



CANADIAN NIAGARA POWER INC.

A FORTIS ONTARIO
Company

February 13, 2009

DELIVERED BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: 2008 ELECTRICITY DISTRIBUTION RATE APPLICATIONS FOR CANADIAN NIAGARA POWER INC. FOR ITS CNPI – EASTERN ONTARIO POWER (EB-2008-0222), CNPI – FORT ERIE (EB-2008-0223) AND CNPI – PORT COLBORNE (EB-2008-0224) SERVICE AREAS

The undersigned acts as in-house counsel for Canadian Niagara Power Inc. ("CNPI") with respect to the above captioned matter. Please find accompanying this letter two (2) copies of CNPI's responses to the Supplemental Interrogatories submitted to the Board by the School Energy Coalition together with an electronic version of the same.

We have enclosed a CD containing this electronic media. A PDF version of these responses will, coincidentally with this written submission, be filed via the Board's Regulatory Electronic Submission System.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned or Doug Bradbury, Director Regulatory Affairs (905) 994 3634.

Yours truly,

R. Scott Hawkes
Vice President, Corporate Services
and General Counsel

RSH:mar

Enclosures

c. Andrew Taylor – Ogilvy Renault LLP
Douglas R. Bradbury – CNPI

INTERROGATORY # 1

[SEC #5] Please file all of the requested CNP multi-year business plan, including all parts of the FortisOntario multi-year strategic planning that refer to CNP. If material in this document is confidential or commercially sensitive, please file in confidence under the Board's rules therefor.

RESPONSE:

As explained in both the letter from Ogilvy Renault to the OEB dated January 16, 2009 and in response to SEC #5, CNPI's five-year business plan is prepared as part of the FortisOntario five-year strategic planning which includes information not relevant to the Application. Corporate performance, operating expenditures, and capital expenditures for CNPI's distribution business units for the 2009 to 2013 period were provided. These schedules highlight the forecast trends in future capital and operating expenditures, and demonstrates the company's longer term operating plan.

INTERROGATORY # 2

[SEC #5, Attach. A] Please provide a breakdown of the Reliability Targets between the components of FortisOntario. With respect to the CNPI components, please provide an explanation for each target that is not expected to be an improvement over 2007 actuals. Please confirm that Safety, Customer Service and Human Resources targets are for CNPI only. Please break down those targets between Fort Erie, Gananoque, and Port Colborne.

RESPONSE:

FortisOntario's corporate targets, as provided in SEC #5 Attachment A, are consistent amongst all the business units. The targets provided are the targets for CNPI, including each service territory, for the years shown.

CNPI believes the corporate targets set are fair and provide a satisfactory level of customer service, where applicable. For example, the OEB has set a service level target for telephone accessibility (i.e. % of calls answered within 30 seconds) at 65%, the Company has set a target of 85%.

INTERROGATORY # 3

[SEC #6] Please advise the number of FTEs represented by the 24,621 hours. Please confirm that the average hourly wage for those personnel is \$41.05, exclusive of benefits. If that is not correct, please provide the correct figure. Please break that down between average normal wage rate, and average overtime wage rate, and break down the number of hours of overtime included in the calculation.

RESPONSE:

The number of FTEs is 13.

The wage portion of the average fully loaded labour rate for the Fort Erie line department is \$41.05. As illustrated in the referenced interrogatory, the labour rate is calculated based on productive hours (i.e. total hours less vacation, statutory holidays, training and sick days). The average hourly wage rate paid to the Fort Erie line department is \$33.64.

The straight-time wage portion of the average fully loaded labour rate is \$38.42/hour and the overtime wage portion of the average fully loaded labour rate is \$67.28/hour.

The overtime hours included in the calculation are 2,243.

INTERROGATORY # 4

[SEC #8] Please provide a summary of all changes from the prior agreements to the current agreements. If any of the changes are material, please file the prior agreements as requested.

RESPONSE:

Below is a summary of the changes from the prior services agreements dated July 1, 2003 (note the reference to July "23" is a typo) to the current services agreements dated September 15, 2005:

- updated section 2.01 "Fee for Services and Cost Mechanism"
- a new section 2.04 "Cost Allocation Methodology"
- the addition of SCADA services in section 1.01
- a new section 3.04 "Rules and Regulations"
- a new section 3.05 "Regulatory Compliance"
- updated section 3.08 "Non-disclosures and Confidentiality",
- a new section 3.09 "Access to Confidential Information"
- a new section 3.10 "Monitoring Services"

Attached to this response as Attachment A is a copy of the services agreements dated July 1, 2003.

