



CENTRAL HEAT DISTRIBUTION LIMITED

VANCOUVER DISTRICT ENERGY UTILITY

Suite 1, 720 Beatty Street, Vancouver, BC V6B 2M1
Tel 604-688-9584 Fax 604-688-2213 E-mail chdl@telus.net

CHDL_2007RR EXHIBIT B-1

August 23, 2007

British Columbia Utilities Commission,
Sixth Floor, 900 Howe Street,
VANCOUVER, B. C.
V6Z 2N3

Attention: Mr. Robert J. Pellatt,
Commission Secretary

Dear Mr. Pellatt:

**Re: Central Heat Distribution Limited
2007 Revenue Requirement Application**

Please find enclosed ten copies of a 2007 Revenue Requirement Application filed by Central Heat Distribution Limited.

Should you require any additional information, please feel free to contact the undersigned.

Yours truly,

CENTRAL HEAT DISTRIBUTION LIMITED

Gerald Mitton,
Controller

GM/lmb

Enclosures



BCUC Log # 21739
RECEIVED

AUG 23 2007

Routing _____

**IN THE MATTER OF THE “UTILITIES COMMISSION ACT”
R. S. B. C. 1996, CHAPTER 473**

**AND IN THE MATTER OF AN APPLICATION BY
CENTRAL HEAT DISTRIBUTION LIMITED TO AMEND ITS SCHEDULE OF RATES**

**To: British Columbia Utilities Commission,
Sixth Floor,
900 Howe Street,
Vancouver, British Columbia.
V6Z 2N3**

APPLICATION

Central Heat Distribution Limited (“Central Heat”), a public utility selling energy in the form of steam in the City of Vancouver and subject to the jurisdiction of the British Columbia Utilities Commission (“Commission”), hereby applies to amend its Tariff which is presently filed with the Commission.

Central Heat applies under sections 58 and 61 of the Utilities Commission Act, R. S. B. C. 1996, Chapter 473, to amend its rate schedule filed effective October 1, 2007. In addition to the change in rate schedule a few minor wording changes and a change in the amortization rates are requested.

Central Heat seeks to have the new rates effective October 1, 2007. The increase in the rates of the Steam Tariff is 10.51%, however, when combined with the energy input cost, customers will receive an average increase of approximately 2.74%, effective October 1, 2007. Market volatility associated with a potential conflict in the Middle East continues and may affect the average energy input cost further into the course of the next year.

It has been four and three quarter years since Central Heat’s last Tariff increase of January 1, 2003. The Tariff increase requested is required to cover the increases in operating costs, fund capital expenditures, and to allow the utility to earn an appropriate return that is consistent with Commission guidelines. Central Heat operates in a competitive environment and continues an ongoing effort to find efficiencies internally through cost effective use of technology and other improved work processes. In addition, Central Heat works with customers in making energy efficiency modifications that have resulted in better energy use and, as a result, some of the utility’s increase in growth has been somewhat offset by demand side management efforts. We anticipate that approval of the Application will allow the utility to move forward with an appropriate revenue base, subject to allowance for costs beyond our reasonable control.

Central Heat is notifying its customers and the City of Vancouver of the enclosed Application. A copy of the notification letter is filed under TAB 9.

The Application has been set out as follows:

TAB 1	Copy of this letter of Application
TAB 2	Executive Summary
TAB 3	Formal application and draft of the proposed amendments to the Table of Charges.
TAB 4	Blacklined copy of Changes to Central Heat Steam Tariff.
TAB 5	Audited Financial Statements and Auditor's Report thereon for the year ended December 31, 2006.
TAB 6	Projections of Revenue, Expenses and Net Utility Income for the year 2007 with notes detailing the basis of the projections after a 10.51% Tariff increase.
TAB 7	Depreciated Rate Base and Rate of Return after a 10.51% Tariff increase.
TAB 8	Cost of Capital after a 10.51% Tariff increase.
TAB 9	Letter dated August 2007 sent to the Customers of Central Heat notifying of the enclosed Application.
TAB 10	Energy Services Agreement

All of which is respectfully submitted.

Dated at Vancouver, British Columbia, this twenty-third day of August 2007.

CENTRAL HEAT DISTRIBUTION LIMITED

John S. Barnes,
President

All Notices and communications in connection with this Application should be directed to:

John S. Barnes,
President,
Central Heat Distribution Limited,
Suite 1, 720 Beatty Street,
Vancouver, B. C. V6B 2M1
Telephone: 604-688-9584
Fax: 604-688-2213

EXECUTIVE SUMMARY

CENTRAL HEAT DISTRIBUTION LIMITED

REVENUE REQUIREMENT APPLICATION

EFFECTIVE OCTOBER 1, 2007

Further Information:

The full rate application as filed by Central Heat with the British Columbia Utilities Commission is available for public viewing at Central Heat offices located at Suite 1, 720 Beatty Street, Vancouver, B. C. or at the British Columbia Utilities Commission offices on the Sixth Floor, 900 Howe Street, Vancouver, B. C.

CENTRAL HEAT DISTRIBUTION LIMITED
2007 REVENUE APPLICATION

EXECUTIVE SUMMARY

Central Heat Distribution Limited (Central Heat) has applied pursuant to Sections 58 and 61 of the Utilities Commission Act for an increase in rates due to increased costs and an anticipated revenue shortfall. Major contributors to the need for this application include added plant and equipment, increased taxes, additional personnel and changes to operating costs.

The following is a summary of information related to the Application.

The application before the B. C. Utilities Commission seeks a 10.51% Tariff increase which, when combined with the energy input cost, will result in an overall average increase to customers' steam costs of approximately 2.74% in 2007. The application to seek a rate increase is the first since January 2003. Subject to approval the increase will result in an overall increase in the Utility's operating margin of approximately \$613,246 in 2007.

The application reflects several specific elements. They are as follows:

- **Operating and Maintenance**

The main increase in Operating and Maintenance costs is the planned creation of two new supervisory positions and the increase in the Collective Agreement with the International Union of Operating Engineers. Due to the large increases in the assessed value of land in Vancouver in recent years, Central Heat has seen its property taxes increase \$48,000 from 2006 to 2007. Amortization has increased due to capital additions and the proposed change to the amortization rate for Office Electronics.

- **Plant and Equipment**

The Company continues to upgrade and add to physical plant to ensure the long term needs of customers are addressed. In 2007 additions to plant in service are forecast to be

\$3,000,000. These capital expenditures are shared between steam plant and distribution system of \$888,850 and \$2,111,150 respectively. Central Heat is continuing to add new customers to the system, which is requiring increased spending to upgrade the distribution system and steam plant. Central Heat is committed to improving overall efficiency while expanding the system.

- **Rate of Return on Common Equity**

The application seeks to provide a rate of return on common equity of approximately 8.70% which is more consistent with other utilities and to also have the relative size of the Utility recognized within the context of determining a fair rate of return. Commission Letter No. L-75-06 set the appropriate ROE for a low-risk benchmark utility for the year 2007. The appropriate ROE in 2007 was set at 8.37%. Based on Central Heat's risk premium as set in the 2003 Rate Application, a rate of Return of 8.70% is just and reasonable for 2007.

- **Customer Issues**

Downtown Vancouver has experienced steady building development growth over the past few years and Central Heat continues to participate in this change. Central Heat has been proactive in ensuring customers benefit from changes taking place within the energy industry through participation with the Canadian District Energy Association, Lower Mainland Large Gas Users Association, Building Owners and Managers Association, Business Council of British Columbia dealing with boiler and heater regulations as well as alternate fuel issues within the Greater Vancouver Regional District.

CENTRAL HEAT DISTRIBUTION LIMITED

THE PARTICULARS ARE:

CHANGE:

To replace the Table of Charges set out in the present Rate Schedule.

REASONS FOR CHANGE:

To provide additional revenue to recover increases in production and labour costs due to inflation, increases in other operating costs, and capital expenditures.

APPROXIMATE REDUCTION IN ANNUAL REVENUE:

Nil

APPROXIMATE INCREASE IN ANNUAL REVENUE:

\$613,246

<u>Places Affected</u>	<u>Estimated Number of Customers Whose Cost of Service will be:</u>		
	<u>Reduced</u>	<u>Increased</u>	<u>Unchanged</u>
All Connected Customers	Nil	155 plus future Customers	Nil

CENTRAL HEAT DISTRIBUTION LIMITED

BY: _____
J. S. Barnes, President

CENTRAL HEAT DISTRIBUTION LIMITED

TABLE OF CHARGES

Proposed Revision to Steam Tariff B.C.E.C. No. 1:

By replacing the Table of Charges set out in the Rate Schedule on Page 16 of the said Steam Tariff B.C.E.C. No. 1 with the following:

\$8.30/M pounds of steam for the first 50M pounds of steam/month

\$7.00/M pounds of steam for the next 150M pounds of steam/month

\$6.20/M pounds of steam for the next 800M pounds of steam/month

\$4.90/M pounds of steam for the remainder per month

CENTRAL HEAT DISTRIBUTION LIMITED

PROPOSED TARIFF CHANGES

Page 1: Change Effective date from January 1, 2003 to **October 1, 2007**

1. DEFINITIONS

- 1) Change: (b) (ii) The supply of steam to the Customer.
To: (b) (ii) The supply of steam **for comfort heating purposes** to the Customer.
- 2) Change: (d) “Customer” shall mean any person who is the owner or tenant of any premises to which steam is supplied and also any person who is actually a user of steam supplied by any Service Connection from the Utility’s works.
To: “Customer” shall mean any person who is the owner or tenant of any premises to which steam is supplied and also any person who is actually a user of **the energy** supplied by any Service Connection from the Utility’s works.
- 3) Change: (e) A pound of steam shall for the purposes of this Tariff and any contract entered into by the Utility hereunder mean one pound of water evaporated into steam or one pound of steam condensed into water.
To: A pound of steam shall for the purposes of this Tariff and any contract entered into by the Utility hereunder mean one pound of water **converted** into steam or one pound of steam condensed into water.

14. GENERAL

- 1) Add: **A customer may request the Utility to provide backup services. A demand charge will be negotiated between the Utility and Customer when the Customer requests the Utility to provide a Service which requires an investment out of proportion to the revenue obtainable over the term of the contract.**

Add: **The Customer authorizes the Utility to purchase energy on the Customer’s behalf. The receipt point of the energy deliveries will be Central Heat’s energy conversion plant.**

15. **RATE SCHEDULE**

Change:	\$7.48 per M pounds of steam for the first 50M pounds of steam per month \$6.34 per M pounds of steam for the next 150M pounds of steam per month \$5.60 per M pounds of steam for the next 800M pounds of steam per month \$4.45 per M pounds of steam for the remainder per month
To:	\$8.30 per M pounds of steam for the first 50M pounds of steam per month \$7.00 per M pounds of steam for the next 150M pounds of steam per month \$6.20 per M pounds of steam for the next 800M pounds of steam per month \$4.90 per M pounds of steam for the remainder per month

The above mentioned changes to the tariff are requested to reflect the fact that energy is distributed in the form of steam. The changes will add clarity to Central Heat's rate as an energy provider.

The addition of the Utility of Central Heat to negotiate a demand charge if the Customer requests Central Heat to be available as a backup provider of energy may be required, as an example, for the new Trade and Convention Centre. As of the filing of this Rate Application Central Heat's involvement has yet to be confirmed.

CENTRAL HEAT DISTRIBUTION LIMITED

T A R I F F

RATES AND CHARGES NAMED IN THIS TARIFF
ARE FOR THE SUPPLY OF

S T E A M

subject to the rules and conditions as stated herein.

The area served under and covered by this Tariff is the area in the City of Vancouver, British Columbia, in the immediate vicinity of the Utility's mains as shown designated on Plan attached hereto.

Filed with British Columbia Utilities Commission May 2, 1974.

Signed: Secretary, British Columbia Utilities Commission

October 1, 2007

EFFECTIVE: ~~January 1, 2003~~ | C

Issued by:

J. S. BARNES, President of
CENTRAL HEAT DISTRIBUTION LIMITED
Suite 1, 720 Beatty Street,
Vancouver, B. C. V6B 2M1

Signed: J. S. BARNES, President

This Tariff is available for public inspection at the principal office of Central Heat Distribution Limited, Suite 1, 720 Beatty Street, Vancouver, B. C. V6B 2M1, and at the office of the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B. C. V6Z 2N3.

1. **DEFINITIONS**

In this Tariff the following definitions shall apply:

(a) "Utility" means CENTRAL HEAT DISTRIBUTION LIMITED.

(b) "Service" shall mean and include:

(i) The supply and installation of all necessary pipes required for delivery of steam from the Utility's mains to a point at least three feet within a Customer's building and a stop valve, separator, trap station, pressure reducing valve and meter, all located and installed as shown and described on a sketch to be prepared by the Utility and approved by the Customer prior to installation.

(ii) The supply of steam **for comfort heating purposes** to the Customer.

| C

- (c) "Service Connection" shall mean and include all necessary pipes required for delivery of steam from the Utility's mains to a point at least three feet within a Customer's building and a stop valve, separator, trap station, pressure reducing valve and meter.
- (d) "Customer" shall mean any person who is the owner or tenant of any premises to which steam is supplied and also any person who is actually a user of ~~steam~~ **the energy** supplied by any Service Connection from the Utility's works. | C
- (e) A pound of steam shall for the purposes of this Tariff and any contract entered into by the Utility hereunder mean one pound of water ~~evaporated~~ **converted** into steam or one pound of steam condensed into water. | C

2. **RULES AND CONDITIONS**

(a) **Application for Service**

Application for service may be made at the offices of the Utility by the signing of a contract, a copy of which will be furnished to the applicant on request. If personal application is not convenient, the Utility, in response to a request by mail or telephone, will send a representative to receive such application. Two or more premises situate within the established service area and registered under the Land Title Act in the name of the same legal and beneficial owner may be included in one application and shall be deemed to be one premise for purposes of applying the rate schedule to the total volume of steam used by said premises.

(b) **Amount, Payment and Return or Forfeiture of Security Deposit**

The Utility may require a reasonable cash deposit from a Customer. Such deposit may be applied by the Utility against any overdue account or other indebtedness of the Customer to the Utility. Any amount not so applied will be returned when satisfactory credit has been established or upon termination of the contract.

3. **CONNECTION AND RECONNECTION CHARGES**

The Utility will furnish, without charge to the Customer, a stop valve, separator, trap station, pressure reducing valve and meter. All other components of the service connection will be charged to the Customer at cost unless otherwise agreed between the Customer and the Utility.

