput.

Enwin projects increased capital expenditures through 2011, primarily due to the replacement of aging infrastructure, improving reliability and installation of Smart Meters. Enwin is anticipating capital expenditures of approximately \$19 million for 2009, \$34 million for 2010 and \$13 million in 2011; annual capital expenditures beyond 2011 are expected to average roughly \$12 million. Smart Meter installations will account for about 15.6% of the capital expenditure profile during the 2009 to 2011 period.



With the amortizing promissory notes in 2009, DBRS expects some moderation in credit metrics over the medium term. While the increased leverage will affect the credit metrics of Enwin, leverage is expected to be within 60%, thus enabling Enwin to maintain adequate credit metrics to sustain the A (low) rating.

Long-Term Debt and Bank Lines

Summary

Enwin's long-term debt currently consists of the following:

- Senior unsecured debentures totalling \$50 million issued to the Electricity Distributors Finance Corporation, maturing on August 15, 2012.
- Amortizing subordinate debt from the City of Windsor (promissory notes) totalling \$3.256 million as of June 30, 2009, and maturing in Q4 2009.

Enwin currently has an unsecured committed \$75 million revolving term facility which was renewed in February 2009 and matures in February 2012.

Enwin has a letter of credit with the Independent Electricity System Operator (IESO), and as of June 30, 2009, no amount was outstanding.

Outlook

Enwin's liquidity position is reasonably strong, reflecting the \$71 million in available credit facilities (as of June 30, 2009) and stable cash flow from operations.

Working capital requirements and any short- to medium-term needs would be funded with Enwin's revolver.

ENWIN Utilities Ltd.	12 months ended	For the year ended December 31				
	June 30, 2009	2008	2007	2006 (R)	2005	2004
Gross distribution revenues	218.08	224.25	227.64	224.76	253.41	218.77
Power purchases	173.58	179.72	184.32	183.84	216.83	182.45
Net distribution revenues	44.50	44.53	43.32	40.91	36.57	36.33
Ancillary revenues	15.63	14.87	14.13	16.34	2.94	3.08
Net operating revenues	60.13	59.40	57.45	57.25	39.52	39.41
Expenses:						
Operating and maintenance	32.75	32.54	30.50	33.28	21.86	23.38
Services provided by related parties	-	-	-	-	-	-
Administrative and other operating	-	-	-	-	-	-
Depreciation	11.31	11.14	10.99	12.35	9.27	8.93
Total operating expenses	44.06	43.68	41.49	45.62	31.12	32.31
Operating income	16.07	15.72	15.96	11.63	8.40	7.10
Interest income	-	-	-	-	-	-
Earnings before interest & taxes (EBIT)	16.07	15.72	15.96	11.63	8.40	7.10
Interest expense	4.05	4.46	5.17	5.68	5.57	5.57
Non-cash financial charges	-	-	-	-	-	-
Net financial expense	4.05	4.46	5.17	5.68	5.57	5.57
Pre-tax income	12.01	11.26	10.79	5.95	2.83	1.53
Income taxes	4.38	3.88	(4.65)	(4.28)	0.38	0.28
Income before extraordinary items	7.64	7.39	15.44	10.23	2.45	1.25
Extraordinary items	1.43	0.17	0.30	2.72	0.07	(6.01)
Net Income	9.07	7.56	15.74	12.95	2.52	(4.75)

(R) Restated



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Finance
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Report Date:
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ENWIN Utilities Ltd.