SERVICES AGREEMENT

BETWEEN

**FortisOntario Inc.
Canadian Niagara Power Inc.
Eastern Ontario Power Inc.
Granite Power Generation Corporation**

AND

Cornwall Street Railway, Light and Power Company Limited

MADE AS OF

JULY 1, 2003

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SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2003

BETWEEN:

FortisOntario Inc., Canadian Niagara Power Inc., Eastern Ontario Power Inc., and Granite Power Generation Corporation, corporations incorporated under the laws of the Province of Ontario (collectively, the "Corporations"),

– and –

Cornwall Street Railway, Light and Power Company Limited, a corporation incorporated under the laws of the Province of Ontario (the "Service Provider").

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render the following services to the Corporations:

- a) electric utility operation services, including transmission and distribution;
- b) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- c) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- d) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- e) customer service, including meter reading, billing services and related SAP systems;
- f) safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;

- g) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;
- h) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management and management of employee benefit plans;
- i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;
- j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;
- k) fleet management including the maintenance of all vehicles in working condition, major and minor repairs, regulatory reporting, expense tracking and fleet management system administration;
- l) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;
- m) legal and secretarial services;
- n) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;
- o) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;
- p) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;
- q) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA; and
- r) such other services as may from time to time be agreed upon between the parties.

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on July 1, 2003 and shall continue until terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services

The Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return as determined by the parties, provided that such fee for services at the above-noted rate shall approximate the fair market value of the service, resource or product (provided a fair market value is available) and shall be reviewed by the parties at the option of either party.

Where a utility provides a service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the service, resource or product.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the services to be provided pursuant to Section 1.01 hereof. However, the Corporations shall reimburse the Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the services hereunder provided that such expenses shall be paid in accordance with the normal practices of the Corporations in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02 within 10 days from receipt by the Corporations of proper invoices and vouchers, all of which shall be submitted by the Service Provider to the Corporations by the last day of the following month during the term of this Agreement. The Service Provider shall also provide a report annually of all expenses incurred in connection with the provision of services pursuant to Section 1.01 hereof.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

The Service Provider shall render performance of the services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the services hereunder and the Service Provider shall, when requested, provide the Corporations with adequate evidence of his compliance with this Section 3.03.

3.04 Rules and Regulations

The Service Provider shall comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware.

3.05 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.06 Indemnity

The Service Provider shall indemnify and save the Corporations harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Corporations or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.07 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential

affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate to which it may offer a competitive advantage.

3.08 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

The Corporations or the Service Provider may terminate this Agreement at any time in the event of the failure of the other party to comply with any of the provisions hereunder upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 day's fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this

Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02

5.02 Appointment of Arbitrator and Arbitration Procedures

- a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule "A" hereto.
- b) The fees and disbursements of the arbitrator shall be shared equally by the parties to this Agreement.
- c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Service Provider and the Corporations, respectively.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, neither party hereto may assign his or its rights or obligations under this Agreement without the prior written consent of the other party hereto.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: Timothy B. Curtis
Fax: (905) 994-2203

To the Service Provider:

Cornwall Street Railway, Light and Power Company Limited
c/o FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: William J. Daley
Fax: (905) 994-2202

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the Service Provider, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: Fred O'Brien

**Cornwall Street Railway, Light and Power
Company Limited**

Per: [Signature]

Eastern Ontario Power Inc.

Per: [Signature]

Granite Power Generation Corporation

Per: [Signature]

FortisOntario Inc.

Per: [Signature]

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

SERVICES AGREEMENT

BETWEEN

**FortisOntario Inc.
Cornwall Street Railway, Light and Power Company Limited
Eastern Ontario Power Inc.
Granite Power Generation Corporation**

AND

Canadian Niagara Power Inc.