The sum estimated to be the cost to the Customer of providing the service connection shall be deposited at the Utility's office with the application. After receipt of such sum, the Utility will provide the required service. If the cost of the service connection be less than the amount deposited the Utility shall refund to the Customer the difference between the actual cost and the amount so deposited. If the cost exceeds the amount so deposited the Customer will pay such excess cost forthwith before the steam is turned on.

The Utility will obtain all governmental permits and approvals required for service connections.

When service has been disconnected for non-payment of rates, violation of these rules and conditions, or at the request of the Customer, the Utility may require that the Customer pay a service charge of fifty dollars (\$50.00) at the time of reconnection.

4. **METERING, UTILITY OWNERSHIP OF METERS, ETC., AND ACCESS TO CUSTOMERS' PREMISES**

The quantity of steam used shall be determined by condensate meters, steam flow meters or other suitable devices. Meters shall be placed as near as practical to the point of entry to, or discharge from, the Customer's building. The Customer shall do nothing to interfere with the normal flow of steam or condensate through the heating system to the condensate meter, where such meter is used. The steam and condensate formed in the Customer's heating system or other apparatus is the property of the Utility for return by it to its' boiler plants or otherwise to be disposed of as it shall see fit.

When a Customer's steam consumption does not exceed 500M pounds per year the Utility may:

- (a) Where it is uneconomical or not mechanically feasible to provide a meter, estimate the consumption with a test meter.
- (b) Where the Customer's equipment is open-ended, estimate the steam consumption based on the specification and usage of the equipment used by the Customer.

In all cases of estimated steam consumption the current tariff rate structure will be applied to the total monthly volume to calculate the monthly charge.

The Utility shall own the stop valve, separator, trap station, pressure reducing valve and meter on the Customer's premises.

The Utility shall have the right of access to the Customer's premises at all reasonable times for the purpose of making connections, disconnections, reading meters, inspecting any part of the pipes, valves and other equipment required for the delivery of steam delivered to the Customer's system, and repairing the same, or for the purposes of constructing, installing, repairing, replacing, altering, maintaining or removing any part of the Utility's property on the premises, or checking on the pressure, use or waste of steam.

5. **METHODS AND PERIODS OF BILLING AND TIMES FOR PAYMENT**

Bills shall be rendered monthly as nearly as may be. The period between the scheduled meter readings shall be considered a month. Bills shall be due and payable at the office of the Utility at Suite 1, 720 Beatty Street, Vancouver, B. C. V6B 2M1 on presentation and if not paid within thirty days of the date of issue will be subject to an additional charge of 2% of the amount billed for each month (24% per annum) during which default continues.

6. **DISCONTINUANCE OF SERVICE BY THE UTILITY**

When an account becomes thirty days overdue service may be discontinued upon three clear days

previous notice to the Customer. Rates or charges due up to the time of disconnection may be recovered by the Utility. Service will not be resumed until all outstanding charges against the Customer have been paid.

The Utility may discontinue service to any Customer who violates any of the terms and conditions contained in this Tariff.

If, in the opinion of the Utility, the Customer's equipment requires repair or replacement, or the Customer's equipment or use of service does not comply with the terms of the contract or of this Tariff, then except with respect to repairs or replacement for which the Utility is expressly responsible under the contract, the Utility may require the Customer to take immediate steps to remedy the same to the satisfaction of the Utility at the Customer's expense, and if the Customer fails to do so forthwith the Utility may cut off the supply of steam to the Customer's premises on twenty-four hours previous notice, or without notice in case of emergency, or, alternatively, the Utility may, at its option, effect any such repairs or replacement and bill the Customer its reasonable charges therefore, but the Utility shall not be bound to effect any such repairs or replacements or cut off the supply of steam in such circumstances, and failure to do so shall not be taken as acquiescence by the Utility and shall not relieve the Customer from due compliance with the terms of the contract and of this Tariff.

The Utility shall have the right, upon twenty-four hours previous notice to the Customer, to cut off the supply of steam for the purpose of making any necessary connections or repairs to or replacement of the Utility's property serving the Customer's premises or without notice in the case of an emergency. The Utility will use its best endeavours to schedule any such cut-offs so as to avoid undue inconvenience to the Customer.

7. **DISCONTINUANCE OF SERVICE BY THE CUSTOMER**

The Customer may terminate the contract by six months notice to the Utility prior to demolishing the building served. If the building is damaged by fire, earthquake or other cause beyond the control of the Customer so as to be wholly unfit for occupation the Utility will, at the Customer's request, cut off the supply of steam to the building pending restoration, but if restoration is not completed so that steam supply resumes within six months after such suspension, the contract may be forthwith terminated by either party. In the event of any such termination the Customer will repay to the Utility the depreciated value of the service connection not then already recovered by the Utility from the Customer under the contract, plus the costs of removal, less salvage value, if any. The Customer may not otherwise discontinue service during the currency of the contract except with the prior written consent of the Utility.

8. **LIABILITY OF THE UTILITY FOR DELAY OR INTERRUPTION IN SERVICE**

Except with respect to repairs or replacement for which the Utility is expressly responsible under the contract, the Utility shall not be liable for damages of whatsoever kind suffered by the Customer or howsoever caused except when directly caused by the negligence of the Utility, its servants or agents, nor shall the Utility be liable under any warranty or other provision, express or implied, statutory or otherwise, which is not in the contract or in this Tariff expressly set forth.

The Utility will endeavour to provide a regular and uninterrupted supply of steam but it does not guarantee a constant supply of steam or the maintenance of unvaried pressure and shall not be liable for

any loss, injury, damage or expense caused by or resulting from any interruption, termination, failure or defect in the supply of steam, whether caused by negligence of the Utility, its servants or agents, or otherwise.

9. **GENERAL RESTRICTIONS**

Without prior written consent of the Utility, no person, being an owner, occupier, tenant or inmate of a building or premises supplied by the Utility, shall sell or dispose of any steam or permit the same to be carried away or used, or use steam or allow it to be used other than for the purpose for which the service connection has been provided.

No person who is not an agent or employee of the Utility shall make any connections with or alterations to or tamper with any of the Utility's system or services within any street or land or within the Utility's right-of-way or property, nor with any stop valve, separator, trap station, pressure reducing valve and meter belonging to the Utility, nor turn off any valve without authority from the Utility.

10. **ROUTINE CONNECTIONS AND EXTENSIONS TO EXISTING OR MAIN LINE**

The Utility shall not be required to supply service to a Customer if the point of connection to the Customer's building is at a distance of five metres or greater from the mains of the Utility.

Subject to the foregoing and subject to paragraph 3, the Utility, upon request of a prospective Customer within the established service area, will make connection to its main to a point at least one metre within the Customer's building.

The Utility, upon request by a prospective Customer in the vicinity of the established service area, will make extensions to its steam distribution facilities at its own expense, provided such extension will not require an investment out of proportion to the revenue obtainable therefrom over the term of the contract, or cause serious disruption of service to existing Customers.

The Utility reserves the right to refuse to make main extensions and install service pipes to Customers' buildings under weather conditions which would make such undertaking impractical.

11. **NOTICE**

Any notice required or desired to be given under this Tariff shall be in writing and may be given by leaving it with a person apparently in charge of the offices of, or by mailing it in a prepaid registered envelope addressed to the Utility at Suite 1, 720 Beatty Street, Vancouver, B. C. V6B 2M1 or to the Customer as set forth in the contract or to any other address of which the party changing address may notify the other party in writing, and any notice given by mail shall be deemed to be given on the day following the date of mailing.

12. **TAXES**

The rates and charges named in this Tariff do not include Sales Tax or any other tax which the Company may be lawfully authorized or required to add to its normal rates and charges.

13. **GENERIC BACK-BILLING TARIFF**

Terms and Conditions

Pursuant to Section 69 of the Utilities Commission Act, this Tariff constitutes the consent of the Commission to allow a public Utility, in the circumstances specified herein, to charge, demand, collect or receive from its Customers in respect of a regulated service rendered a greater or lesser compensation than that specified in the subsisting schedules of the Utility applicable to that service.

In the case of a minor adjustment to a Customer's bill such as an estimated bill or an equal payment plan billing, such adjustments do not require back-billing treatment to be applied.

(a) **Definition**

Back-billing means the rebilling by a Utility for services rendered to a Customer because the original billings are discovered to be either too high (over-billed) or too low (under-billed). The discovery may be made by either the Customer or the Utility, and may result from the conduct of an inspection under provisions of the federal statute, the Electricity and Gas Inspection Act (EGI Act). The cause of the billing error may include any of the following non-exhaustive reasons or combination thereof:

- (i) Stopped meter
 - (ii) Metering equipment failure
 - (iii) Missing meter now found
 - (iv) Switched meters
 - (v) Double metering
 - (vi) Incorrect meter connections
 - (vii) Incorrect use of any prescribed apparatus respecting the registration of a meter
 - (viii) Incorrect meter multiplier
 - (ix) The application of an incorrect rate
 - (x) Incorrect reading of meters or data processing
 - (xi) Tampering, fraud, theft or any other criminal act
- (b) Whenever the dispute procedure of the EGI Act is invoked, the provisions of that Act apply, except those which purport to determine the nature and extent of legal liability flowing from metering or billing errors.
- (c) Where metering or billing errors occur and the dispute procedure under the EGI Act is not invoked, the consumption and demand will be based upon the records of the Utility for the Customer, or the Customer's own records to the extent they are available and accurate, or if not available, reasonable and fair estimates may be made by the Utility. Such estimates will be on a consistent basis within each Customer class or according to a contract with the Customer, if applicable.
- (d) If there are reasonable grounds to believe that the Customer has tampered with or otherwise used the Utility's service in an unauthorized way, or evidence of fraud, theft or other criminal act exists, then the extent of back-billing will be for the duration of the unauthorized use, subject to the applicable limitation period provided by law, and the provisions of items (g), (h), (i) and (j) below do not apply.

In addition, the Customer is liable for the direct (unburdened) administrative costs incurred by the Utility in the investigation of any incident of tampering, including the direct costs of repair, or replacement of equipment.

Under-billing resulting from circumstances described above will bear interest at the rate normally charged by the Utility on unpaid accounts from the date of the original under-billed invoice until the amount under-billed is paid in full.

- (e) In every case of under-billing or over-billing, the cause of the error will be remedied without delay and the Customer will be promptly notified of the error and of the effect upon the Customer's ongoing bill.
- (f) In every case of over-billing, the Utility will refund to the Customer all money incorrectly collected for the duration of the error, subject to the applicable limitation period provided by law. Simple interest, computed at the short-term bank loan rate applicable to the Utility on a monthly basis, will be paid to the Customer.
- (g) Subject to item (d) above, in every case of under-billing, the Utility will back-bill the Customer for the shorter of:
 - (i) the duration of the error, or
 - (ii) six months for residential, small general service (commercial) or irrigation; and
 - (iii) one year for all other Customers or as set out in a special or individually negotiated contract with the Utility
- (h) Subject to item (d) above, in all cases of under-billing, the Utility will offer the Customer reasonable terms of repayment. If requested by the Customer, the repayment term will be equivalent in length to the back-billing period. The repayment will be interest free and in equal instalments corresponding to the normal billing cycle. However, delinquency in payment of such instalments will be subject to the usual late payment charges.
- (i) Subject to item (d) above, if a Customer disputes a portion of a back-billing due to under-billing based upon either consumption, demand or duration of the error, the Utility will not threaten or cause the discontinuance of service for the Customer's failure to pay that portion of the back-billing, unless there are no reasonable grounds for the Customer to dispute that portion of the back-billing. The undisputed portion of the bill shall be paid by the Customer and the Utility may threaten or cause the discontinuance of service if such undisputed portion of the bill is not paid.
- (j) Subject to item (d) above, back-billing in all instances where changes of occupancy have occurred, the Utility will make a reasonable attempt to locate the former Customer. If, after a period of one year, such Customer cannot be located, the over or under-billing applicable to them will be cancelled.

14. **GENERAL**

A customer may request the Utility to provide backup services. A demand charge will be negotiated between the Utility and Customer when the Customer requests the Utility to provide | N

a Service which requires an investment out of proportion to the revenue obtainable over the term of the contract. | N

The Customer authorizes the Utility to purchase energy on the Customer's behalf. The receipt point of the energy deliveries will be Central Heat's energy conversion plant. | N

In case of disagreement regarding application of these rules and conditions, or circumstances where such application of the rules or conditions appears impractical or unjust to any party, the Utility, the Customer, or the applicant or applicants may refer the matter to the British Columbia Utilities Commission for settlement.

15. **RATE SCHEDULE**

Applicability All areas serviced by the Utility.

Class of Service Steam is distributed to the territory served through mains of sufficient size and in such locations as to supply Customers' steam requirements.

Rate	\$8.30	\$7.48 per M pounds of steam for the first 50M pounds of steam per month	C
	\$7.00	\$6.34 per M pounds of steam for the next 150M pounds of steam per month	C
	\$6.20	\$5.60 per M pounds of steam for the next 800M pounds of steam per month	C
	\$4.90	\$4.45 per M pounds of steam for the remainder per month	C

Air Conditioning A 15% discount will be given to metered steam used for air conditioning through the months of May, June, July and August based on the average price, as calculated pursuant to the rates set out above, per thousand pounds of steam per month used by the Customer concerned. The 15% discount does not apply to charges based on the fuel cost adjustment below.

Fuel Cost Adjustment A fuel cost adjustment of 1 cent per M pounds for each 64 cents or major fraction thereof, increase or decrease in the average cost of one million B.T.U. of fuel above or below the base cost of 41.0 cents. The average cost of fuel is the average of the cost of supplementary fuel consumed during the 12 months ending the month preceding the month of steam consumption plus the current cost of natural gas applied to the actual consumption of natural gas during the same 12 months. A schedule showing the adjustments charged to the rates herein will be filed monthly by the Utility. In addition, the Utility shall file a monthly reconciliation of unrecovered fuel costs to date. The fuel cost adjustment amount shall be modified in any period during which an over-recovery of additional fuel costs will occur.

CENTRAL HEAT DISTRIBUTION LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
AS AT
DECEMBER 31, 2006

CENTRAL HEAT DISTRIBUTION LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

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"Forging strong relationships. Providing clear business advice."