Balance Sheet (\$ millions)	June 30, As at December 31			Liabilities & Equity	June 30, As at December 31		
	2009	2008	2007		2009	2008	2007
Assets							
Cash & short-term investments	6.9	-	-	Short-term debt	23.6	17.7	24.8
A/R + unbilled revenue	33.3	34.7	36.0	A/P + accruals	22.1	24.3	23.2
Inventories	2.4	2.2	2.2	Other Current Liab.	1	1	8
Regulatory assets	-	-	-	Current Liabilities	46.7	43.0	56.0
Other	0.6	1.1	0.2	Customer deposits	7.5	7.4	8.0
Current Assets	43.3	38.1	38.5	Long-term debt	50.0	50.0	52.4
Net fixed assets	175.4	174.1	175.2	Other liabilities	33.8	33.2	31.5
Net investment in lease	-	-	-	Shareholders' equity	89.7	85.5	82.0
Other assets	9.1	7.1	16.2				
Total	227.8	219.2	229.9	Total	227.8	219.2	229.9

ENWIN Utilities Ltd.

Ratios/Operating Stats	12 months ended For the year ended December 31					
	June 30, 2009	2008	2007	2006	2005	2004
Operating margin	26.7%	26.5%	27.8%	20.3%	21.2%	18.0%
Pre-tax margin (bef. extras.)	20.0%	19.0%	18.8%	10.4%	7.2%	3.9%
Return on avg. common equity	8.7%	8.8%	18.6%	14.3%	4.2%	2.1%
MWh sold/employee	13,657	14,447	15,762	27,966	29,880	7,408
Customers/employee	446	448	448	799	802	313
Oper. costs (1)/avg. customer (\$)	388	384	361	395	263	283
Rate base — (\$ millions)	199.8	186.5	186.5	186.5	165.4	161.3
Number of employees	189	189	189	106	105	268
Peak system demand (MW)	532	532	669	669	669	602

Electricity Throughputs

Residential	629.7	637.1	665.0	655.1	708.5	646.6
General service	1,257.5	1,295.0	1,352.1	1,285.7	1,353.2	245.8
Large users	677.1	781.4	945.1	1,006.7	1,059.0	1,076.4
Street lighting	16.9	17.0	16.9	16.9	16.7	16.5
Total – (GWh)	2,581.2	2,730.5	2,979.1	2,964.4	3,137.4	1,985.3

Growth in electricity throughputs

Number of Customers

Residential	76,108	76,400	76,496	76,407	75,921	75,107
General service	8,142	8,234	8,251	8,283	8,324	8,699
Large users	9	10	10	11	9	9
Street lighting	2	2	2	2	2	1
Total	84,261	84,646	84,759	84,703	84,256	83,816

Unit Revenues & Costs (cents per kWh throughputs)

Average gross revenues	9.05	8.76	8.12	8.13	8.17	11.17
Power costs	6.72	6.58	6.19	6.20	6.91	9.19
Average net revenues	2.33	2.18	1.93	1.93	1.26	1.98
Variable costs (OM&A + PILS)	1.44	1.33	0.87	0.98	0.71	1.19
Fixed costs (deprec., int., gov't levies)	0.60	0.57	0.54	0.61	0.47	0.73
Total costs (excl. power costs)	2.03	1.90	1.41	1.59	1.18	1.92
Net margin	0.30	0.27	0.52	0.34	0.08	0.06

(1) Excludes municipal and property taxes.

Rating

Debt	Issuing Entity	Rating	Rating Action	Trend
Issuer Rating	Enwin Utilities Ltd.	A (low)	Confirmed	Stable

Rating History

Issuer Rating	Current	2008	2007	2006	2005	2004
	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)



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The Company

PowerStream Inc. was created in 2004 through the merger of three local distribution companies – Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc. and Richmond Hill Hydro Inc. PowerStream acquired Aurora Hydro Connections Ltd. on November 1, 2005. Following the January 1, 2009, merger with Barrie Hydro Distribution Inc., PowerStream is currently 45% owned by the City of Vaughan and 34% by the Town of Markham and 21% by the City of Barrie. It is the second largest electricity distribution company in Ontario, providing service to residential and business customers in the municipalities of Aurora, Markham, Richmond Hill, Barrie, Vaughan and 11 Simcoe counties. The Company serves approximately 316,656 customers in a service area of 806 square kilometres.