MADE AS OF

JULY 1, 2003

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SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2003

BETWEEN:

FortisOntario Inc., Cornwall Street Railway, Light and Power Company Limited, Eastern Ontario Power Inc., and Granite Power Generation Corporation, corporations incorporated under the laws of the Province of Ontario (collectively, the "Corporations"),

– and –

Canadian Niagara Power Inc.

, a corporation incorporated under the laws of the Province of Ontario (the "Service Provider").

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render the following services to the Corporations:

- a) electric utility operation services, including transmission and distribution;
- b) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- c) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- d) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- e) customer service, including meter reading, billing services and related SAP systems;

- f) safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;
- g) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;
- h) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management and management of employee benefit plans;
- i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;
- j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;
- k) fleet management including the maintenance of all vehicles in working condition, major and minor repairs, regulatory reporting, expense tracking and fleet management system administration;
- l) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;
- m) legal and secretarial services;
- n) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;
- o) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;
- p) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;
- q) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA; and
- r) such other services as may from time to time be agreed upon between the parties.

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on July 1, 2003 and shall continue until terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services

The Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return as determined by the parties, provided that such fee for services at the above-noted rate shall approximate the fair market value of the service, resource or product (provided a fair market value is available) and shall be reviewed by the parties at the option of either party.

Where a utility provides a service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the service, resource or product.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the services to be provided pursuant to Section 1.01 hereof. However, the Corporations shall reimburse the Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the services hereunder provided that such expenses shall be paid in accordance with the normal practices of the Corporations in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02 within 10 days from receipt by the Corporations of proper invoices and vouchers, all of which shall be submitted by the Service Provider to the Corporations by the last day of the following month during the term of this Agreement. The Service Provider shall also provide a report annually of all expenses incurred in connection with the provision of services pursuant to Section 1.01 hereof.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

The Service Provider shall render performance of the services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the services hereunder and the Service Provider shall, when requested, provide the Corporations with adequate evidence of his compliance with this Section 3.03.

3.04 Rules and Regulations

The Service Provider shall comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware.

3.05 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.06 Indemnity

The Service Provider shall indemnify and save the Corporations harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Corporations or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.07 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential

affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate to which it may offer a competitive advantage.

3.08 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

The Corporations or the Service Provider may terminate this Agreement at any time in the event of the failure of the other party to comply with any of the provisions hereunder upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 day's fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this

Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02

5.02 Appointment of Arbitrator and Arbitration Procedures

- a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule "A" hereto.
- b) The fees and disbursements of the arbitrator shall be shared equally by the parties to this Agreement.
- c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Service Provider and the Corporations, respectively.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, neither party hereto may assign his or its rights or obligations under this Agreement without the prior written consent of the other party hereto.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: Timothy B. Curtis
Fax: (905) 994-2203

To the Service Provider:

Canadian Niagara Power Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: William J. Daley
Fax: (905) 994-2202

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the Service Provider, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: Fred O'Brien

**Cornwall Street Railway, Light and Power
Company Limited**

Per: P. S. H. H.

Eastern Ontario Power Inc.

Per: P. S. H. H.

Granite Power Generation Corporation

Per: P. S. H. H.

FortisOntario Inc.

Per: Tom Cant

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

SERVICES AGREEMENT

BETWEEN

**FortisOntario Inc.
Canadian Niagara Power Inc.
Cornwall Street Railway, Light and Power Company Limited
Granite Power Generation Corporation**

AND

Eastern Ontario Power Inc.

MADE AS OF

JULY 1, 2003

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SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2003

BETWEEN:

FortisOntario Inc., Canadian Niagara Power Inc., Cornwall Street Railway, Light and Power Company Limited, and Granite Power Generation Corporation, corporations incorporated under the laws of the Province of Ontario (collectively, the "Corporations"),

– and –

Eastern Ontario Power Inc., a corporation incorporated under the laws of the Province of Ontario (the "Service Provider").

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render the following services to the Corporations:

- a) electric utility operation services, including transmission and distribution;
- b) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- c) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- d) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- e) customer service, including meter reading, billing services and related SAP systems;
- f) safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;

- g) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;
- h) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management and management of employee benefit plans;
- i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;
- j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;
- k) fleet management including the maintenance of all vehicles in working condition, major and minor repairs, regulatory reporting, expense tracking and fleet management system administration;
- l) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;
- m) legal and secretarial services;
- n) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;
- o) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;
- p) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;
- q) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA; and
- r) such other services as may from time to time be agreed upon between the parties.