**berris
mangan**

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Central Heat Distribution Limited

We have audited the consolidated balance sheet of Central Heat Distribution Limited as at December 31, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company'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 company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
January 26, 2007



Chartered Accountants

1827 West 5th Avenue
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A PARTNERSHIP OF INCORPORATED PROFESSIONALS

CENTRAL HEAT DISTRIBUTION LIMITED

1.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2006

	2006	2005
ASSETS		
Current Assets		
Cash	\$ -	\$ 554,693
Accounts receivable	3,597,783	3,309,654
Inventory	233,245	88,042
Prepaid expenses	26,300	17,183
Income taxes recoverable	<u>113,703</u>	<u>5,516</u>
	3,971,031	3,975,088
Property, Plant and Equipment (Notes 2 and 12 (b))	17,972,580	16,692,153
Construction In Progress	641,765	223,308
Franchise And Other Intangible Assets (Note 3)	<u>57,308</u>	<u>58,168</u>
	<u>\$22,642,684</u>	<u>\$20,948,717</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 4)	\$ 259,840	\$ -
Accounts payable and accrued liabilities (Notes 12 (b) and (c))	2,975,760	3,188,627
Fuel cost liability	1,794,149	2,305,414
Bank loans (Note 5)	<u>5,500,000</u>	<u>3,500,000</u>
	10,529,749	8,994,041
Long Term Debt (Note 6)	<u>5,000,000</u>	<u>5,000,000</u>
	<u>15,529,749</u>	<u>13,994,041</u>
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)	17,200	17,200
Retained Earnings	<u>7,095,735</u>	<u>6,937,476</u>
	<u>7,112,935</u>	<u>6,954,676</u>
	<u>\$22,642,684</u>	<u>\$20,948,717</u>
Commitments (Note 13)		
Contingent Liabilities (Note 14)		

Approved On Behalf Of The Board


 Director


 Director

See accompanying notes to the consolidated financial statements

CENTRAL HEAT DISTRIBUTION LIMITED

2.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
Revenues		
Steam sales	\$ 5,504,098	\$ 5,432,121
Sundry (Note 12 (a))	<u>221,631</u>	<u>217,889</u>
	<u>5,725,729</u>	<u>5,650,010</u>
Expenses		
Amortization	611,767	587,526
Employee benefits	265,114	253,632
General and administrative	281,928	260,059
Interest on long term debt	309,054	441,114
Management and office wages	334,786	362,085
Operating:		
Fuel, power and water (Note 12 (c))	16,783,118	14,022,663
Salaries and wages	967,619	994,810
Other operating and maintenance	203,179	187,138
Other interest	227,260	73,432
Taxes other than income taxes, net of recoveries	421,159	397,610
Loss on disposal of property, plant and equipment	<u>9,486</u>	<u>-</u>
	20,414,470	17,580,069
Fuel cost recovery	<u>(15,609,149)</u>	<u>(12,988,270)</u>
	<u>4,805,321</u>	<u>4,591,799</u>
Earnings From Operations	920,408	1,058,211
Income Taxes (Note 10)	<u>251,813</u>	<u>334,984</u>
Net Earnings For The Year	<u>\$ 668,595</u>	<u>\$ 723,227</u>

See accompanying notes to the consolidated financial statements

CENTRAL HEAT DISTRIBUTION LIMITED

3.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
Balance, Beginning of Year	\$ 6,937,476	\$ 6,689,429
Net Earnings For The Year	<u>668,595</u>	<u>723,227</u>
	<u>7,606,071</u>	<u>7,412,656</u>
Dividends Paid (Net Of Dividend Refund Of Taxes)	487,713	451,402
Refundable Taxes On Investment Income	<u>22,623</u>	<u>23,778</u>
	<u>510,336</u>	<u>475,180</u>
Balance, End Of Year	<u>\$ 7,095,735</u>	<u>\$ 6,937,476</u>

See accompanying notes to the consolidated financial statements

CENTRAL HEAT DISTRIBUTION LIMITED

4.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
Cash And Equivalents Flows From Operating Activities:		
Net earnings for the year	\$ 668,595	\$ 723,227
Adjustments for:		
Amortization	611,767	587,526
Loss on disposal of property, plant and equipment	9,486	-
	<u>1,289,848</u>	<u>1,310,753</u>
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	(288,129)	(730,467)
Decrease (increase) in inventory	(145,203)	31,159
Decrease (increase) in prepaid expenses	(9,117)	(3,522)
Decrease (increase) in income taxes recoverable	(108,187)	79,762
Increase (decrease) in accounts payable and accrued liabilities	(212,867)	1,095,031
Increase (decrease) in fuel cost liability	(511,265)	(171,993)
	<u>15,080</u>	<u>1,610,723</u>
Cash Flows From Investing Activities:		
Purchases of property, plant and equipment	(1,890,241)	(839,092)
Costs incurred on construction in progress	(429,036)	(20,944)
	<u>(2,319,277)</u>	<u>(860,036)</u>
Cash Flows From Financing Activities:		
Advances (repayment) of bank loans	2,000,000	2,960,180
Advances (repayment) of long term debt	-	(3,500,000)
Payment of dividends	(510,336)	(475,180)
	<u>1,489,664</u>	<u>(1,015,000)</u>
Decrease In Cash and Equivalents	(814,533)	(264,313)
Cash and Equivalents, Beginning Of Year	<u>554,693</u>	<u>819,006</u>
Cash And Equivalents, End Of Year	<u>\$ (259,840)</u>	<u>\$ 554,693</u>

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary Of Significant Accounting Policies

a) Nature of business and regulation

The Company is primarily engaged in the sale of steam to residential and commercial customers in Vancouver, British Columbia, and is subject to the regulation of the British Columbia Utilities Commission ("the BCUC"). The BCUC exercises statutory authority over such matters as construction and operation of facilities, accounting practices, revenue rates, and contractual agreements with customers.

The Company is governed by a "cost-of-service" regulation, under which the Company is allowed an approved fair return for providing services. The Company must apply to the BCUC to change rates charged to customers. The BCUC reviews a rate application and decides whether a rate change is justified, based on an examination of energy resource alternatives, the revenue requirements of a utility, and a fair return to shareholders. The allowed rate of return on equity for the Company is 9.29%.

In order to recognize the economic effects of regulation, the timing of recognition of certain revenues and expenses in regulated operations may differ from that otherwise expected under Canadian generally accepted accounting principles.

b) Basis of presentation

These consolidated financial statements include the accounts of Central Heat Distribution Limited ("the Company") and its wholly-owned subsidiary, 419211 B.C. Ltd., an inactive holding company acquired by the Company during the 2004 year as described in Note 7, which was dissolved on May 12, 2006.

c) Revenue recognition

The Company recognizes revenue from steam sales at approved tariff rates when the steam has been delivered to the customer and an invoice has been rendered, assuming collection is considered reasonably assured.

The Company recognizes rental revenue at the end of each month of the lease period, assuming collection is considered reasonably assured.

d) Inventory

Inventory of fuel and chemicals is reported at the lesser of cost and estimated current replacement cost using the first-in, first-out cost flow assumption.

e) Property, plant and equipment

Property, plant and equipment is stated at cost including allocated overhead. The Company capitalizes a portion of its administrative overhead to reflect the costs of planning, supervision and control related to acquisition and installation of its assets. In addition, the Company capitalizes interest costs incurred during the period of construction related to major expansion projects.

Amortization is provided on a straight line basis at the following annual rates:

Buildings	1½%
Distribution and other plant and office equipment	1½% to 5%
Transportation equipment	15%

The Company records amortization at rates approved by regulatory authority, which generally approximates an amortization of cost less residual value, over the estimated useful life of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary Of Significant Accounting Policies (continued)

e) Property, plant and equipment (continued)

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset, which is then expensed over the asset's estimated useful life. The liability is accreted over the useful life of the asset through charges to expense.

The fair value of future removal and site restoration costs for the Company are not readily determinable. In addition, there is a reasonable expectation that such costs would be recoverable through future approved rates. Accordingly, no provision has been made for such costs. Any such costs will be recognized when reasonably estimatable.

Contributions received from customers for steam service connections are deferred and amortized on the same basis that the related equipment is amortized. The amount amortized reduces amortization expense each year. The balance sheet amount is stated at cost net of accumulated amortization, and is presented as a reduction of the cost of related property, plant and equipment.

f) Construction in progress

Construction in progress represents the direct costs incurred by the Company in respect to property, plant and equipment being constructed by the Company, which are incomplete at the year end date.

g) Franchise and other intangible assets

Costs incurred in respect to acquisition of franchise and other intangible assets related to the business of the Company are capitalized and amortized on a straight line basis at an annual rate of 1%.

h) Recoverable fuel costs

The Company recovers from its customers the costs of the fuel that it uses to produce steam, in accordance with regulation. Aggregate fuel costs that will be recoverable through future billings are shown as a current asset. Billings to customers in respect to fuel costs which exceed aggregate actual fuel costs incurred, representing an obligation to customers, are presented as a current liability.

i) Income taxes

The Company follows the taxes payable basis of accounting for income taxes and makes no provision for future income taxes. As a regulated utility, the Company charges rates to its customers, which allows the Company to earn an approved return, on an after-tax basis, on its invested capital.

j) Impairment of long-lived assets

The Company monitors the recoverability of long-lived assets, including property, plant and equipment, construction in progress, and franchise and other intangible costs, based upon estimates using factors such as asset utilization, business climate and future discounted cash flows expected to result from the use of the related assets or to be realized on sale. The Company's policy is to write down assets to the estimated net recoverable amount using discounted expected cash flows, in the period when it is determined to be likely that the carrying amount of the asset will not be recovered.

k) Cash and equivalents

Cash and equivalents includes cash and bank indebtedness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary Of Significant Accounting Policies (continued)

l) Employee benefit plans

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets for defined benefit plans. The accrued benefit assets or liabilities are included in accounts receivable or accounts payable and accrued liabilities. The Company has adopted the following policies:

- i) The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service.
- ii) For the purposes of calculating the expected return on plan assets, assets are valued at fair value.
- iii) Actuarial gains and losses arise from the differences between actual and expected long-term rates of return on plan assets, from changes in actuarial assumptions used, or from any deviation between the assumptions used and the actual experience. The excess of the net accumulated actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- iv) Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

m) Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

2. Property, Plant And Equipment

Property, plant and equipment consists of the following:

	<u>Cost</u>	<u>2006 Accumulated Amortization</u>	<u>Amortized Cost</u>	<u>2005 Amortized Cost</u>
Land	\$ 565,525	\$ -	\$ 565,525	\$ 565,525
Building	1,814,425	446,726	1,367,699	1,063,687
Distribution and other plant and office equipment	25,687,177	9,669,112	16,018,065	15,055,576
Transportation equipment	85,676	64,385	21,291	7,365
	<u>\$28,152,803</u>	<u>\$10,180,223</u>	<u>\$17,972,580</u>	<u>\$16,692,153</u>

The balance of Distribution and other plant and office equipment at December of 2006 is net of an amount of \$473,397 (2005: \$473,397) related to costs of contributions in aid of construction and of \$126,677 (2005: \$117,786) representing accumulated amortization of these costs. In prior years, contributions in aid of construction was presented as a liability on the balance sheet. The comparative balance sheet for the 2005 year reflects a reclassification to conform to the presentation adopted for the 2006 year as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. Franchise And Other Intangible Assets

Franchise and other intangible assets consists of organization and franchise costs presented net of accumulated amortization as follows:

	<u>Cost</u>	<u>2006 Accumulated Amortization</u>	<u>Amortized Cost</u>	<u>2005 Amortized Cost</u>
Franchise and other intangible assets	\$ 86,056	\$ 28,748	\$ 57,308	\$ 58,168

4. Bank Indebtedness

The Company maintains a bank operating line of credit, advances under which bear interest at the bank's prime lending rate, are repayable on demand, and are secured by a General Security Agreement including a floating charge on all assets of the Company, and a collateral mortgage in the amount of \$13,000,000, which includes a first fixed charge on the lands and improvements of the Company. The facility has an authorized limit of \$1,000,000.

5. Bank Loans

	<u>2006</u>	<u>2005</u>
(a) The Company maintains a non-revolving bank loan with an authorized limit of \$3,500,000. Advances under the facility bear interest at the bank's prime lending rate per annum which is to be paid monthly, is due to be repaid on April 30, 2007, and is secured as described for the operating line of credit in Note 4.	\$ 1,000,000	\$ -
(b) A Banker's Acceptance bearing interest at a rate of 4.33% (2005: 2.74%) per annum, was due to be repaid on January 17, 2007, and was secured as described for the operating line of credit in Note 4. A new Banker's Acceptance was subsequently obtained on January 17, 2007, bearing interest at a rate of 4.34% per annum, with the same security as the previous facility and is due to be repaid on April 17, 2007.	4,500,000	3,500,000
	<u>\$ 5,500,000</u>	<u>\$ 3,500,000</u>

6. Long Term Debt

A bank operating loan bears interest at a rate of 6.12% per annum, and is due for repayment on April 23, 2009. The loan is secured as described for the operating line of credit in Note 4.

	<u>2006</u>	<u>2005</u>
	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

7. Capital Stock

a) Authorized

250,000 common shares with no par value.

30,000 preference shares with a 6% non-cumulative dividend, redeemable at a par value of \$10 per share.

b) Issued

	<u>2006</u>	<u>2005</u>
56,704 (2005: 60,204) common shares	\$ <u>17,200</u>	\$ <u>17,200</u>

During the 2004 year, the Company acquired all of the issued shares of a holding company (419211 B.C. Ltd.) which owned 3,500 common shares of the Company, in exchange for 3,500 new common shares of the Company. 419211 B.C. Ltd. was dissolved on May 12, 2006, and the shares that it held in the Company were cancelled.

8. Statement Of Cash Flows - Supplementary Information

Cash flows relating to interest and income taxes are as follows:

	<u>2006</u>	<u>2005</u>
Interest paid	\$ <u>533,261</u>	\$ <u>514,546</u>
Income taxes paid	\$ <u>365,517</u>	\$ <u>340,278</u>

9. Pension Plan

The Company maintains a defined benefit pension plan covering nineteen of its employees. The most recent actuarial valuation of the plan as at December 31, 2005 indicated that the actuarial present value of the accrued pension liability was \$2,370,500 and the market value of pension fund assets was \$2,332,700, resulting in an unfunded liability of \$37,800. The next actuarial valuation of the plan must be performed as of December 31, 2008.