PowerStream Inc.

Rating

Debt Issuer Rating	Issuing Entity	Rating	Rating Action	Trend
	PowerStream Inc.	A	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating of PowerStream Inc. (PowerStream, or the Company) at “A” with a Stable trend. PowerStream continues to benefit from a low level of business risk stemming from its regulated electricity distribution operations, its solid financial profile and a strong franchise area with a favourable customer mix. PowerStream merged with Barrie Hydro Distribution Inc. (Barrie Hydro) on January 1, 2009, resulting in a combined entity that provides greater diversification and would benefit from strong population growth in the city of Barrie.

The Company’s financial metrics have steadily improved and continue to benefit from the growth in EBIT and earnings, which have trended upward in recent years. DBRS notes that PowerStream’s management has been successful in steering the Company through the transitional challenges that were expected following the completion of the merger of three LDCs and the merger of Aurora Hydro and Barrie Hydro within the last five years. The Company currently has about 314,000 customers following the merger with Barrie Hydro, and views a customer base in the 300,000 to 500,000 range to be optimal for a regulated distribution company.

The Company posted a modest free cash flow deficit in the first half of 2009, primarily due to capital expenditures related to the installation of Smart Meters and a new transformer station exceeding cash flow from operations. The deficit was primarily funded with cash and bank debt. (Continued on page 9.)

Rating Considerations

Strengths

- (1) Growth-oriented franchise area: PowerStream expects revenue growth of 1.5% to 3.0% over the next five years
- (2) Second largest LDC in Ontario
- (3) Strong financial profile

Challenges

- (1) Managing heightened capital expenditures
- (2) Low regulated returns
- (3) Political and regulatory uncertainty
- (4) Identifying suitable M&A opportunities and managing transition

Financial Information

	Unaudited		2008	2007	2006	2005 (1)
	6 months ended June 30, 2009 (2)	12 months ended 2008 PF (3)				
EBIT interest coverage (times)	2.63	2.75	2.58	3.48	2.90	2.27
Total debt-to-capital (1)	59.5%	57.9%	58.7%	54.8%	56.4%	57.9%
Cash flow-to-total debt (1)	10.8%	19.0%	18.7%	22.6%	19.9%	17.5%
Operating cash flow (\$ millions)	20.5	72.6	57.8	57.2	49.5	43.0
Net income (\$ millions)	11.6	22.5	17.8	21.1	19.5	14.6
Operating margin	36.3%	34.1%	34.0%	39.5%	40.6%	39.7%
Electricity throughput (GWh)	8,224	8,438	6,829	6,873	6,743	6,800
Customer base	316,656	314,223	244,588	236,268	228,518	219,816

P = pro forma (consolidation of Richmond Hill Hydro, Hydro Vaughan, and Markham Hydro).
n/a = not applicable. n.a. = not available.
(1) Includes subordinate debt (promissory notes to shareholders).
(2) 2009 financials include the combined results of Barrie Hydro Holdings Inc. and Powerstream
(3) 2008 PF is the DBRS estimate of the combined full year results of both Barrie Hydro and Powerstream



Rating Rationale (Continued from page 8.)

However, given the Company's stated policy of maintaining leverage at 60%, in line with the OEB-approved deemed capital structure, DBRS expects that its credit metrics will remain at a level appropriate for an "A" rating. While cash flow from operations over the next two years will be primarily driven by population and load growth as well as cost savings, it will also be affected by the rate adjustment through the 3rd Generation Incentive Mechanism. However, the Company's regulated electricity distribution operations, together with its strong franchise area, are expected to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

PowerStream filed its 2009 Cost of Service Rate Application in October 2008 and received approval in July 2009, which subsequently allowed it to rebase the distribution rates and recover the costs of the previously installed Smart Meters.