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on July 1, 2003 and shall continue until terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services

The Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return as determined by the parties, provided that such fee for services at the above-noted rate shall approximate the fair market value of the service, resource or product (provided a fair market value is available) and shall be reviewed by the parties at the option of either party.

Where a utility provides a service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the service, resource or product.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the services to be provided pursuant to Section 1.01 hereof. However, the Corporations shall reimburse the Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the services hereunder provided that such expenses shall be paid in accordance with the normal practices of the Corporations in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02 within 10 days from receipt by the Corporations of proper invoices and vouchers, all of which shall be submitted by the Service Provider to the Corporations by the last day of the following month during the term of this Agreement. The Service Provider shall also provide a report annually of all expenses incurred in connection with the provision of services pursuant to Section 1.01 hereof.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

The Service Provider shall render performance of the services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the services hereunder and the Service Provider shall, when requested, provide the Corporations with adequate evidence of his compliance with this Section 3.03.

3.04 Rules and Regulations

The Service Provider shall comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware.

3.05 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.06 Indemnity

The Service Provider shall indemnify and save the Corporations harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Corporations or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.07 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential

affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate to which it may offer a competitive advantage.

3.08 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

The Corporations or the Service Provider may terminate this Agreement at any time in the event of the failure of the other party to comply with any of the provisions hereunder upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 day's fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this

Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02

5.02 Appointment of Arbitrator and Arbitration Procedures

- a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule "A" hereto.
- b) The fees and disbursements of the arbitrator shall be shared equally by the parties to this Agreement.
- c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Service Provider and the Corporations, respectively.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, neither party hereto may assign his or its rights or obligations under this Agreement without the prior written consent of the other party hereto.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: Timothy B. Curtis
Fax: (905) 994-2203

To the Service Provider:

Eastern Ontario Power Inc.
c/o FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: William J. Daley
Fax: (905) 994-2202

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the Service Provider, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: Fred O'Brien

**Cornwall Street Railway, Light and Power
Company Limited**

Per: [Signature]

Eastern Ontario Power Inc.

Per: [Signature]

Granite Power Generation Corporation

Per: [Signature]

FortisOntario Inc.

Per: [Signature]

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

SERVICES AGREEMENT

BETWEEN

**Canadian Niagara Power Inc.
Cornwall Street Railway, Light and Power Company Limited
Eastern Ontario Power Inc.
Granite Power Generation Corporation**

AND

FortisOntario Inc.

MADE AS OF

JULY 1, 2003

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SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2003

BETWEEN:

Canadian Niagara Power Inc., Cornwall Street Railway, Light and Power Company Limited, Eastern Ontario Power Inc. and Granite Power Generation Corporation, corporations incorporated under the laws of the Province of Ontario (collectively, the "Corporations"),

- and -

FortisOntario Inc., a corporation incorporated under the laws of the Province of Ontario (the "Service Provider").

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render the following services to the Corporations:

- a) electric utility operation services, including transmission and distribution;
- b) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- c) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- d) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- e) customer service, including meter reading, billing services and related SAP systems;
- f) safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;

- g) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;
- h) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management and management of employee benefit plans;
- i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;
- j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;
- k) fleet management including the maintenance of all vehicles in working condition, major and minor repairs, regulatory reporting, expense tracking and fleet management system administration;
- l) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;
- m) legal and secretarial services;
- n) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;
- o) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;
- p) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;
- q) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA; and
- r) such other services as may from time to time be agreed upon between the parties.

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on July 1, 2003 and shall continue until terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services

The Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return as determined by the parties, provided that such fee for services at the above-noted rate shall approximate the fair market value of the service, resource or product (provided a fair market value is available) and shall be reviewed by the parties at the option of either party.

Where a utility provides a service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the service, resource or product.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the services to be provided pursuant to Section 1.01 hereof. However, the Corporations shall reimburse the Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the services hereunder provided that such expenses shall be paid in accordance with the normal practices of the Corporations in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02 within 10 days from receipt by the Corporations of proper invoices and vouchers, all of which shall be submitted by the Service Provider to the Corporations by the last day of the following month during the term of this Agreement. The Service Provider shall also provide a report annually of all expenses incurred in connection with the provision of services pursuant to Section 1.01 hereof.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

The Service Provider shall render performance of the services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the services hereunder and the Service Provider shall, when requested, provide the Corporations with adequate evidence of his compliance with this Section 3.03.

