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Electricity Distributors Finance Corp.

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Major Rating Factors

None

Strengths:
- Stable, regulated cash flows
- Limited exposure to commodity price and volume risk
- Low-risk monopoly

Weaknesses:
- Intermediate financial risk profiles of entities supporting the debentures

Rationale

The rating reflects Standard & Poor's assessment of the risk profile of the utility's least creditworthy participant. EDFIN is a special-purpose corporation that acts as a financial conduit for participating local distribution companies (LDCs) in the Province of Ontario (AA-/Stable/A-1+). It has no assets or liabilities itself. The rating on EDFIN's C$175 million, 6.45% unsecured debentures series 2002-1 outstanding reflects our view of the least creditworthy participant supporting the debentures, because the company's structure does not provide for pooled credit support. Each LDC is liable only for its obligations within the structure and has no liability for the obligations of the other. PowerStream Inc. (C$125 million) and EnWin Utilities Ltd. (C$50 million) support the C$175 million EDFIN debt obligation, which matures Aug. 15, 2012.

The 'A' rating reflects our view of both participants' excellent business risk profiles as regulated electricity distribution companies and our expectation that they will maintain their intermediate financial risk profiles. In particular, our rating assumes that PowerStream's investment in nonregulated solar generation will be measured and contribute less than 10% of its consolidated earnings, cash flows, and total fixed assets (Standard & Poor's-adjusted) until the EDFIN debt matures.

Although both EDFIN participants are wholly owned municipal entities (EnWin by the City of Windsor [AA/Stable/--]); PowerStream by the City of Vaughan (not rated), the Town of Markham (not rated), and the City of Barrie [AA/Stable/--]), the rating on the EDFIN debt reflects our view on both participants' stand-alone creditworthiness. In accordance with our criteria, we believe there is a "low" likelihood that the shareholders would provide timely and sufficient extraordinary support in a financial crisis.

Cash flow to service the EDFIN debt comes almost entirely from stable and predictable regulated electricity distribution activities. The Ontario Energy Board's (OEB) regulatory framework supports both LDCs' cash flow stability, allowing for the recovery of prudent costs and the opportunity to earn a modest return. We believe regulatory cost recovery is generally predictable and timeliness is improving. The current environment limits the LDCs' exposure to commodity risk. Although the companies must bill electricity customers for the commodity delivered, the cost is a flow-through. The LDCs have no obligation to ensure an adequate supply of electricity and are not burdened with the procurement process or power purchase agreements. Net distribution revenues are subject to modest volumetric risk, largely due to weather. In our opinion, the near-term risk of energy-policy or electricity-market initiatives that would affect the regulatory environment or the LDCs' credit quality is low. We do not expect this to change despite the OEB's recent announcement of a renewed electricity framework and possible increased scrutiny (for more information, see "Ratings On Ontario Local Distribution Companies Unaffected By Regulator's Announcement Of A Renewed Electricity Framework," published Nov. 4, 2010, on RatingsDirect on the Global Credit Portal).

Each LDC's monopoly position in its service franchise and electricity distribution's asset-intensive and essential nature limit competitive risk, in our view. The electricity distribution business also carries relatively low operating risk.

We expect the EDFIN participants' intermediate financial risk profiles to stay relatively stable and financial key coverage ratios to be comparable to those of 'A' rated Ontario LDC peers. As of Sept. 30, 2010, EnWin's rolling 12-month adjusted fund from operations (AFFO) interest and debt coverage ratios were at 4.0x and 21.3%, respectively. PowerStream's AFFO interest and debt coverage ratios were 4.2x and 20.0%, respectively. In our opinion, both participants' steady, predictable cash flows and adequate liquidity positions support their intermediate financial risk profiles. As of Sept. 30, both participants were in line with the deemed capital structure. EnWin's adjusted total debt-to-total capital ratio was 56%, marginally stronger than PowerStream's 59%. We expect both participants will maintain their balance sheets in line with the regulatory deemed capital structure. A consistent material deterioration from the deemed capital structure or significant investment in nonregulated renewable generation from either participant could affect the rating negatively.