Financial Profile and Outlook

(\$ millions)	Unaudited					
	6 months ended		As at December 31			
	June 30, 2009 (3)	2008 PF (4)	2008	2007	2006	2005 (1)
EBITDA	47.83	93.61	72.57	79.11	75.73	69.90
EBIT	27.0	52.9	41.2	49.4	47.2	43.8
Interest Expense	10.3	19.2	16.0	14.2	16.3	19.3
Net income (before extras)	11.6	22.5	17.8	21.1	19.5	14.6
Depreciation	21.9	42.2	32.9	31.5	30.0	27.6
Other non-cash items	(13.0)	7.8	7.1	4.6	(0.0)	0.9
Cash Flow From Operations	20.5	72.6	57.8	57.2	49.5	43.0
Common dividends	(11.3)	(35.2)	(8.5)	(4.7)	(6.6)	-
Capital expenditures	(26.6)	(54.4)	(47.0)	(60.8)	(57.8)	(26.0)
Cash Flow Before Working Capital	(17.4)	(17.0)	2.4	(8.3)	(14.9)	17.1
Changes in working capital	(20.9)	(12.5)	(14.9)	11.8	(20.2)	31.2
Free Cash Flow	(38.3)	(29.5)	(12.5)	3.5	(35.1)	48.2
Other (investments)/dispositions	0.3	0.1	0.1	9.9	9.6	7.8
Merger/Acquisition	-	-	-	-	-	(30.0)
(Increase in)/recovery of regulatory assets	-	3.4	1.7	(3.5)	(0.8)	2.6
Net change in equity	-	-	-	-	-	6.8
Net change in debt	-	75.0	50.0	-	2.1	-
Other financing	19.1	(6.3)	(6.1)	10.3	(5.9)	(29.3)
Net Change in Cash	(18.9)	42.7	33.1	20.2	(30.0)	6.02

Key Financial Ratios

Total debt-to-capital (2)	59.5%	57.9%	58.7%	54.8%	56.4%	57.9%
EBITDA interest coverage	4.65	4.87	4.55	5.57	4.65	3.62
EBIT interest coverage	2.63	2.75	2.58	3.48	2.90	2.27
Cash flow-to-total debt (2)	10.8%	19.0%	18.7%	22.6%	19.9%	17.5%
Dividend payout	97.5%	156.2%	47.8%	22.2%	33.6%	0.0%

(1) The F2005 financials include the financial results of Aurora Hydro for the 2 months period ending Dec. 31, 2005.

(2) Includes subordinate debt (promissory notes to shareholders).

(3) 2009 financials include the combined results of Barrie Hydro Holdings Inc. and Powerstream

(4) 2008 PF is the DBRS estimate of the combined full year results of both Barrie Hydro and Powerstream

Summary

PowerStream continues to maintain a strong financial profile, reflecting its solid balance sheet and credit metrics.

Cash flow-to-debt and interest coverage ratios have trended lower in recent years as a result of increased debt levels; however, metrics continue to be in line with the "A" rating.

The Company expects to maintain a minimum dividend payout ratio of 50%, once an average of 60% debt-to-capital is achieved.



**Electricity
Distributors
Finance
Corporation**

Report Date:
November 23, 2009

In the first half of 2009, the Company posted a modest free cash flow deficit, primarily due to Smart Meter installation and construction of a new transformer station funded primarily with bank debt.

Regulated operations account for almost all the cash flow from operations.

Outlook

Cash flow from operations is expected to increase over the medium-term as a result of the addition of Barrie Hydro earnings and customer growth within the service area, offset by a modest decline in approved ROE by the OEB and higher interest expense.

While growth in cash flow from operations over the next two years will be primarily driven by population and load growth, it will also be affected by the rate adjustment through the 3rd Generation Incentive Mechanism. However, the Company's regulated electricity distribution operations, together with its strong franchise area, are expected to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

PowerStream projects capital expenditures for 2009 and 2010 in line with 2008 levels, primarily due to Smart Meter installation and transformer station construction costs. The OEB has approved funding through the rate adder for the installation of Smart Meters. The costs associated with previously installed Smart Meters are recovered through approved rate riders.