The Company reported pension expense, included in Employee Benefits expense, of \$133,100 during the 2006 year (2005: \$125,400). The Company contributed an amount of \$229,900 to the plan during the 2006 year (2005: \$169,800). Employee contributions to the plan during the 2006 year were \$21,200 (2005: \$23,000).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Additional information about the defined benefit plan is as follows:

	<u>2006</u>	<u>2005</u>
<u>Plan Assets</u>		
Fair value at beginning of year	\$ 2,333,500	\$ 2,001,900
Return on plan assets	234,200	190,600
Company contributions	229,900	169,800
Members' contributions	21,200	23,000
Benefits and settlements paid	<u>(98,800)</u>	<u>(51,800)</u>
Fair value at end of year	<u>2,720,000</u>	<u>2,333,500</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

9. Pension Plan (continued)

Accrued Benefit Obligation

Balance at beginning of year	\$ 2,885,500	\$ 2,402,800
Current service cost, net of members' contributions	121,100	108,600
Actuarial losses (gain)	(286,100)	256,300
Interest cost	152,600	146,600
Members' contributions	21,200	23,000
Benefits and settlements paid	(98,800)	(51,800)
Balance at end of year	<u>2,795,500</u>	<u>2,885,500</u>
Plan surplus (deficit)	(75,500)	(552,000)
Unamortized transitional obligation benefit	(94,700)	(110,500)
Unamortized actuarial losses	309,400	704,900
Accrued benefit asset, net of valuation allowance	<u>\$ 139,200</u>	<u>\$ 42,400</u>

The weighted-average asset value allocation by asset category of the Company's pension plan is as follows:

	<u>2006</u>	<u>2005</u>
Equity securities	46 %	48 %
Fixed income securities	43 %	42 %
Cash and equivalents	11 %	10 %
Total assets	<u>100 %</u>	<u>100 %</u>

The significant weighted average actuarial assumptions used to determine the accrued benefit obligation and benefit costs are as follows:

	<u>2006</u>	<u>2005</u>
<u>Accrued Benefit Obligation as of December 31:</u>		
Discount Rate	5.25 %	5.25 %
Rate of Compensation Increase	3.00 %	3.50 %
<u>Benefit Costs for Years Ended December 31:</u>		
Discount Rate	5.25 %	6.00 %
Expected Long-Term Rate of Return on Plan Assets	6.75 %	6.75 %
Rate of Compensation Increase	3.50 %	3.50 %

10. Income Taxes

At December 31, 2006, the amortized cost of property, plant and equipment and franchise and other intangible assets exceeded amortized costs for tax purposes by \$5,752,272. Future income taxes of approximately \$1,841,000 would have been provided on this amount under the tax allocation method of accounting.

11. Financial Instruments And Concentration Of Risk

The carrying values of cash, accounts receivable, bank indebtedness, bank loans, accounts payable and accrued liabilities, fuel cost liability, and long term debt approximate their respective fair values.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

12. Related Party Transactions

- (a) The Company maintains an agreement with a shareholder to lease a portion of the premises owned by the Company. A lease for a five year term expires December 31, 2009. The lease rate is \$44,000 per annum, payable on July 1st of each year during the term of the lease.
- (b) The Company was billed by the shareholder described in (a) during the 2006 year for amounts totalling \$519,800 (2005: \$97,258) for installation of steam mains and related equipment. Included in accounts payable and accrual liabilities at December 31, 2006 is an amount of \$23,976 (2005: \$25,805) owing to the shareholder in respect to such billings.
- (c) Effective September 1, 2003, the Company entered into an Energy Services Agreement with a joint venture under common control with the Company, whereby the Company engaged the joint venture to provide the Company with use of certain energy conservation equipment, and related services. The term of the agreement is from September 1, 2003 to December 31, 2019. Under the agreement, the Company is to pay to the joint venture monthly fees based on energy savings achieved, based on a formula. The Company is to pay 100% of energy cost savings achieved to May 31, 2004 and 75% of energy cost savings subsequently.

The Company was billed by the joint venture during the 2006 year for amounts totaling \$450,411 (2005: \$382,592) pursuant to the agreement. Included in accounts payable and accrued liabilities at December 31, 2006 is an amount of \$71,230 (2005: \$75,517) owing to the joint venture.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

13. Commitments

The Company is committed to purchase natural gas from its major supplier for amounts totaling \$3,545,439 in the 2007 year.

14. Contingent Liabilities

- (a) In a prior year, the City of Vancouver ("the City") filed a Writ of Summons and a Statement of Claim against the Company in respect to a dispute over the calculation of fees payable by the Company to the City for the years between 1974 and 1999. The amount of the claim is \$1,454,485. The Company is disputing the claim and has filed a statement of defence. A trial which was set for October 2, 2006 was adjourned and a new date has not yet been set. In exchange for the Company agreeing to an adjournment, the City has agreed that any claim it might have to interest ceases as of October 2, 2006. The ultimate liability to the Company, if any, arising from this action is not presently determinable and will be recorded at the time of that determination.
- (b) In a prior year, Hudson's Bay Company ("Hudson's Bay") made a legal claim against the Company in respect to damages and costs as a result of water damage to Hudson's Bay's premises and goods, for which Hudson's Bay alleges the Company is responsible. The amount of the claim has not been identified.

The ultimate liability to the Company, if any, arising from this action is not presently determinable and will be recorded at the time of that determination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

15. Financial Statement Effects Of Rate Regulation

Rate regulation may affect the accounting for a transaction or event. Regulatory assets represent certain costs, incurred in the current or prior periods, that are expected to be recovered from customers in future periods through the revenue rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

The Company recovers from its customers the costs of the fuel that it uses to produce steam, in accordance with a formula determined by regulation. The fuel cost liability represents the cumulative excess of billings to customers in respect to fuel costs over actual fuel costs incurred. In the absence of rate regulation, the Company would have a similar obligation to provide credits to its customers, as the obligation is not dependent on the rate-setting process. Consequently the fuel cost liability is not considered a regulatory liability.

Pursuant to the regulations imposed on the Company, income tax expense is recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. The Company has not recognized future income taxes, as it is expected that when these amounts become payable, they will be recovered through future revenues based on approved rates. Generally accepted accounting principles require the recognition of future income tax liabilities and future tax assets in the absence of rate regulation.

16. Subsequent Events

The agreement between the Company and the International Union of Operating Engineers, Local 882 (the "Union") expired December 31, 2005, but the terms of that agreement were extended. Subsequent to December 31, 2006, management of the Company and the Union commenced negotiations in respect to a new agreement, which is expected to be concluded within the 2007 year. The ultimate liability to the Company, if any, arising from a new labour agreement is not presently determinable and will be recorded at the time of that determination.

17. Comparative Figures

Certain of the figures for the 2005 year have been reclassified to conform to the presentation adopted in the 2006 year, as described in Note 2.

CENTRAL HEAT DISTRIBUTION LIMITED

2007 OPERATING BUDGET PROJECTIONS
AFTER 10.51% TARIFF INCREASE

Revenue

Steam Sales – existing revenue	\$ 5,829,637
Steam Sales – 2007 Tariff increase	613,246
Other Income	<u>18,500</u>
	\$ <u>6,461,383</u>

Expenses

Fuel – Net of Recoveries	\$ 679,757
Steam Variable Costs	519,399
Labour Costs	1,608,095
Employee Benefits	386,086
Other Operating and Maintenance	200,510
General Administrative and Office	298,965
Taxes other than Income Tax	466,697
Amortization	662,675
Income Tax Expense	<u>245,213</u>
	\$ <u>5,067,397</u>

NET UTILITY INCOME \$ **1,393,986**

Average Rate Base \$ 19,859,531

Rate of Return on Average Rate Base 7.02%

CENTRAL HEAT DISTRIBUTION LIMITED

STEAM SALES VOLUME (M#)

2005	990,100
2006	1,003,225
2007 Est	1,061,084

	<u>Annual Load M#/07</u>	<u>Annual Revenue/07</u>
2006 Existing Customers	\$1,008,674	\$5,539,125
2007 Additions A	12,385	72,123
B	17,375	92,084
C	14,150	75,598
D	3,300	19,369
E	2,700	16,313
F	<u>2,500</u>	<u>15,025</u>
	<u>\$1,061,084</u>	<u>\$5,829,637</u>

CENTRAL HEAT DISTRIBUTION LIMITED

STEAM TARIFF – JANUARY 1, 2003

	<u>M#</u>	<u>\$/M#</u>	<u>\$ Total</u>	<u>Cum M#</u>	<u>Cum \$</u>
FIRST	50M	7.48	374.00	50M	374.00
NEXT	150M	6.34	951.00	200M	1,325.00
NEXT	800M	5.60	4,480.00	1,000M	5,805.00
REMAINDER		4.45			

PROPOSED STEAM TARIFF – OCTOBER 1, 2007

	<u>M#</u>	<u>\$/M#</u>	<u>\$ Total</u>	<u>Cum M#</u>	<u>Cum \$</u>
FIRST	50M	8.30	415.00	50M	415.00
NEXT	150M	7.00	1,050.00	200M	1,465.00
NEXT	800M	6.20	4,960.00	1,000M	6,425.00
REMAINDER		4.90			

NEAR TERM EXPECTED GROWTH TRENDS

- Continued residential condominium development
- Continued hotel development
- Office development moderating
- Retail development expected to be a growth area
- Continued investment in energy conservation

CENTRAL HEAT DISTRIBUTION LIMITED

OTHER INCOME

Interest and Dividend Income	\$ 3,000
Road Plate Rentals	3,500
Interest on Overdue Accounts	<u>12,000</u>
	<u>\$18,500</u>

Other Income does not include \$301,565 in non-utility revenue which is related to the non-utility assets of Central Heat.

CENTRAL HEAT DISTRIBUTION LIMITED

FUEL

Assume energy purchased = 1,657,944 MM BTU

Assume 3% of energy purchased is OIL = 49,738 MM BTU

Assume OIL cost at \$16.00 per MM BTU

The 2007 OIL cost would be: 49,738 x \$16.00 = \$ 795,808

Assume 97% of energy purchased is NATURAL GAS = 1,608,206 MM BTU

Assume average cost of NATURAL GAS at \$10.00 per MM BTU

The 2007 NATURAL GAS cost would be: 1,608,206 x \$10.00 = \$ 16,082,060

TOTAL FUEL COST \$ **16,877,868**

Fuel Cost Recovery - 1,657,944 x MMBTU @ .41 cents = \$ 679,757

TOTAL TO RECOVER \$ **16,198,111**

CENTRAL HEAT DISTRIBUTION LIMITED

STEAM VARIABLE COSTS**Power Cost**

Actual 2005	-	4.78¢ per M# sold
Actual 2006	-	5.05¢ per M# sold
Assume 2007	-	5.14¢ per M# sold

Power Costs can vary to Central Heat depending on the plant operating configuration used during the year. Power costs were assumed to increase 2% during 2007.

Water and Sewer

Actual 2005	-	26.34¢ per M# sold
Actual 2006	-	34.05¢ per M# sold
Assume 2007	-	31.49¢ per M# sold

Water and Sewer costs have increased due to the Capital Works Plans of the GVRD and City of Vancouver as well as an amount due to inflation over the past few years since the last tariff increase January 1, 2003.

Boiler Chemicals

Actual 2005	-	9.62¢ per M# sold
Actual 2006	-	12.09¢ per M# sold
Assume 2007	-	12.29¢ per M# sold

Boiler Chemicals have increased due to increases in system growth, transportation costs and cost of the raw products from the suppliers. In 2005 the GVRD added soda ash to the water reservoirs in order to increase the pH levels on the city water system to protect copper water lines. Central Heat was required to add a new chemical to counter out the gases given off by the soda ash in the steam lines. The annual increase in chemical cost is approximately \$25,000.⁰⁰.

2007 Estimated Variable Cost: \$519,399

CENTRAL HEAT DISTRIBUTION LIMITED

LABOUR COSTS
Including Shift Differentials and Overtime

	<u>2 0 0 5</u>	<u>2 0 0 6</u>	Est <u>2 0 0 7</u>
Plant Wages and Supervision	\$ 750,749	\$ 768,940	\$ 901,695
Average Number of Employees	11.25	11.25	12.25
Service Line Wages	\$ 244,061	\$ 198,678	\$ 360,930
Average Number of Employees	5	5	6
Management Wages	\$ 362,085	\$ 334,786	\$ 345,470
Average Number of Employees	<u>6</u>	<u>6</u>	<u>6</u>
	<u>\$1,356,895</u>	<u>1,302,404</u>	<u>1,608,095</u>
Average Number of Employees	<u>22.25</u>	<u>22.25</u>	<u>24.25</u>

- 1) Due to customer growth, management retirements, and the requirement to maintain plant and distribution system operations, Central Heat plans to create two new management positions, one position for plant operations and one position on the service line.
- 2) Central Heat's Collective Agreement with the International Union of Operating Engineers, Local 882, was ratified March 13, 2007. The increases under the union contract are as follows:

January 1, 2006	3.00%
January 1, 2007	3.00%
January 1, 2008	3.00%
January 1, 2009	3.75%

There was a one time signing bonus of \$1,500 and some amendments made to the benefit plans.

CENTRAL HEAT DISTRIBUTION LIMITED

EMPLOYEE BENEFITS

Listed below is the estimated Company portion of the various employee benefit plans that require contributions for 2007.

			<u>2007</u>
925-1	WCB	\$	11,595
926-1	Canada Pension Plan		48,636
926-2	Unemployment Insurance		21,140
926-3	Medical Services Plan		1,510
926-4	Company Pensions		237,947
926-5	Group Insurance		23,475
926-6	Dental Plan		23,358
926-3	Extended Health Plan		16,925
926-7	Educational Allowance		<u>1,500</u>
	TOTAL EMPLOYEE BENEFITS	\$	<u>386,086</u>

CENTRAL HEAT DISTRIBUTION LIMITED

OTHER OPERATING AND MAINTENANCE

	<u>2005</u>	<u>2006</u>	Est <u>2007</u>
502-3 Plant Maintenance	\$ 84,066	\$103,834	\$ 92,000
506 Plant Building	6,655	5,068	2,500
874 Mains & Manholes – Utilities	14,173	5,895	10,000
880 Distribution Expenses (Claims)	ø	ø	2,500
887 Mains & Manholes – Maintenance	21,868	29,331	24,000
889 Building Service Maintenance	47,631	47,153	52,000
894 Distribution Equipment Maintenance	470	1,111	500
933 Transportation Expense	<u>18,244</u>	<u>15,967</u>	<u>17,010</u>
TOTALS	<u>\$193,107</u>	<u>\$208,359</u>	<u>\$200,510</u>

502-3 Plant Maintenance

Includes expenses related to the boiler plant. 2006 included extra expenses associated with assessment of the oil tanks. There is inflationary pressure from the suppliers due to the increased cost of materials.