3.04 Rules and Regulations

The Service Provider shall comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware.

3.05 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.06 Indemnity

The Service Provider shall indemnify and save the Corporations harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Corporations or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.07 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential

affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate to which it may offer a competitive advantage.

3.08 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

The Corporations or the Service Provider may terminate this Agreement at any time in the event of the failure of the other party to comply with any of the provisions hereunder upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 days fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this

Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02

5.02 Appointment of Arbitrator and Arbitration Procedures

- a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule "A" hereto.
- b) The fees and disbursements of the arbitrator shall be shared equally by the parties to this Agreement.
- c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Service Provider and the Corporations, respectively.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, neither party hereto may assign his or its rights or obligations under this Agreement without the prior written consent of the other party hereto.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: Timothy B. Curtis
Fax: (905) 994-2203

To the Service Provider:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: William J. Daley
Fax: (905) 994-2202

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the Service Provider, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: Fred O'Brien

**Cornwall Street Railway, Light and Power
Company Limited**

Per: P. S. Hanks

Eastern Ontario Power Inc.

Per: P. S. Hanks

Granite Power Generation Corporation

Per: P. S. Hanks

FortisOntario Inc.

Per: Tom Cuthbert

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

SERVICES AGREEMENT

BETWEEN

**FortisOntario Inc.
Canadian Niagara Power Inc.
Cornwall Street Railway, Light and Power Company Limited
Eastern Ontario Power Inc.**

AND

Granite Power Generation Corporation

MADE AS OF

JULY 1, 2003

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SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2003

BETWEEN:

FortisOntario Inc., Canadian Niagara Power Inc., Cornwall Street Railway, Light and Power Company Limited, and Eastern Ontario Power Inc., corporations incorporated under the laws of the Province of Ontario (collectively, the "Corporations"),

– and –

Granite Power Generation Corporation, a corporation incorporated under the laws of the Province of Ontario (the "Service Provider").

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render the following services to the Corporations:

- a) electric utility operation services, including transmission and distribution;
- b) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- c) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- d) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- e) customer service, including meter reading, billing services and related SAP systems;
- f) safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;

- g) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;
- h) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management and management of employee benefit plans;
- i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;
- j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;
- k) fleet management including the maintenance of all vehicles in working condition, major and minor repairs, regulatory reporting, expense tracking and fleet management system administration;
- l) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;
- m) legal and secretarial services;
- n) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;
- o) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;
- p) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;
- q) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA; and
- r) such other services as may from time to time be agreed upon between the parties.

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on July 1, 2003 and shall continue until terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services

The Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return as determined by the parties, provided that such fee for services at the above-noted rate shall approximate the fair market value of the service, resource or product (provided a fair market value is available) and shall be reviewed by the parties at the option of either party.

Where a utility provides a service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the service, resource or product.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the services to be provided pursuant to Section 1.01 hereof. However, the Corporations shall reimburse the Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the services hereunder provided that such expenses shall be paid in accordance with the normal practices of the Corporations in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02 within 10 days from receipt by the Corporations of proper invoices and vouchers, all of which shall be submitted by the Service Provider to the Corporations by the last day of the following month during the term of this Agreement. The Service Provider shall also provide a report annually of all expenses incurred in connection with the provision of services pursuant to Section 1.01 hereof.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

The Service Provider shall render performance of the services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with the provision of the services hereunder and the Service Provider shall, when requested, provide the Corporations with adequate evidence of his compliance with this Section 3.03.

3.04 Rules and Regulations

The Service Provider shall comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware.

3.05 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.06 Indemnity

The Service Provider shall indemnify and save the Corporations harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Corporations or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.07 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential

affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate to which it may offer a competitive advantage.