Given the Company's stated financial policy of maintaining leverage at 60% in line with the OEB-approved deemed capital structure, DBRS expects the credit metrics to remain at a level appropriate to support the "A" rating.

Long-Term Debt and Bank Lines

Summary

PowerStream's long-term debt currently consists of the following:

- Senior unsecured debentures totalling \$125 million issued to the Electricity Distributors Finance Corporation, maturing on August 15, 2012.
- Subordinate debt to shareholders (promissory notes) totalling \$166.1 million.
 - \$78.2 million held by the City of Vaughan
 - \$67.9 million held by the Town of Markham
 - \$20.0 million held by the City of Barrie

The three promissory notes are repayable 90 days following demand from either City or Town. These notes have been classified as long term by PowerStream as it is not the intent of any City or the Town to demand repayment within the next year.

- The interest on the City of Vaughan and Town of Markham promissory notes was deferred for eight quarters commencing October 1, 2006, and will be repayable in full on October 31, 2013.

PowerStream currently has access to the following unsecured bank-credit facility:

- \$75 million committed revolving facility
- \$25 million uncommitted demand facility, renewable annually
- \$15 million uncommitted letter of guarantee facility
- \$50 million committed term facility, five-year fixed

As at December 31, 2008, the Company had utilized \$12 million to provide the IESO with a letter of credit for prudential support.

Outlook

The Company's liquidity position is strong, reflecting the fairly modest utilization of the credit facility, stable cash flow from operations, \$25 million in short-term obligations, and a reasonable cash position.

Working capital requirements and any short- to medium-term needs would be funded with the Company's operating line.



**Electricity
Distributors
Finance
Corporation**

Report Date:
November 23, 2009

PowerStream Inc.

Income Statement

(\$ thousands)

	<u>Unaudited</u>					
	6 months ending		As at December 31			
	<u>June 30, 2009 (1)</u>	<u>2008PF (2)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross electricity revenues	351.9	749.0	606.2	604.4	581.2	592.2
Power purchases	281.4	597.3	485.2	489.8	475.7	491.3
Net distribution revenues	70.5	151.7	121.0	114.6	105.5	100.9
Ancillary revenues	4.0	3.3	-	10.5	10.7	9.3
Net operating revenues	74.5	155.0	121.0	125.1	116.2	110.2
Expenses						
Operating and maintenance	26.6	54.2	48.5	45.9	16.1	15.9
General and administration	-	7.2	-	-	22.3	22.3
Municipal and property taxes	-	0.0	-	-	2.1	2.1
Depreciation & amortization	20.8	40.7	31.4	29.7	28.5	26.1
Total operating expenses	47.4	102.1	79.9	75.6	69.0	66.4
Operating income	27.0	52.9	41.2	49.4	47.2	43.8
Other (income)/expense	-	0.0	-	-	-	-
Earnings before interest & taxes (EBIT)	27.0	52.9	41.2	49.4	47.2	43.8
Interest expense	10.3	19.2	16.0	14.2	16.3	19.3
Non-cash financial charges	-	0.0	-	-	-	-
Net interest expense	10.3	19.2	16.0	14.2	16.3	19.3
Pre-tax income	16.8	33.7	25.2	35.2	30.9	24.5
Income taxes/PILS	5.2	11.1	7.4	14.1	11.5	9.9
Net income	11.6	22.5	17.8	21.1	19.5	14.6

(1) 2009 financials include the combined results of Barrie Hydro Holdings Inc. and Powerstream

(2) 2008 PF is the DBRS estimate of the combined full year results of both Barrie Hydro and Powerstream

PowerStream Inc.