506 Plant Building

Includes expenses related to the boiler plant building and grounds. An amount of \$3,500 has been deducted for non-utility related expenses to the property and building grounds.

874 Mains & Manholes – Utilities

Includes expenses related to utility operating costs for distribution system manholes Central Heat maintains within downtown Vancouver.

/Cont'd

6-9 Cont'd

880 Distribution Expenses (Claims)

Includes the deductible from Central Heat's liability insurance policies in case of an insurance claim. Charges to this account may include amounts paid by Central Heat that are under the insurance policy deductibles.

887 Mains & Manholes – Maintenance

Includes costs associated with the distribution system of Central Heat from pressure reducing valves, traps and miscellaneous piping to graffiti removal from Central Heat planters. Central Heat maintains a preventive maintenance program of annual steam main anchor inspections to assess the structural integrity of the mains that have now been in operation for 38+ years.

889 Building Service Maintenance

Includes costs associated with the service inside the customers' premises. Costs related to pressure reducing, metering, trapping, are included. Over the past six years, Central Heat has made building improvements that have reduced the annual expenses related to building call outs.

894 Distribution Equipment Maintenance

Includes the costs related to repairing and maintaining the Central Heat portable welding and generation equipment used by the service line employees.

933 Transportation Expense

Includes costs related to the motor vehicles used by Central Heat, including repairs and consumables.

CENTRAL HEAT DISTRIBUTION LIMITED

GENERAL ADMINISTRATIVE AND OFFICE

		<u>2 0 0 5</u>	<u>2 0 0 6</u>	Est <u>2 0 0 7</u>	
910	Sales Expense	\$ 24,004	\$ 17,194	\$ 22,000	
921	Office Supplies	41,522	30,849	32,010	
921-1	Engineering Expense	3,399	1,424	630	
921-2	Business Meals & Entertainment	26,230	25,052	25,000	
923	Outside Services	58,855	96,249	96,000	*
924	Insurance	87,242	93,326	90,825	**
932	Building Maintenance	<u>12,275</u>	<u>10,788</u>	<u>32,500</u>	***
		<u>\$253,527</u>	<u>\$274,882</u>	<u>\$298,965</u>	

* An amount of \$14,000 has been deducted as expenses related to non-utility income.

** An amount of \$2,500 has been deducted as expenses related to non-utility income.

*** An amount of \$7,500 has been deducted as expenses related to non-utility income. An amount of \$30,000 has been allocated for the painting of the building.

CENTRAL HEAT DISTRIBUTION LIMITED

TAXES OTHER THAN INCOME TAX

	<u>2005</u>	<u>2006</u>	Est <u>2007</u>	
Property Tax	\$194,810	\$214,278	\$262,280	*
City of Vancouver	173,333	174,234	194,417	
Miscellaneous	306	306	500	**
BCUC Annual Fees	<u>10,471</u>	<u>7,109</u>	<u>9,500</u>	***
	<u>\$378,920</u>	<u>\$395,927</u>	<u>\$466,697</u>	

* Detailed calculations are shown on page 6 – 12.

** Miscellaneous costs relate to Central Heat's steam main easements through various downtown Vancouver properties.

*** BCUC Annual Fees does not include a hearing cost provision that may result from the filing of this application.

CENTRAL HEAT DISTRIBUTION LIMITED

NOTES TO CALCULATION OF NON-UTILITY PROPERTY TAX**Leaseable Area – Land**

			5,900 sq. ft.
Proportion building leaseable area			
5,900 divided by 51,744 = land area	=		11.4%
2007 land tax \$327,536 times .114	=		<u>\$37,339</u>

Portion of Land Tax related to BC Place Lease

12,511 leaseable area divided by 51,744	=		24.18%
2007 – \$327,536 times .2418	=		<u>\$79,198</u>

Leased Area of Building

Leased area 5,900 plus 5,400	=		11,300 sq. ft.
Total area of building	=		40,803 sq. ft.
Proportion	=		27.7%
2007 Building Tax	=		\$ 3,730
2007 Building Tax Proportion			
\$3,730 times .277	=		\$ 1,033

TOTAL DEDUCTION FROM PROPERTY TAXES **\$117,570 for 2007**

CENTRAL HEAT DISTRIBUTION LIMITED

UTILITY PLANT IN SERVICE
AMORTIZATION 2007

Central Heat is proposing to make changes to account 101-391 Office Furniture and Equipment. Account 101-391 has historically included all office furniture, cabinets, desks, as well as computers, phone system, photocopiers, etc. The amortization rate of 5% per year is adequate for the furniture, cabinets and desks, but is not high enough for the office electronics such as computer equipment, photocopier, digital cameras, and phone system.

Office electronics have a useful life expectancy much shorter than the 20 years currently being used. Central Heat proposes to take out the office electronics to a new account number 101-391-1 and have an amortization rate of 20% per year.

Central Heat has reviewed sections of the depreciation study that was used by British Columbia Hydro and Power Authority ("BC Hydro"), in their F2007 and F2008 Revenue Requirement Application. In the study the following Depreciation Rates were approved (with exceptions) by Commission Order No. G-143-06, Appendix A, p. 15 of 45.

<u>Profile ID</u>	<u>Description</u>	<u>Depreciation Rate</u>
80304	PC Software	25.0%
80504	Servers	20.0%
68903	Telephone, Equipment, Monitoring System	20.0%
68904	Telephone System, Cellular	20.0%
80101	Computer, Hardware Micro (PC)	25.0%
80102	Computer, Hardware, Mini	20.0%
80105	Laptops	33.3%

Central Heat requests Commission approval to use a 20% amortization rate on office electronics account 101-391-1. Central Heat does not believe that a new depreciation study has to be submitted, as the BC Hydro study is detailed, current, and relative to both BC Hydro and Central Heat.

The modification requested would increase the annual amortization by \$11,095 per year.

Office Furniture and Equipment - Current

101-391

Current to:

December 31, 2007

5.0%

Year		Capital Additions	Depreciation Rate	Years	Accumulated Depreciation
1969 - 1986		\$18,294.33	Fully depreciated		\$18,294.33
1989	Desk / Cabinets	\$22,917.78	5.0%	18	\$20,626.02
1992	Desk	\$1,485.00	5.0%	15	\$1,113.75
1996	Secretarial Furniture	\$7,802.80	5.0%	11	\$4,291.54
	Sharp Photocopier	\$4,381.65	5.0%	11	\$2,409.88
1998	HP Printer	\$1,407.05	5.0%	9	\$633.15
1999	Desk	\$1,904.60	5.0%	8	\$761.84
	Phone System	\$7,530.70	5.0%	8	\$3,012.32
2000	733MHz Computers (3)	\$11,361.84	5.0%	7	\$3,976.63
2001	Laptop	\$2,416.83	5.0%	6	\$725.04
	Billing Software	\$29,926.00	5.0%	6	\$8,977.80
2002	Billing Software	\$3,898.75	5.0%	5	\$974.70
	Chair	\$637.38	5.0%	5	\$159.35
	Scanner	\$513.55	5.0%	5	\$128.40
	Digital Camera	\$1,294.70	5.0%	5	\$323.70
2004	Computers	\$9,417.01	5.0%	3	\$1,412.55
2006	Boardroom Table	\$4,853.43	5.0%	1	\$242.67
	Office Chair	\$390.50	5.0%	1	\$19.53
	Computer	\$1,817.93	5.0%	1	\$90.90
		\$132,251.83			\$68,174.10

Office Furniture and Equipment - Proposed

101-391

Current to:

December 31, 2007

5.0%

<u>Year</u>		<u>Capital Additions</u>	<u>Depreciation Rate</u>	<u>Years</u>	<u>Accumulated Depreciation</u>
1969 - 1986		\$18,294.33	Fully depreciated		\$18,294.33
1989	Desk / Cabinets	\$22,917.78	5.0%	18	\$20,626.02
1992	Desk	\$1,485.00	5.0%	15	\$1,113.75
1996	Secretarial Furniture	\$7,802.80	5.0%	11	\$4,291.54
1999	Desk	\$1,904.60	5.0%	8	\$761.84
2002	Chair	\$637.38	5.0%	5	\$159.35
2006	Boardroom Table	\$4,853.43	5.0%	1	\$242.67
	Office Chair	\$390.50	5.0%	1	\$19.53
		<u>\$58,285.82</u>			<u>\$45,509.03</u>

Office Electronics - Proposed		101-391-1
Computer Equipment, Photocopier, Digital Camera, Phone System		
Current to:	December 31, 2007	5.0%

Year		Capital Additions	Depreciation Rate	Years	Accumulated Depreciation
1996	Sharp Photocopier	\$4,381.65	5.0%	11	\$2,409.88
1998	HP Printer	\$1,407.05	5.0%	9	\$633.15
1999	Phone System	\$7,530.70	5.0%	8	\$3,012.32
2000	733MHz Computers (3)	\$11,361.84	5.0%	7	\$3,976.63
2001	Laptop	\$2,416.83	5.0%	6	\$725.04
	Billing Software	\$29,926.00	5.0%	6	\$8,977.80
2002	Billing Software	\$3,898.75	5.0%	5	\$974.70
	Scanner	\$513.55	5.0%	5	\$128.40
	Digital Camera	\$1,294.70	5.0%	5	\$323.70
2004	Computers	\$9,417.01	5.0%	3	\$1,412.55
2006	Computer	\$1,817.93	5.0%	1	\$90.90
		\$73,966.01			\$22,665.07

CENTRAL HEAT DISTRIBUTION LIMITED

UTILITY PLANT IN SERVICE
AMORTIZATION 2007

				2007 <u>Amortization</u>
101-391 – Office Furniture and Equipment–Current				
2006	\$132,251.83 X 5%		=	<u>\$6,612.59</u>

Proposed

101-309 – Office Furniture and Equipment

2006	\$58,285.82 X 5%	=	\$ 2,914.29
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101-391-1 – Office Electronics

2006	\$73,966.01 X 20%	=	<u>14,793.20</u>	<u>\$17,707.49</u>
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	=	<u>\$11,094.90</u>
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Central Heat Distribution Limited
Utility Plant in Service
Amortization 2007

6-18

	Balance Beginning Of Year 2007	Less Amount Of fully Depreciated Assets	Net Depreciable Amount	Rate	Amortization Amount
<u>Intangible Plant</u>					
301 Organization Expense	\$20,055		\$20,055	1.0	\$201
302 Franchises and Consents	\$57,932		\$57,932	1.0	\$579
303 Other Intangible Plant	\$8,070		\$8,070	1.0	\$81
Total Intangible Plant	\$86,057		\$86,057		\$861
<u>Steam Production Plant</u>					
310 Land	\$565,525		\$565,525	Nil	\$0
311 Structures and Improvements	\$1,814,425		\$1,814,425	1.5	\$27,216
312 Boiler Plant Equipment	\$6,451,313		\$6,451,313	2.5	\$161,283
312 Tanks	\$129,723		\$129,723	2.5	\$3,243
312 Aux. Equipment	\$822,969	-\$64,534	\$758,435	5.0	\$37,922
315 Accessory Electric Equipment	\$430,368	-\$48,784	\$381,584	5.0	\$19,079
316 Other Steam Production Equipment	\$6,896	-\$6,896	\$0	5.0	\$0
Total Steam Production Plant	\$10,221,219	-\$120,214	\$10,101,005		\$248,743
<u>Distribution Plant</u>					
376 Mains	\$9,829,582		\$9,829,582	2.0	\$196,592
378 Manhole Structures	\$1,195,072		\$1,195,072	1.5	\$17,926
380 Services	\$1,676,173		\$1,676,173	2.0	\$33,523
381 Meters	\$59,967	-\$5,540	\$54,427	3.0	\$1,633
382 House Regulators & Meter Installations	\$5,219,427	-\$267,219	\$4,952,208	3.0	\$148,566
387 Other Distribution Equipment	\$30,041	-\$13,327	\$16,714	5.0	\$836
Total Distribution Plant	\$18,010,262	-\$286,086	\$17,724,176		\$399,076
<u>General Plant</u>					
390 Structures and Improvements	\$115,296		\$115,296	1.5	\$1,729
391 Office Furniture and Equipment	\$132,252	-\$18,582	\$113,670	5.0	\$5,684
392 Transportation Equipment	\$85,676	-\$68,128	\$17,548	15.0	\$2,632
393 Stores Equipment	\$3,068	-\$3,068	\$0	5.0	\$0
394 Tools and Work Equipment	\$56,435	-\$12,642	\$43,793	5.0	\$2,190
398 Other General Equipment	\$1,992	-\$1,197	\$795	5.0	\$40
Total General Plant	\$394,719	-\$103,617	\$291,102		\$12,275
TOTAL UTILITY PLANT IN SERVICE	\$28,712,257	-\$509,917	\$28,202,340		\$660,954
	=====	=====	=====		
					Less Reduction related to Non-Utility Plant (Tab 7-7)
					-\$706
					Record Amortization of Customer Contributions (Tab 7-8)
					-\$8,668
					Addition due to the increase of the amortization rate for office electronics
					\$11,095
					Net Amortization Amount
					\$662,675
					=====

CENTRAL HEAT DISTRIBUTION LIMITED

INCOME TAXES CALCULATED ON ADJUSTED EARNINGS
AFTER 10.51% TARIFF INCREASE

Adjusted Net Profit \$ 1,639,199

Add

Charitable Donations – Est	\$ 200	
Amortization of Tangible Assets	661,814	
Amortization of Intangible Assets	861	
Club Dues – Est	6,000	
Non-deductible portion of Business Meal and Entertainment cost – Est	10,000	
Non-Deductible Life Insurance – Est	<u>1,350</u>	<u>680,225</u>
		\$ 2,319,424

Deduct

Interest Expense – Est	\$ 686,000	
Capital Cost Allowance claimed	891,270	
Cumulative eligible Capital Deduction – Est	475	
Capitalized Overhead – Est	23,000	<u>1,600,745</u>

ADJUSTED NET INCOME FOR TAX PURPOSES **\$ 718,679**

Federal Income Tax

Tax @ 38% of Net Income	\$ 273,098	
Federal Tax Abatement	(71,867)	
Add: Corporate Surtax @ 4%	8,049	
General Tax Reduction for CCPC's @ 7%	<u>(50,308)</u>	\$ 158,972

Provincial Tax

\$718,679 x 12.0%		<u>86,241</u>
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ADJUSTED INCOME TAX **\$ 245,213**

CENTRAL HEAT DISTRIBUTION LIMITED

SCHEDULE OF NON-UTILITY ADJUSTMENTS

1. Reduction of \$3,500 to account for the estimated expenses related to the property and building grounds.
2. Reduction of \$14,000 to account for estimated expenses related to the parking agreement related to non-utility income.
3. Reduction of \$2,500 to account for estimated insurance costs related to the building and property used for non-utility income.
4. Reduction of \$7,500 to account for estimated costs related to the building both interior and exterior used for non-utility income.
5. Reduction of \$117,570 to account for the estimated property taxes related to land and building used for non-utility income.
6. Addition of \$30,116 to account for the estimated change in income taxes related to the separation of non-utility income and expenses.
7. Reduction of \$301,565 in non-utility revenue removed from income.
8. Reduction of \$706 related to the depreciation of non-utility plant.
9. Reduction of \$23,000 relating to general overhead capitalized.
10. Reduction of \$170,000 related to charge out of management and office wages to new construction.
11. Reduction of \$8,668 related to amortization of customer contributions for construction.
12. Reduction of \$40,000 related to the charge out of unionized labour to new construction and customer owned equipment repairs.