The rating reflects our assumption that both participants will take steps to arrange and secure the sources of repayment in the near term for their respective portion of the C$175 million EDFIN debenture maturing in August 2012. In particular, we recognize that PowerStream would require external financing to repay its portion since its operating cash flows and 364-day committed revolver credit facility (even if it were to be extended beyond its expiry at December 2011) would not cover its C$125 million repayment. While we believe that the capital markets are generally accessible to the regulated LDCs, with stable and predictable cash flows, we could consider a negative rating action if these steps to arrange for sources of repayment do not materialize by August 2011, one year before the debt maturity.

Accounting

The EDFIN participants prepare audited consolidated financial statements (fiscal year ended Dec. 31) and unaudited quarterly statements in accordance with Canadian generally accepted accounting principles. Both participants plan to adopt International Financial Reporting Standards effective Jan 1, 2012. We do not expect the change to affect our rating. No participant has power purchase agreement commitments or material operating leases, which we treated as debt-like for our analysis. A third party provides pensions, and costs are expensed and recovered through rates. Standard & Poor's has materially adjusted EnWin's reported debt of C$65 million (including C$15 million of the intercompany debt), reflecting about C$22 million in postretirement benefit obligations. We expect the company will recover the cost of these obligations through regulated rates.

Table 1

Electricity Distributors Finance Corp.--Peer Comparison*				
Industry Sector: Electric Utility				
	--Average of past three fiscal years--			
(Mil. C$)	**EnWin Utilities Ltd.¶**	**PowerStream Inc.¶**	**Chatham Kent Energy Inc.**	**London Hydro Inc.**
Rating as of Jan. 26, 2011	NR	NR	A/Stable/--	A/Stable/--

Table 1

Electricity Distributors Finance Corp.--Peer Comparison* (cont.)

Revenues	239.7	666.3	95.7	328.8
Net income from continuing operations	10.7	20.0	3.5	7.4
Funds from operations (FFO)	19.1	57.4	8.6	19.8
Capital expenditures	15.1	58.0	6.5	22.8
Cash and short-term investments	2.2	41.0	8.8	19.5
Debt	90.4	329.2	26.4	76.6
Equity	81.1	229.5	38.8	124.7
Debt and equity	171.5	558.7	65.2	201.4
Adjusted ratios				
EBIT interest coverage (x)	2.9	2.3	3.6	3.2
FFO interest coverage (x)	3.4	3.2	5.4	4.8
FFO/debt (%)	21.2	17.4	32.4	25.8
Discretionary cash flow/debt (%)	5.0	(7.5)	(1.6)	(12.1)
Net cash flow/capex (%)	102.1	73.6	104.1	63.2
Total debt/debt plus equity (%)	52.7	58.9	40.5	38.1
Return on common equity (%)	13.4	8.6	9.5	5.8
Common dividend payout ratio (unadjusted; %)	37.3	73.9	49.1	116.9

*Fully adjusted (including postretirement obligations). ¶'A' debt rating on the senior unsecured debt of Electricity Distributors Finance Corp. NR--Not rated

Table 2

EnWin Utilities Ltd.--Financial Summary*

Industry Sector: Electric Utility

		--Fiscal year ended Dec. 31--				
(Mil. C$)	**RTM as of Sept. 30, 2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Rating history	NR	NR	NR	NR	NR	NR
Revenues¶	N.A.	238.2	239.1	241.8	227.2	255.4
Net income from continuing operations	10.9	8.9	7.6	15.7	10.8	2.5
Funds from operations (FFO)	21.8	18.7	19.3	19.5	13.5	14.0
Capital expenditures	29.2	22.6	10.2	12.4	7.8	7.1
Cash and short-term investments	0.0	6.7	0.0	0.0	0.0	0.0
Debt	102.4	92.0	85.5	93.7	99.5	107.4
Equity	81.9	75.8	85.5	82.0	70.0	58.7
Debt and equity	184.3	167.8	171.0	175.7	169.5	166.1
Adjusted ratios						
EBIT interest coverage (x)	3.7	3.4	2.7	2.5	2.0	1.4
FFO interest coverage (x)	4.0	3.5	3.5	3.4	2.9	3.0
FFO/debt (%)	21.3	20.3	22.5	20.8	13.5	13.0
Discretionary cash flow/debt (%)	(23.6)	2.3	5.0	7.6	(2.4)	6.1
Net cash flow/capex (%)	57.4	68.1	139.8	133.1	147.5	180.5
Debt/debt and equity (%)	55.5	54.8	50.0	53.4	58.7	64.7
Return on common equity (%)	12.5	11.0	9.0	20.7	16.7	4.3
Common dividend payout ratio (unadjusted; %)	52.9	45.2	66.2	19.1	18.6	43.7

Table 2

EnWin Utilities Ltd.--Financial Summary* (cont.)