3.08 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

The Corporations or the Service Provider may terminate this Agreement at any time in the event of the failure of the other party to comply with any of the provisions hereunder upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 day's fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this

Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02

5.02 Appointment of Arbitrator and Arbitration Procedures

- a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule "A" hereto.
- b) The fees and disbursements of the arbitrator shall be shared equally by the parties to this Agreement.
- c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Service Provider and the Corporations, respectively.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, neither party hereto may assign his or its rights or obligations under this Agreement without the prior written consent of the other party hereto.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: Timothy B. Curtis
Fax: (905) 994-2203

To the Service Provider:

Granite Power Generation Corporation
c/o FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2
Attention: William J. Daley
Fax: (905) 994-2202

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the Service Provider, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: Fred O'Brien

**Cornwall Street Railway, Light and Power
Company Limited**

Per: [Signature]

Eastern Ontario Power Inc.

Per: [Signature]

Granite Power Generation Corporation

Per: [Signature]

FortisOntario Inc.

Per: [Signature]

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

INTERROGATORY # 5

[SEC #12] Please provide any documents evidencing the fair market value of the 10% interest in Grimsby Power Inc. being purchased. Please confirm that the CIS services being provided to Grimsby Power will use the same CIS as is used by CNPI. Please provide evidence that that amount being charged for those services are comparable to the amounts being paid by CNPI for the same services.

RESPONSE:

The interest in Grimsby Power Inc. ("GPI") is being purchased by FortisOntario Inc. and not the Applicant. Accordingly, the any documentation regarding fair market value of the 10% interest in GPI is not relevant to the Applications.

The CIS IT services will be the same CIS used by CNPI. The IT Maintenance Services agreement was negotiated at arm's length and CNPI believes that the rate is fair and reasonable. As a basis for this amount, CNPI used a fully loaded rate including internal labour which was uplifted to approximately \$115 per hour. Under the current version of the agreement, the number of hours estimated for the maintenance and support services to be provided by CNPI to GPI was approximately 30 hours per month. CNPI believes that the amount charged by CNPI is comparable because the rate is greater than CNPI's fully allocated cost and was advised that it was comparable to market rates quoted to GPI.

INTERROGATORY # 6

[SEC #14] Please provide a copy of the internal review referred to.

RESPONSE:

As noted in the response to SEC Interrogatory #14, a formal report was not produced. Upon completion of the internal review the decision was made to proceed with the status quo alternative, which also avoided the cost of a full scoping exercise.

See also the response to SEC Interrogatory #14: SAP Review in the letter from Ogilvy Renault to the OEB dated January 16, 2009 (Schedule "A" – Responses to SEC) page 4.

INTERROGATORY # 7

[SEC #15] Please provide the requested information with respect to CNP Transmission. The Board's practice on this issue is clear. Where material amounts are being allocated between affiliates, or between business units, the Board needs to be able to see financial information with respect to those affiliates or business units to determine whether the allocations are reasonable.

RESPONSE:

The information requested with respect to the detailed calculation of the 2009 Test Year income has been provided in evidence, in response to SEC Interrogatory #15. With respect to the calculation of rate base and return on equity of the transmission business unit, CNPI's position is that they are not relevant to the Application.

INTERROGATORY # 8

[SEC #16] Please provide the requested information with respect to Cornwall, for the reasons set forth above.

RESPONSE:

The information requested with respect to the services has been provided in evidence, in response to SEC Interrogatory #16. With respect to the income statements of Cornwall Electric, CNPI's position is that they are not relevant to the Application and are not being provided.

INTERROGATORY # 9

[SEC #17] Please provide a detailed breakdown of the amount of \$3,134,000 of payments made by FortisOntario on behalf of the Applicant, and identify where each amount is shown in the Historical Year information filed in this Application. In any case in which the payment is being made on behalf of more than one company in the Fortis group, please provide the total, how it is split, and the basis of the allocation. Please advise the amount of payments expected to be made by FortisOntario on behalf of the Applicant for the Test Year, together with a similar breakdown including tracking to the Test Year financial information and allocation information as set forth above.

RESPONSE:

Provided below is a summary of the payments made by FortisOntario on behalf of the Applicant. The cash payments made do not represent allocations of services, but rather are payment of costs that are directly attributable to goods and services consumed by CNPI in the regular course of business. For efficiency purposes the payments are made from the funds of one company. The fact that the funds may be paid out of another company has no impact on the level of operating or other expenses as contained in the individual CNPI Applications.