CENTRAL HEAT DISTRIBUTION LIMITED

SCHEDULE OF 2007 REVENUE REQUIREMENT APPLICATION
ADJUSTMENTS

13. Increase in amortization rate related to the proposed revised rate of amortization to office electronics in the amount of \$11,095.

14. Proposed tariff increase of 10.51% results in changes as follows.

Additional Utility Revenue	\$ 613,246
Increase cost City of Vancouver	\$ 9,547
Additional Income Tax	\$ 74,037

CENTRAL HEAT DISTRIBUTION LIMITED

SUMMARY
DEPRECIATED RATE BASE AND RATE OF RETURN
AFTER 10.51% TARIFF INCREASE

Plant Value Dec. 31, 2006	\$ 28,712,256	
Accumulated Depreciation Dec. 31, 2006	<u>(10,335,649)</u>	\$ 18,376,607
Plant Value Dec. 31, 2007	31,712,256	
Accumulated Depreciation Dec. 31, 2007	<u>(10,998,324)</u>	<u>20,713,932</u>
		39,090,539
		<u>÷ 2</u>
Mean Depreciated Value of Plant in Service		\$ 19,545,270
Add: Working Capital		691,459
Deduct: 1. Plant related to Non-Utility Income		(34,812)
2. Reduction - Contributions and Grants		<u>(342,386)</u>
Depreciated Rate Base		\$ <u>19,859,531</u>
Earned Return		\$ <u>1,393,986</u>
Earned Return as a percentage of Depreciated Rate Base		<u>7.02%</u>

Central Heat Distribution limited
Utility Plant in Service

	Balance Beginning Of Year 2003	Additions 2003	Balance Beginning Of Year 2004	Additions 2004	Balance Beginning Of Year 2005	Additions 2005	Balance Beginning Of Year 2006	Additions 2006	Balance Beginning Of Year 2007	Estimated Additions 2007	Balance End Of Year 2007
Intangible Plant											
301 Organization Expense	\$20,055		\$20,055		\$20,055		\$20,055		\$20,055		\$20,055
302 Franchises and Consents	\$57,932		\$57,932		\$57,932		\$57,932		\$57,932		\$57,932
303 Other Intangible Plant	\$8,070		\$8,070		\$8,070		\$8,070		\$8,070		\$8,070
Total Intangible Plant	\$86,057	\$0	\$86,057	\$0	\$86,057	\$0	\$86,057	\$0	\$86,057	\$0	\$86,057
Steam Production Plant											
310 Land	\$565,525		\$565,525		\$565,525		\$565,525		\$565,525		\$565,525
311 Structures and Improvements	\$1,360,963	\$70,644	\$1,431,607	\$35,126	\$1,466,733	\$21,360	\$1,488,093	\$326,333	\$1,814,426		\$1,814,426
312 Boiler Plant Equipment	\$6,690,369	\$48,680	\$6,739,049	\$192,013	\$6,931,062	\$232,756	\$7,163,818	\$240,187	\$7,404,005	\$888,850	\$8,292,855
315 Accessory Electric Equipment	\$282,656		\$282,656		\$282,656	\$118,599	\$401,255	\$29,113	\$430,368		\$430,368
316 Other Steam Production Equipment	\$6,896		\$6,896		\$6,896		\$6,896		\$6,896		\$6,896
Total Steam Production Plant	\$8,906,409	\$119,324	\$9,025,733	\$227,139	\$9,252,872	\$372,715	\$9,625,587	\$595,633	\$10,221,220	\$888,850	\$11,110,070
Distribution Plant											
376 Mains	\$8,690,165	\$42,904	\$8,733,069	\$387,236	\$9,120,305	\$22,765	\$9,143,070	\$686,512	\$9,829,582	\$1,326,150	\$11,155,732
378 Manhole Structures	\$793,760	\$100,121	\$893,881	\$37,226	\$931,107	\$100,901	\$1,032,008	\$163,063	\$1,195,071	\$115,000	\$1,310,071
380 Services	\$1,498,271	\$153,808	\$1,652,079	\$7,211	\$1,659,290	\$16,884	\$1,676,174		\$1,676,174		\$1,676,174
381 Meters	\$5,540		\$5,540	\$54,427	\$59,967	\$59,967	\$59,967		\$59,967		\$59,967
382 House Regulators & Meter Installations	\$3,966,649	\$314,915	\$4,281,564	\$170,874	\$4,452,438	\$335,986	\$4,788,424	\$431,001	\$5,219,425	\$599,500	\$5,818,925
387 Other Distribution Equipment	\$25,568	\$1,634	\$27,202		\$27,202	\$2,839	\$30,041		\$30,041		\$30,041
Total Distribution Plant	\$14,979,953	\$613,382	\$15,593,335	\$656,974	\$16,250,309	\$479,375	\$16,729,684	\$1,280,576	\$18,010,260	\$2,040,650	\$20,050,910
General Plant											
390 Structures and Improvements	\$114,976		\$114,976	\$319	\$115,295		\$115,295		\$115,295		\$115,295
391 Office Furniture and Equipment	\$134,417		\$134,417	\$9,417	\$143,834		\$143,834		\$143,834		\$143,834
392 Transportation Equipment	\$79,773		\$79,773		\$79,773		\$79,773		\$79,773		\$79,773
393 Stores Equipment	\$3,068		\$3,068		\$3,068		\$3,068		\$3,068		\$3,068
394 Tools and Work Equipment	\$48,504	\$5,144	\$53,648	\$2,788	\$56,436		\$56,436		\$56,436		\$56,436
398 Other General Equipment	\$1,992		\$1,992		\$1,992		\$1,992		\$1,992		\$1,992
Total General Plant	\$382,730	\$5,144	\$387,874	\$12,524	\$400,398	\$0	\$400,398	-\$5,679	\$394,719	\$70,500	\$465,219
TOTAL UTILITY PLANT IN SERVICE	\$24,355,149	\$737,650	\$25,092,999	\$896,637	\$25,989,636	\$852,090	\$26,841,726	\$1,870,530	\$28,712,256	\$3,000,000	\$31,712,256

CENTRAL HEAT DISTRIBUTION LIMITED

2007 CAPITAL EXPENDITURES BUDGET – ESTIMATE

Mains – 2007	\$	1,326,150
Customer Connections – 2007	\$	599,500
Boiler Plant and Equipment - 2007	\$	888,850
Distribution System - 2007	\$	175,500
Office/Building – 2007	\$	<u>10,000</u>
TOTAL ESTIMATED CAPITAL BUDGET 2007	\$	<u>3,000,000</u>

CENTRAL HEAT DISTRIBUTION LIMITED

ACCUMULATED PROVISION FOR DEPRECIATION 2007

<u>Account Group</u>	<u>Balance Beginning of Year 2007</u>	<u>Depreciation Provision for Year</u>	<u>Balance End of Year</u>
Intangible Plant	\$ 29,361	\$ 861	\$ 30,222
Steam Production Plant	4,150,684	248,037	4,398,721
Distribution Plant	5,978,876	399,061	6,377,937
General Plant	<u>176,728</u>	<u>23,384</u>	<u>200,112</u>
		671,343	11,006,992
Amortization of Customer Contributions for Construction		<u>(8,668)</u>	<u>(8,668)</u>
TOTAL	<u>\$ 10,335,649</u>	<u>\$ 662,675</u>	<u>\$ 10,998,324</u>

CENTRAL HEAT DISTRIBUTION LIMITED

WORKING CAPITAL CALCULATIONS FOR 2007
AFTER 10.51% TARIFF INCREASE

	<u>Lag Days</u>	<u>Amount</u>	<u>Extended</u>	<u>Avg Lag Days</u>
<u>Revenue</u>				
Steam Sales	40.1	5,829,637	233,768,444	
Steam Sales – 2007 Tariff Increase	40.1	613,246	24,591,165	
Other Income	38.8	18,500	717,800	
Fuel Cost Recovery – Gas	40.1	15,436,800	619,015,680	
Fuel Cost Recovery – Oil	40.1	<u>761,311</u>	<u>30,528,571</u>	
		<u>22,659,494</u>	<u>908,621,660</u>	<u>40.09</u>
<u>Expenses</u>				
Fuel - Natural Gas	40.0	16,082,060	643,282,400	
Fuel – Oil	40.0	795,808	31,832,320	
Steam Variable Costs	65.9	519,399	34,228,394	
Salaries and Wages	7.0	1,608,095	11,256,665	
Benefits	20.0	386,086	7,721,720	
Operations, Maint. & Admin.	29.4	418,650	12,308,310	
City of Vancouver Annual Agreement	288.0	194,417	55,992,096	
Income Tax	183.0	<u>245,213</u>	<u>44,873,979</u>	
		<u>20,249,728</u>	<u>841,495,884</u>	<u>41.56</u>
Lag Study Allowance	$\frac{40.09 - 41.56}{365} \times 20,249,728$	=	(\$ 81,554)	
Prepaid Items - Insurance	50% x \$ 90,825	=	45,413	
- Municipal Taxes	37½% x \$262,280	=	98,355	
Inventory - Fuel Oil (12 mos. Avg)			233,245	
Construction Work in Progress			<u>396,000</u>	
			<u>\$ 691,459</u>	

Central Heat Distribution Limited
Construction in Progress-2007 Est.

	Balance Dec31/06	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Est Balance Dec31/07
Mains														
Concord Main Extension	79	86	272	445	611	933	1026	1100	1151	1151	1151	1151	1151	0
N-Leg Extension						8	155	155	175	175	175	175	175	0
Customer Connections														
Area 6-ABCD	20	30	30	38	38	61	109	125	150	170	180	180	180	0
Spectrum	468	469	524	525	534	577	582	590	590	600	600	600	600	0
Shangri-La	19	19	19	23	23	34	41	50	70	80	90	90	100	100
Miscellaneous Buildings	14	14	14	22	22	24	41	48	56	60	65	70	79	50
Boiler Plant and Equipment														
Misc. Plant	38	38	39	39	39	39	39	50	50	60	60	60	60	0
Oil Tanks							3	15	150	250	600	625	625	0
Boiler Upgrades			2	8	12	12	12	35	55	65	65	65	65	0
Various Plant Equipment upgrades			1	12	30	30	40	39	39	39	39	39	39	0
Distribution Plant														
Misc. Distribution System	4	5	5	5	5	5	7	5	5	5	5	5	5	0
Service Line Equipment		1	14	14	14	14	14	14	14	14	14	14	14	0
New Service Van								43	47	47	47	47	47	0
Office/Building														
Office Equipment				6	6	6	6	6	10	10	10	10	10	0
Totals	642	662	920	1137	1334	1743	2075	2275	2562	2726	3101	3131	3150	150

Dec31/06 642
Dec31/07 150

Average Construction in Progress
396

CENTRAL HEAT DISTRIBUTION LIMITED

**VALUE OF NON-UTILITY PLANT
DEDUCTED FROM RATE BASE**

Land Book Value		\$60,242.11
Square feet of land		51,743 sq ft
Cost per square foot - $\$60,242.11 \div 51,743 =$		\$1.164/sq ft
Value of leased land – 12,511 sq ft x \$1.164 =		\$14,563
Building cost		\$170,000
Square feet of Building for Non-Utility Income		27.7%
Cost - $\$170,000.00 \times 27.7\% =$	\$ 47,090	
Accumulated Depreciation up to 2006– 38 years (1968 – 2006) x 1.5% = 57%	<u>(26,841)</u>	<u>\$20,249</u>
TOTAL DEDUCTION FROM RATE BASE		<u>\$34,812</u>
<u>2007 Depreciation Expense Reduction</u>		
$170,000.00 \times 1.5\% \times 27.7\% =$		<u>\$ 706</u>

CENTRAL HEAT DISTRIBUTION LIMITED

CONTRIBUTIONS AND GRANTS

Balance December 31, 2005	\$ 355,610.68
Amortization 2006 – 12 x \$740.86	(8,890.32)
Additions 2006	<u>Ø</u>
Balance December 31, 2006	\$ 346,720.36
Amortization 2007 – 12 x \$722.33	(8,667.96)
Balance December 31, 2007	\$ <u>338,052.40</u>
Mid-year 2007 balance	\$ <u>342,386</u>

CENTRAL HEAT DISTRIBUTION LIMITED

COST OF CAPITAL
AFTER 10.51% TARIFF INCREASE

	<u>Capitalization</u>		<u>Average Embedded Cost</u>	<u>Cost Component</u>
	<u>Amount</u>	<u>%</u>		
Long Term Debt	10,500,000	52.87%	6.08%	3.21%
Unfunded Short Term	2,147,769	10.82%	6.04%	0.65%
Retained Earnings	<u>7,211,762</u>	<u>36.31%</u>	8.70%	<u>3.16%</u>
	<u>19,859,531</u>	<u>100.00%</u>		<u>7.02%</u>

Retained Earnings

Common Share Capital	\$ 17,200
Retained Earnings December 31, 2006	<u>7,095,737</u>
	\$ <u>7,112,937</u>
Earned Return for 2007	\$ 1,393,986
Deduct: Dividends	\$ (510,336)
Interest	<u>(686,000)</u>
Retained Earnings December 31, 2007	\$ <u>7,310,587</u>
Mid-Year Retained Earnings	\$ <u>7,211,762</u>

CENTRAL HEAT DISTRIBUTION LIMITED

2007 INTEREST EXPENSE**Long Term Debt**

December 31, 2006	\$4,500,000.00	BA (4.33% + 1.50% stamp fee = 5.88%)
	<u>5,000,000.00</u>	Fixed term - April 23, 2009 @ 6.12%
	9,500,000.00	

Estimated End of Year	6,500,000.00	BA
	<u>5,000,000.00</u>	Fixed term - April 23, 2009 @ 6.12%
	11,500,000.00	

Mid Year	<u>10,500,000.00</u>
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Rate	Fixed Term Rate	6.12%
	Average BA Rate	<u>6.04</u>
		<u>6.08%</u>

\$10,500,000 * 6.08% =	\$638,400
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Short Term Debt

Central Heat funds the Short Term Debt with Bankers' Acceptances. Bankers' Acceptances have the stamping fee of 1.50% on top of the yield rate at the time of booking. Currently there is a Bankers' Acceptance in place with a yield rate of 4.54% plus 1.50% stamping fee = 6.04% for a term of 91 days. As of August 21, 2007, the 90 day indication rate from the Royal Bank was 4.90% and the 180 day indication rate was 4.60%. For the purposes of this rate application 4.54% plus 1.50% stamping fee = 6.04% was used for short term debt. For the first six months of 2007, total interest expense was \$320,000. At the current levels of monthly interest expense Central Heat should be very close to the estimated annual interest expense of \$686,000.