*Fully adjusted (including postretirement obligations). ¶The company provides net revenue, not gross revenue (including COGS), quarterly. RTM--Rolling 12 months. NR--Not rated. N.A.--Not available.

Table 3

Reconciliation Of EnWin Utilities Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	--Fiscal year ended Dec. 31, 2009--								
Enwin Utilities Ltd. reported amounts	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	64.5	75.8	30.1	30.1	18.7	3.9	26.2	26.2	17.3
Standard & Poor's adjustments									
Operating leases	5.9	N/A	2.6	0.3	0.3	0.3	2.3	2.3	5.4
Postretirement benefit obligations	21.6	(0.0)	0.8	0.8	0.8	1.6	(0.5)	(0.5)	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(9.3)	N/A
Total adjustments	27.5	(0.0)	3.4	1.1	1.1	1.9	1.8	(7.5)	5.4
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	92.0	75.8	33.5	31.2	19.8	5.8	28.0	18.7	22.6

*Enwin Utilities Ltd. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Table 4

PowerStream Inc.--Financial Summary*

Industry Sector: Electric Utility

		--Fiscal year ended Dec. 31--				
(Mil. C$)	**RTM as of Sept. 30, 2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Rating history	NR	NR	NR	NR	NR	NR
Revenues	857.7	777.7	606.2	614.8	591.9	601.5
Net income from continuing operations	28.6	21.1	17.8	21.1	19.5	14.6
Funds from operations (FFO)	82.6	72.5	51.4	48.4	49.7	42.9
Capital expenditures	85.0	66.0	46.2	61.7	58.3	26.2
Cash and short-term investments	1.3	42.6	56.7	23.6	3.4	40.1
Debt	407.2	406.7	319.2	261.8	255.1	261.7
Equity	280.8	265.3	215.6	207.5	190.3	177.1
Debt and equity	688.0	672.0	534.8	469.3	445.4	438.8
Adjusted ratios						
EBIT interest coverage (x)	2.4	2.2	2.2	2.7	2.8	2.2

Table 4

PowerStream Inc.--Financial Summary* (cont.)						
FFO interest coverage (x)	4.2	3.9	2.7	2.7	3.6	2.8
FFO/debt (%)	20.3	17.8	16.1	18.5	19.5	16.4
Discretionary cash flow/debt (%)	(11.3)	(12.3)	(5.7)	(2.4)	(13.9)	18.3
Net cash flow/capex (%)	84.7	62.7	92.9	70.7	73.9	163.7
Debt/debt and equity (%)	59.2	60.5	59.7	55.8	57.3	59.6
Return on common equity (%)	9.9	8.1	8.0	9.8	10.2	8.0
Common dividend payout ratio (unadjusted; %)¶	145.7	147.6	47.8	22.4	33.6	46.6

*Fully adjusted (including postretirement obligations). ¶RTM and 2009 figures include a special dividend payment of C$19.8 million. RTM--Rolling 12 months. NR--Not rated.

Table 5

Reconciliation Of PowerStream Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	--Fiscal year ended Dec. 31, 2009--								
Powerstream Inc. reported amounts	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	395.5	268.2	93.4	93.4	51.2	21.9	48.4	48.4	67.4
Standard & Poor's adjustments									
Operating leases	0.1	N/A	0.5	0.0	0.0	0.0	0.5	0.5	N/A
Postretirement benefit obligations	11.0	(3.0)	1.1	1.1	1.1	0.9	(0.5)	(0.5)	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	1.4	(1.4)	(1.4)	(1.4)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	0.3	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	25.5	N/A
Total adjustments	11.2	(3.0)	1.6	1.1	1.4	2.3	(1.4)	24.0	(1.4)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	406.7	265.3	94.9	94.5	52.6	24.2	47.0	72.5	66.0

*Powerstream Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Related Criteria And Research

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009

Ratings Detail (As Of January 26, 2011)*	
Electricity Distributors Finance Corp	
Senior Unsecured (1 Issue)	A
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.