Payments made by Fortis Ontario [FON] on behalf of CNPI:

Basis of allocation

Fortis Inc. corporate services fees for CNPI paid by FON	\$ 77,324	revenue and rate base *
Property taxes for CNPI paid by FON	236,997	directly attributable **
MEARIE insurance costs for CNPI paid by FON	22,161	directly attributable **
Ernst & Young external audit fees for CNPI paid by FON	56,703	revenue and rate base *
Fleet service costs for CNPI paid by FON	132,522	directly attributable **
Goods and service tax for CNPI paid by FON	200,174	directly attributable **
Ontario Municipal Employees Retirement costs for CNPI paid by FON	143,146	directly attributable **
Property and vehicle insurance costs for CNPI paid by FON	329,726	directly attributable **
Defined pension plan funding payments for CNPI paid by FON	356,583	directly attributable **
Sunlife insurance and RRSP costs for CNPI paid by FON	1,070,107	directly attributable **
remainder of smaller items in aggregate	508,360	directly attributable **
	<u>3,133,803</u>	

* The basis of allocation is a weighted average of rate base and annual revenues as these costs generally relate to expenses that cannot be broken down by any particular entity

** The directly attributable costs are costs that relate directly to labour, materials and other expenses of a particular entity and do not require an allocation based on estimates of time or other basis

INTERROGATORY # 10

[SEC #22] Please describe in detail how the “manual process of optimizing each class’ allocation” is carried out. Please identify to what extent, if any, judgment is used in that process, and why.

RESPONSE:

The manual process of optimizing each class’ allocation is described in the final two paragraphs of the initial response provided for SEC # 22, repeated here it stated:

Knowing the sum of all class percentages in Column L must add to 100%, since the Base Revenue requirement is fixed, the starting point is the existing distribution of class revenues from the Board approved 2006 EDR.

The goal was to determine a revenue distribution to the classes that respected the Board’ guidelines related to revenue to cost, and the maximum total bill impact of 10% for any class. By replacing one of the class allocations in Column L with a formula, 1 minus the sum of all other class allocations, the total will remain constant at 100%. The user can then use the Goal Seek function in Excel to determine an allocation of base revenue requirement that will meet both of the Board’s guidelines mentioned earlier. The user will, in most cases, complete several iterations of this process to achieve, where possible, acceptable revenue to cost ratios and fairness amongst the customer classes.

Judgment is used in the process and it is used to establish fairness amongst the customer classes. CNPI recognizes that several issues are at play and each issue may have differing impacts on any of the customer classes. For example; 1) the apportionment of the increased revenue requirement depends on that classes allocation of the revenue requirement, 2) the changes required to achieve the Board’s guidelines with respect to cost allocation may impact classes differently, 3) the fixed variable split

may be altered to lessen the impact to the average customer within a class, and 4) the growth or decline within a class effects the rate impact of that class. CNPI has used judgment in its rate design to recognize each of these variables and to design rates that attempt to achieve fairness for all customer classes.

INTERROGATORY # 11

[SEC #24] Please provide a copy of all handouts, presentation materials, and briefing notes of Mr. Erbland and Mr. Curtis, CEO and CFO respectively of Canadian Niagara Power Inc., used or provided when they presented to the City Council of Port Colborne on January 22, 2001.

RESPONSE:

As confirmed in the views expressed by its counsel in the letter from Ogilvy Renault to the OEB dated January 16, 2009, CNPI believes that the inquiry made in this interrogatory is irrelevant to the Applications.

CNPI submits that the Port Colborne lease arrangement, lease amount and inclusion of lease payments in CNPI's revenue requirement has already been considered and approved by the Board.

On April 12, 2002, the Board approved the lease arrangement between CNPI and Port Colborne Hydro (Exhibit 1, Tab 1, Schedule 14A). In that proceeding (RP-2001-0041), the Board specifically approved the lease payment amounts that CNPI has included in its proposed revenue requirement in the current proceeding. Furthermore, in CNPI's 2006 EDR application (RP-2005-0345), the Board approved the inclusion of the Port Colborne lease payments in CNPI's revenue requirement. SEC was an intervenor in that proceeding. Therefore, the basis for SEC's request has already been decided by the Board in multiple proceedings with SEC's participation and should not be re-opened in the context of this proceeding. As a result, the handouts and briefing notes sought relating to presentations to the City Council of Port Colborne are irrelevant.