47,600

\$686,000



CENTRAL HEAT DISTRIBUTION LIMITED

VANCOUVER DISTRICT ENERGY UTILITY

Suite 1, 720 Beatty Street, Vancouver, BC V6B 2M1
Tel 604-688-9584 Fax 604-688-2213 E-mail chdl@telus.net

August 31, 2007

TO ALL CUSTOMERS:

Central Heat Distribution Limited is making application to the B. C. Utilities Commission for amendments to the Steam Rate Schedule of the Steam Tariff.

Subject to the approval of the B. C. Utilities Commission the new Rate Schedule would be as follows:

Effective October 1, 2007

\$8.30/M pounds of steam for the first 50M pounds of steam/month

\$7.00/M pounds of steam for the next 150M pounds of steam/month

\$6.20/M pounds of steam for the next 800M pounds of steam/month

\$4.90/M pounds of steam for the remainder per month

The proposed tariff increase, when taking into account the fuel cost adjustment component effective October 1, 2007, results in an average net increase in steam costs of approximately 2.74%. The net changes range from a increase of 2.43% to 3.05% depending on customer size.

Central Heat has not had a tariff increase since January 1, 2003. The applied for increase in the Steam Tariff is required to cover increases in operating and maintenance costs, taxes other than income tax, and labour costs.

We would be pleased to answer any questions you may have regarding the applied for increase as it relates to your property.

Yours truly,

CENTRAL HEAT DISTRIBUTION LIMITED

John S. Barnes,
President

JSB/lmb

ENERGY SERVICES AGREEMENT

CLEAR SKY ENERGY LTD.

and

CENTRAL HEAT DISTRIBUTION LIMITED

ENERGY SERVICES AGREEMENT

between

**CLEAR SKY ENERGY LTD.
OPERATOR OF THE CLEAR SKY ENERGY JOINT VENTURE**

and

CENTRAL HEAT DISTRIBUTION LIMITED

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Appendix A

Appendix B

ENERGY SERVICES AGREEMENT

THIS CONTRACT made in duplicate as of the first day of September, 2003 between

CLEAR SKY ENERGY LTD.

Operator of the Clear Sky Energy Joint Venture

(hereinafter called "the ESCO")

and

CENTRAL HEAT DISTRIBUTION LIMITED

(hereinafter called "the Client")

WHEREAS the Client owns the district energy facility located at 720 Beatty Street, Vancouver, B. C. (hereinafter called "the Facility");

AND WHEREAS the ESCO provides a service for reducing energy consumption and costs through the use of engineering analysis and energy conservation equipment acquired and installed by the ESCO, and the Client desires to utilize the ESCO's services at the Facility;

AND WHEREAS the Client wishes to engage the ESCO to provide energy conservation equipment with the purpose of reducing greenhouse gases, improving the environment and reducing energy consumption for the Facility;

AND WHEREAS the Client will ensure the fulfilment of the financial obligations under this energy service agreement;

AND WHEREAS the Client acknowledges the ESCO's responsibility for the project's performance and has agreed to cooperate with the ESCO in optimizing costs and savings throughout the term of this contract;

NOW THEREFORE the Client and the ESCO agree as follows:

1.0 Definitions

- 1.1 ***Contract*** means this document, the appendices attached hereto, the final design documents and the working documents.
- 1.2 ***Commission Period*** means the period of time for equipment start up, testing, modifying and optimizing equipment with the Client facilities. The commissioning period will be from September 1, 2003 to May 31, 2004.
- 1.3 ***Energy Conservation Equipment*** means all structures and equipment listed in Appendix B.
- 1.4 ***Energy*** means any hydrocarbon, steam or hot water.
- 1.5 ***Energy Costs*** means the total amount of money paid annually by the Client for the energy used to generate steam from its district energy plant.
- 1.6 ***Energy Savings*** means the cost of energy which has been saved (calculated following the method set out in Appendix A) as a result of reduced energy consumption or demand of the Facility over a period of time agreed upon by the parties.
- 1.7 ***Facility or Facilities*** means the building(s) or structure(s) in which the energy conservation equipment which constitute the project are installed.
- 1.8 ***Final Design Documents*** means the final design documentation including, as and where required, engineer stamped drawings (including operating instructions) related to the installation and operation of the energy conservation equipment.
- 1.9 ***Force Majeure*** means an event:
- (a) that was unforeseen by the parties, that was not controllable by the parties, that could not have reasonably been foreseen by the parties, and against which the parties could not have taken precaution;
- and includes
- (b) acts of God, strikes, lockouts, fires, explosions, riots, arson, intervention by civil or military authorities, governmental regulations and acts of war (declared or non-declared).
- 1.10 ***Hazardous Substances*** means asbestos, material containing asbestos, formaldehyde, PCB ballasts, or any other potentially toxic or otherwise hazardous materials including material defined as such in the Occupational Health and Safety Regulations and/or

contained in the Workplace Hazardous Materials Information System of the Workers' Compensation Board of British Columbia.

- 1.11 **Notice of Irregularity** means a notice from the ESCO to the Client advising of a situation where the equipment or systems in the Facility are not being operated or maintained in accordance with the requirements of this contract or the working documents and indicating the modifications that, in the ESCO's opinion, need to be made.
- 1.12 **Operating Costs** means all costs associated with the operation, maintenance and insurance coverage of the Facility, excluding energy costs.
- 1.13 **Project** means the implementation of the energy conservation equipment pursuant to this contract.
- 1.14 **Review Period** is the period of time within which the Client's representative is normally expected to raise concerns or objections to any notices, reports or other documentation received from the ESCO and for the purpose of this contract has been defined as ten (10) working days from the receipt of any such notifications, reports or documentation provided that the Client shall have an additional ten (10) working days to set out in writing sufficient details as to the nature of its objections.
- 1.15 **Statement of Acceptance** means a notice to be provided by the Client to the ESCO once the ESCO has resolved the Client's concern.
- 1.16 **Warranty Period** means a period of time twelve months following the installation of the energy conservation equipment and issuance of a Construction Completion Certificate.
- 1.17 **Work** means the work and services to be performed by the ESCO pursuant to this contract.
- 1.18 **Working Documents** means the detailed plans and specifications for the installation and operation of the energy conservation equipment.

2.0 Scope of the ESCO Services

- 2.1 The Client hereby retains the ESCO to provide and maintain energy conservation equipment that will reduce energy use at the Client's facility on Beatty Street. The Client agrees to pay the ESCO based on energy savings achieved monthly. The ESCO is at risk for capital employed in providing the energy conservation equipment and not the Client.

2.2 The parties agree that the projected scope of the ESCO's services is set out in this contract.

3.0 Obligations of the ESCO

3.1 During the term of the energy services agreement the ESCO will:

- (a) provide managers and operators of the Facility with the instruction and training that is necessary to ensure the proper operation and maintenance of the energy conservation equipment.
- (b) ensure that its instructions have been followed.
- (c) provide the Client's representative with a monthly report establishing, within one month of the month in question, related energy consumption and the energy savings.
- (d) if it determines, as the result of a site investigation that the shortfall in savings is the result of the equipment or system(s) not being operated or maintained in accordance with the requirements of this contract, issue a Notice of Irregularity indicating to the Client's representative what action, in the opinion of the ESCO, should be taken by the Client to improve the performance of the energy conservation equipment.
- (e) if it has been informed that the Client cannot identify equipment that may have caused an irregularity, make the necessary investigation, identify the cause of the irregularity and notify the Client thereof.
- (f) repair, replace and conduct other work required by the ESCO warranty during the warranty period of the energy conservation equipment in accordance with Section 11.0.
- (g) provide the Client with a Construction Completion Certificate and Final Design Documents at the end of the Commissioning Period.
- (h) adhere to all applicable laws of British Columbia
- (i) the ESCO will not utilize information, documents and records (information provided by the Client) for any purpose other than the purpose for which it was disclosed without the Client's consent.

4.0 Obligations of the Client

4.1 During the term of the energy services agreement the Client will:

- (a)
 - i) perform or cause to be performed regular maintenance upon all equipment, structures and systems at the Facility installed prior to this contract and to the same standard.
 - ii) with respect to new equipment installed as part of the energy conservation equipment, perform or cause to be performed regular maintenance upon all equipment, structures and systems at the Facility installed pursuant to this contract to standards that shall meet the ESCO's reasonable instructions.
- (b) repair or replace without delay any equipment that may break down and the operation of which has a material impact on the generation of energy savings or the operating condition of the Facility.
- (c) notify the ESCO without delay of any prolonged equipment malfunction or breakdown which would have a substantive impact on the energy savings.
- (d) provide the ESCO on a regular basis with the information it may reasonably require relevant to the operation of the energy conservation equipment including but not limited to:
 - i) results of preventive maintenance
 - ii) irregularities in energy consumption, and
 - iii) results of inspections or tests
 - iv) operational changes
- (e) provide the ESCO within five (5) working days of receipt of each energy bill with a copy of such bill.
- (f) when it has been issued with a Notice of Irregularity:
 - i) if it discovers any defective equipment, have such equipment replaced or repaired as soon as possible, and
 - ii) if it cannot identify equipment that may have caused the irregularity, so inform the ESCO within five (5) working days of the receipt of the Notice of Irregularity.
- (g) correct any irregularity the cause of which has been brought to its attention by the ESCO.
- (h) assume responsibility for the operating costs of the equipment after it has been installed and for the contract term provided such damage is not caused by the

negligence of the ESCO, its employees, agents or subcontractors or the parties for which it is responsible.

- (i) the Client will not utilize information, documents and records (information provided by the ESCO) for any purpose other than the purpose for which it was disclosed without the ESCO's consent.

4.2 In order to operate the energy conservation equipment the Client grants to the ESCO the nonexclusive use of and unrestricted access to such part or parts of the Facility or Facilities reasonably necessary to inspect, install and maintain the energy conservation equipment components as outlined in Appendix B throughout the term of this contract and to comply with Section 9.2.

5.0 Contract Term

5.1 This contract shall commence on the date of execution hereof and continue until:

- (a) December 31, 2019. An additional contract term extension may be made if mutually agreed by the Client and the ESCO.
- (b) The parties agree to provide each other six months' written notice of their desire to extend the agreement.
- (c) At the end of the contract term the equipment will be removed from the Client's premises unless otherwise agreed by the Client and the ESCO.

6.0 Financing Arrangements and Payments by the Client

6.1 The parties agree that the ESCO will finance as necessary the services it provides the Client pursuant to this contract.

6.2 The Client will continue to pay the energy costs directly to the energy supplier(s).

6.3 The Client shall pay monthly to the ESCO the monthly energy savings as calculated according to the method outlined in Appendix A.

6.4 Energy cost savings will be to the benefit of the ESCO during the Commissioning Period ending May 31, 2004 and subsequently shared between the ESCO and the Client on the basis of a 75%/25% allocation during the remaining term of the contract.

6.5 Payment to the ESCO will be made by the twenty-first day of each month.

7.0 Invoice or Account Dispute

- 7.1 The Client may in good faith dispute the amount of any invoice, account or reimbursement within thirty (30) working days of receipt of such account or reimbursement. The Client will in no event hold back payment which exceeds the portion of the invoice representing the work that is in dispute, i.e. deficient or incomplete work.
- 7.2 The Client's representative and the ESCO will cooperate fully with each other to resolve any dispute promptly.

8.0 Reimbursements and Monitoring of Energy Savings

- 8.1 For each month after the commencement of the commissioning period of the project the ESCO shall submit a monthly account to the Client's representative for the energy savings realized in the previous month, with sufficient details to permit a thorough and accurate assessment of the account. The measurement of energy savings shall be based on the energy bills and in the event of any conflict between real time energy data and the amounts shown on the written invoice from the energy supplier(s), the latter shall prevail.
- 8.2 In the event that the calculation of energy savings is rendered temporarily impossible as a result of:
- (a) mechanical malfunction
 - (b) mechanical maintenance
 - (c) Client's equipment relocation
 - (d) interruption of utility operation
 - (e) vandalism

and none of the aforementioned events constitutes force majeure, accounts for the period during which the interruption takes place shall be based upon an estimate by the ESCO.

GENERAL PROVISIONS

9.0 Ownership of Property - at End of Term

- 9.1 The ESCO retains ownership of the equipment during the duration of the contract.
- 9.2 The ESCO will arrange and pay the cost of equipment removal at the end of the contract.