Balance Sheet

(\$ millions)

	June 30 As at December 31					June 30 As at December 31			
	<u>2009</u>	<u>2008PF (1)</u>	<u>2008</u>	<u>2007</u>		<u>2009</u>	<u>2008PF (1)</u>	<u>2008</u>	<u>2007</u>
Assets					Liabilities & Equity				
Cash & short-term investments	49.6	71.5	57.6	25.1	Short-term debt	25.0	25.0	-	-
A/R & unbilled revenue	127.5	140.7	115.7	110.1	A/P & accruals	137.8	119.7	98.4	112.9
Inventories	5.2	4.0	2.7	6.1	Other	2.9	10.6	3.3	6.8
Other	8.3	6.4	3.7	1.2	Current Liabilities	165.7	155.4	101.7	119.7
Current Assets	190.5	222.6	179.8	142.6	Customer deposits	15.6	15.5	12.2	11.7
Net fixed assets	571.0	566.2	445.7	429.4	Long-term debt	355.2	357.0	309.9	253.2
Regulatory assets	-	-	-	-	Regulatory liabilities	74.5	19.6	12.7	11.0
Other assets	84.7	12.8	12.2	11.7	Other liabilities	19.1	18.6	15.8	11.9
Goodwill & other assets	42.5	42.5	33.0	33.0	Shareholders' equity	258.7	278.3	218.4	209.2
Total	<u>888.8</u>	<u>844.2</u>	<u>670.7</u>	<u>616.6</u>	Total	<u>888.8</u>	<u>844.2</u>	<u>670.7</u>	<u>616.6</u>

(1) 2008 PF is the DBRS estimate of the combined full year results of both Barrie Hydro and Powerstream

	June 30 As at December 31					<u>Jul</u>
	<u>2009 (1)</u>	<u>2008PF</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ratios/Operating Stats						
Operating margin	36.3%	34.1%	34.0%	39.5%	40.6%	39.7%
Pre-tax margin	22.5%	21.7%	20.8%	28.2%	26.6%	22.2%
MWh sold/employee	16,818	17,256	17,830	19,470	19,102	19,597
Customers/employee	648	643	639	669	647	633
Oper. costs/avg. customer (\$)	84	220	202	198	171	183
Rate base	673	649	499	463	468	443
Number of employees	489	489	383	353	353	347
Peak system demand (MW)	1,444	1,756	1,444	1,519	1,577	1,485

Electricity Throughputs

Total – (GWh)	8,224	8,438	6,829	6,873	6,743	6,800
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Number of Customers

Residential	279,913	277,836	215,323	207,783	200,794	192,706
General service	36,720	36,364	29,249	28,434	27,671	27,075
Large users	1	1	1	3	6	7
Street lighting	22	22	15	48	47	28
Total	<u>316,656</u>	<u>314,223</u>	<u>244,588</u>	<u>236,268</u>	<u>228,518</u>	<u>219,816</u>

Unit Revenues & Costs

Average gross revenues	4.33	8.92	8.88	8.95	8.78	8.85
Power costs	3.42	7.08	7.10	7.13	7.05	7.23
Average net revenues	0.91	1.84	1.77	1.82	1.72	1.62
Variable costs (OM&A + PILS)	0.39	0.86	0.82	0.87	0.74	0.71
Fixed costs (deprec., int., gov't levies)	0.38	0.71	0.69	0.64	0.70	0.70
Total costs (excl. power costs)	0.76	1.57	1.51	1.51	1.43	1.41
Net margin	0.14	0.27	0.26	0.31	0.29	0.21

(1) 2009 Results include the results of Barrie Hydro Holdings Inc.

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**Electricity
Distributors
Finance
Corporation**

Report Date:
November 23, 2009

Rating

Debt	Issuing Entity	Rating	Rating Action	Trend
Issuer Rating	PowerStream Inc.	A	Confirmed	Stable

Rating History

	Current	2008	2007	2006	2005	2004
Issuer Rating	A	A	A	A	A	A (low)

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