- 9.3 Except for such intellectual property that the Client, its agents and employees, and consultants, contribute to the project, the Client shall acquire no interest in any software, formulas, patterns, devices, inventions or processes, or copyright, patent and other intellectual and proprietary rights or similar items of property which are or may become used in connection with the equipment.
- 9.4 The ESCO or its lender shall have no right at any time to remove any of the equipment which has been installed on the facilities pursuant to this contract and the ESCO shall have no right after the expiry of this contract to any compensation for such equipment or any part of it other than in accordance with Section 5.1(c).

10.0 Equivalent Ownership

- 10.1 The Client agrees that title to the energy conservation equipment and to all equipment and materials provided by the ESCO necessary for installation of such energy conservation equipment remains with the ESCO until the contract term expires.
- 10.2 The Client shall at all times at its own expense keep such energy conservation equipment and the equipment and materials provided by the ESCO necessary for the installation of such energy conservation equipment, free and clear of all encumbrances, liens, charges, mortgages or claims of any kind including security interests, of any of its creditors or any other third party ("Third Party Claims").

11.0 Warranties

- 11.1 The ESCO hereby warrants the accuracy and the completeness of the energy conservation equipment, which shall be prepared in accordance with standard engineering practices, and that the energy conservation equipment shall be free of any and all deficiencies in design, materials, workmanship and commissioning for a period of twelve (12) months following the date of issuance of a Construction Completion Certificate for the facility (the "Warranty Period").
- 11.2 The ESCO shall act as the coordinator for all warranty related issues during the contract term.

12.0 Events of Default

12.1 Events of Default by the Client

Each of the following events shall constitute an "Event of Default" by the Client:

- (a) The Client fails to pay the ESCO amounts required to be paid by it under this contract when due;
- (b) The Client fails to perform or comply with the terms and conditions of this contract;
- (c) Any representation or warranty furnished by the Client was false or misleading to the ESCO;
- (d) The Client fails to comply, within thirty (30) days of the date of notice from the ESCO to the Client, with the ESCO's reasonable instructions or procedures with respect to the operation and maintenance of the energy conservation equipment;
- (e) The Client becomes insolvent or in the event of the institution of proceedings in bankruptcy or receivership against the Client which are undefended or successfully prosecuted.

12.2 Events of Default by the ESCO

Each of the following events shall constitute an "Event of Default" by the ESCO:

- (a) The ESCO fails to perform or comply with terms or conditions of this contract.
- (b) Energy savings are not achieved due to energy conservation equipment performance.
- (c) The ESCO becomes insolvent, or in the event of the dissolution or termination of existence of the ESCO or the institution of proceedings in bankruptcy or receivership against the ESCO which are undefended or successfully prosecuted;
- (d) The ESCO has abandoned the project.

13.0 Force Majeure

13.1 The failure of either party to meet any of the terms and conditions of this contract will not give rise to a claim by one party against the other, nor will it be viewed as a breach of this contract, where this failure flows from force majeure.

14.0 Default

14.1 Remedies for default

In the event of a default by one party (the "party") the other party (the "other party") shall give notice in writing specifying the act or acts of default, and requiring the other party to remedy the default within sixty (60) days of receipt of the said notice and identifying the remedy reasonably required.

14.2 Remedies upon default by the ESCO

If the ESCO fails to remedy an act or acts of default specified in a notice given within the time specified or there is an event of default pursuant to Section 12.2(c), the Client may:

- (a) terminate this contract with respect to the Facility;
- (b) exercise all remedies available at law or at equity or other appropriate proceedings including bringing an action or actions for damages, and/or for specific performance which shall include all costs and expenses reasonably incurred in exercise of such remedy (including reasonable legal fees);
- (c) terminate the ESCO's right to continue with the project and perform any work or obligations which the ESCO fails or has failed to perform, either directly or through another energy service company, and claim against the ESCO for the amount of all loss and damages suffered by the Client by reason of the non-completion of such improvements, including the costs of having the work completed by a third party. In the event the ESCO shall not be relieved of its legal or contractual obligations other than the completion of that portion of the improvements taken out of its hands.

14.3 Remedies upon default by the Client

If the Client fails to remedy an act of default specified in a notice given under Section 14.1 within the time specified or there is an event of default pursuant to Section 12.1(e), the ESCO may:

- (a) exercise all remedies available at law or at equity or other appropriate proceedings including bringing an action or actions from time to time for recovery of amounts due and unpaid by the Client, and/or for damages, and/or for specific performance which shall include all costs and expenses reasonably incurred in exercise of such remedy (including reasonable legal fees);
- (b) terminate this contract with respect to the Facility;
- (c) The Client acknowledges that changes in energy efficiency technology and anticipated volatility in energy costs render damages upon its default difficult to ascertain. Therefore, if the ESCO terminates this contract due to an Event of

Default, the Client shall pay to the ESCO, at the ESCO's option, liquidated damages in lieu of all other claims for damages in the amount of the termination value plus all costs and expenses reasonably incurred in exercise of its remedy, including legal fees. The termination value will be the ESCO's remaining un-depreciated capital cost of the installed equipment, removal cost of the equipment from the Client's premises and foregone energy cost savings which would reasonably otherwise have been available in accordance with Section 6.4. The basis to determining foregone energy savings will be the annual savings over the contract's most recent year and decline in the following manner over the contract term.

<u>Contract Term</u>	<u>Foregone Savings Damages</u>
Years 1 - 5	3 Years
Years 6 - 10	2 Years
Years 10 - 15	1 Year

15.0 Sale of Premises

- 15.1 The contract, its rights and obligations, go with any sale or transfer of the Client's business, land or building and would be considered assigned in such event.
- 15.2 The contract, rights and obligations, are equally applicable in the event of the sale or transfer of the ESCO assets.

16.0 Time is of the Essence

Time is of the essence of the contract.

17.0 Representations and Warranties

17.1 Representations and Warranties of the Client

The Client hereby warrants and represents to the ESCO that:

- (a) the Client will continue to use the Facility in the manner of their present use.
- (b) the energy conservation equipment may be required to be connected to newer boiler and steam generating equipment to maximize the energy efficiency. The Client agrees to notify the ESCO of such possibility and work with the ESCO to optimize the continuous use of the ESCO energy conservation equipment during the term of the agreement.

17.2 Representations and Warranties of the ESCO

The ESCO hereby warrants and represents to the Client that:

- (a) the equipment will produce an environmental benefit and energy savings to the Client;
- (b) the equipment will be safely installed at all times.

18.0 Dispute Resolution and Arbitration

To be conducted in accordance with the Commercial Arbitrations Act (British Columbia):

- (a) The parties agree to do all things and take all steps as may reasonably be required to give effect to their obligations under the contract.
- (b) The arbitration will be conducted in Vancouver.
- (c) The cost of the arbitration will be as determined by the arbitrator(s) subject always to the terms of the contract.

19.0 Hazardous Substances

- 19.1 For the purposes of applicable environmental legislation the Client shall be deemed to have control and management of the place of the work at the Facility where the energy conservation equipment is located ("Place of the Work") with respect to existing conditions.
- 19.2 The Client shall take all reasonable steps to ensure that no person suffers injury, sickness or death and that no property is injured, damaged or destroyed as a result of exposure to, or the presence of, toxic or hazardous substances or materials at the Facility during the term of the agreement.
- 19.3 The Client shall indemnify and hold harmless the ESCO, any consultants to the ESCO, subcontractors, suppliers, and their agents and employees, from and against claims, demands, losses, costs, damages, actions, suits, or proceedings arising out of or resulting from exposure to, or the presence of, toxic or hazardous substances or materials which were at the place of the work prior to the ESCO commencing the work.

20.0 Interpretation

- 20.1 Each word in the singular includes the plural and vice versa.
- 20.2 Each word in the masculine includes the feminine and vice versa.
- 20.3 Reference to either party includes, where the context permits, such party's employees, agents, subcontractors and workers.
- 20.4 The headings within are only included in order to facilitate the reading of this contract and have no bearing upon its interpretation.
- 20.5 Herein, hereby, hereof, hereunder and similar expressions refer to this contract as a whole and not to any particular subdivision or part thereof.

21.0 Governing Laws

- 21.1 This contract is made pursuant to and shall be governed by and construed in accordance with the laws of British Columbia.

22.0 Severable Covenants

- 22.1 If any provisions of this contract or the application thereof to any circumstances are held to be invalid or unenforceable, the remaining provisions of this contract or the application thereof to other circumstances are not affected thereby and are valid and enforceable to the fullest extent permitted by law.

23.0 Partnership

- 23.1 It is understood and agreed that nothing contained in this contract nor in any acts of the parties hereto shall be deemed to create a partnership relationship with respect to the matters set out herein or any relationship between the parties hereto.

24.0 Waiver

- 24.1 Waiver of any performance or breach of this contract shall not constitute a waiver of any subsequent performance or breach of a requirement under this contract.

25.0 Entire Contract

25.1 This contract constitutes the entire contract between the parties with respect to the subject matter of this contract and supersedes all documents, letters, contracts, proposals, letters of intent, and other contracts relating to it unless they are incorporated by reference into this contract.

26.0 Further Assurances

26.1 The parties will sign and deliver all further covenants, assurances, transfers, assignments, consents and other documentation as may be reasonably required to complete the installation and operation of the energy conservation equipment at the Client's facilities.

27.0 Amendment

27.1 No amendment, change or waiver in any terms and conditions of this contract shall have any force or effect until it is effected by a written amendment to this contract and duly executed by each of the parties to this contract.

28.0 Assignment

28.1 The ESCO may assign the benefits arising under this contract to a party which provides the financing for the project (the lender). The ESCO may assign the contract at its discretion.

29.0 Notices and Orders

29.1 Any notice, order, decision, direction or communication given or required to be given by either party under this contract shall be given in writing and it shall be deemed to have been received by the other party on the day it was delivered, or, if mailed, on the sixth day next following the day on which it was mailed or, if sent by facsimile, twenty-four (24) hours after transmission.

30.0 Indemnity

30.1 The ESCO shall indemnify and hold harmless the Client, the Client's agents and employees from and against claims, demands, losses, costs, damages, actions, suits or

proceedings (hereinafter called "claims), by third parties that arise out of, or are attributable to, the ESCO's performance of the work provided such claims are:

- (a) attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property, and
- (b) caused by negligent acts or omissions of the ESCO, any consultant to the ESCO, all subcontractors or anyone for whose acts the ESCO may be liable.

30.2 The Client shall indemnify and hold harmless the ESCO, its consultants, if any, all subcontractors, all suppliers, their agents and employees from and against claims, demands, losses, costs, damages, actions, suits or proceedings arising out of the ESCO's performance of the work, which are attributable to a lack of or defect in title or an alleged lack of or defect in title to the place of the work or a negligent act or omission or wilful default of the Client, its agents and employees or any other person in respect of whose acts the Client may be liable.

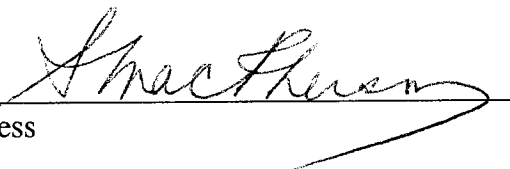
30.3 However, neither party shall indemnify the other against claims, damages, expenses or liabilities resulting from the gross negligence or wilful misconduct of the other party. The duty to indemnify will continue in full force and effect notwithstanding the expiration or early termination of this contract with respect to any claims based on facts or conditions which occurred prior to termination.

31.0 Parties Bound by the Contract

31.1 This contract shall be for the benefit of and be binding upon the parties hereto and their executors, administrators, successors, and assigns.


THE PARTIES HAVE SIGNIFIED THEIR AGREEMENT TO THE ABOVE TERMS AND CONDITIONS by signing where set out below.


CLEAR SKY ENERGY LTD.


Witness


Name

CENTRAL HEAT DISTRIBUTION LIMITED


Witness


Name

Appendix A

Calculation of Monthly Energy Costs
For the Month of

Energy Consumption in GJ's

Natural Gas
Energy Consumption in GJ's
Oil
Litres of Oil Consumed
Divide by 4.54615 to get gallons of Oil
Multiply by .1695 to get MMBTU
Multiply MMBTU by 1.055 to get GJ's

Total Energy Consumption for the Month

Cost of Energy

Natural Gas
Transportation-Terasen
Commodity
Duke Transportation
Management Fees-Commodity

Total Cost for Month of

Oil
Consumption in Gallons

Total Cost for Month of

Total Cost of Energy for the Month of

Calculation of Monthly Energy Costs
For the Month of

Reading
in MBTU

Previous BTU Meter Reading
Present BTU Meter Reading
Savings for the Period in MBTU's
Multiply by 1.055 to get GJ's

Savings for the Period in GJ's

Total Cost of Energy for the Month of

Total Energy Consumption GJ's

Average Cost per GJ

Savings for the Period in GJ's

Multiply By Average cost per GJ

Total Savings for the month of

Clear Sky Energy Ltd.

Central Heat Distribution Limited

Total Savings for the month of

0

0

0

0.00

0.00

\$0.00

0

\$0.00

0.00

\$0.00

\$0.00

\$0.00

\$0.00

\$0.00

\$0.00

\$0.00

\$0.00

0

A P P E N D I X B

ENERGY CONSERVATION EQUIPMENT COMPONENTS

1. Foundations – Custom Foundations supporting
 - 1) percotherm condensing tower
 - 2) induced draft fan unit
 - 3) rooftop mechanical room
2. Building Structure – building structure for the rooftop mechanical room
3. Percotherm Condensing Tower and Stack
4. Induced Draft Fan and Variable Speed Drive
5. Heat Exchanger – plate and frame heat exchanger unit used to transfer the heat from the primary loop to the makeup water
6. Water Pumps -
 - 1) primary loop – pump P-1
 - 2) makeup water – pump P-2 and variable speed motor drive
7. Control Panels – control panels including controllers, terminal screens, transformers and power supply
8. Water Piping -
 - 1) cold water supply line from 14” water supply line in #8 feedwater pump room to the plate and frame heat exchanger in rooftop mechanical room
 - 2) water supply line from plate and frame heat exchanger in rooftop mechanical room to 14” water supply line at the rooftop #3 deaerator level
9. Electrical Wiring – all electrical wiring from the Central Heat distribution panel to the pump motors, induced draft fan unit, control room Sofame master panel and all instrumentation wiring for the Sofame system controls
10. Control Panels – all control panels including controllers, terminal screens, transformers and power supply
11. Metering – BTU meter as installed in the #3 deaerator rooftop 14” water supply line
12. Miscellaneous – all miscellaneous wiring, piping, ducting installed connecting the various components of the energy conservation equipment