INTERROGATORY # 12

1. [SEC #24, Attach A] With respect to the Master Implementation Agreement:

- a. p. 2 Please provide copies of the Ancillary Agreements. Please identify which costs associated with performance under those agreements are included in the costs of CNPI, how much those costs are, and where they are reflected in the Application.
- b. p. 3 Please provide copies of the appraisal reports referred to.
- c. p. 12 Please provide a copy of the Advance Tax Ruling, including the letter requesting that ruling, and any additional facts provided to the tax department in the course of obtaining the ruling.
- d. p. 13 Please provide a copy of the notification to the Minister of Finance.
- e. p. 22 Please provide a copy of the Closing Agenda for the transaction.
- f. App. A, p. 4 Please advise how, if at all, the lease payments are apportioned between the components of the Business, as defined, that are regulated activities and those that are not. If there is no allocation or apportionment, please explain.
- g. Exh. 1 Please provide a copy of the RFP referred to in the Confidentiality Agreement, and all proposals made by the Applicant or its affiliates in response to the RFP.
- h. Exh. 3 Please provide all documents in the possession of the Applicant setting out the calculation of the proposed rent amounts, including any net present value, cash on cash, equivalent purchase price, and similar calculations. In particular, and without limiting the generality of the foregoing,
 - i. please provide details of the basis of the 6.99% discount rate referred to on page 3 of the Lease, and advise where and how that discount rate, or any similar rate, was used in the calculation of the appropriate rental amount, and
 - ii. please provide details of any calculation that identified the relationship between the amount of the lease payments and the amount of the Option Price.
- i. Exh. 3, p. 10 Please identify any Modifications as set forth in section 9.2 that have vested in the Lessor.
- j. Exh. 3, p. 12 Please explain why insurance policies do not include the Lessor as a loss payee consistent with normal commercial practice.

- k. Exh. 3, p. 17 Please provide a description of the mechanism that is expected to work if the Purchase Option is not exercised. Please include details of the obligations of the Lessor, the assets that must be purchased by the Lessor, and the pricing and terms of that transaction.
- l. At page 15 of the Fortis Inc. 2002 Annual Report, the parent company of the Applicant says:

“FortisOntario is seeking to further expand its distribution business in Ontario by acquiring municipal electric utilities. The lease between Canadian Niagara Power and the City of Port Colborne, the first of its kind in Ontario, is an innovative approach to meeting that objective.”
[emphasis added]

Please explain how the Lease furthers the stated acquisition strategy.

RESPONSE:

CNPI has provided a copy of the Master Implementation Agreement as requested (see Response to SEC Interrogatory #12 – Attachments A and B). As noted in the Response to SEC Interrogatory #24, the Lease Agreement (and not the Master Implementation Agreement) is the definitive agreement with respect to the lease of the Port Colborne distribution assets as well as the lease payments, and the purchase option at the end of the lease term. Both the Lease Agreement and the Master Implementation Agreement were filed in evidence as part of the proceeding in which the Board approved the lease payments (RP-2001-0041) (see Exhibit 1, Tab 1, Schedule 14A). Consistent with the views expressed by its counsel in the letter from Ogilvy Renault to the OEB dated January 16, 2009, CNPI believes that the inquiry made in this supplementary interrogatory is irrelevant to the Applications.

CNPI submits that the Port Colborne lease arrangement, lease amount and inclusion of lease payments in CNPI's revenue requirement has already been considered and approved by the Board.

On April 12, 2002, the Board approved the lease arrangement between CNPI and Port Colborne Hydro (Exhibit 1, Tab 1, Schedule 14A). In that proceeding (RP-2001-0041),

the Board specifically approved the lease payment amounts that CNPI has included in its proposed revenue requirement in the current proceeding. Furthermore, in CNPI's 2006 EDR application (RP-2005-0345), the Board approved the inclusion of the Port Colborne lease payments in CNPI's revenue requirement. SEC was an intervenor in that proceeding. Therefore, the basis for SEC's request has already been decided by the Board in multiple proceedings with SEC's participation and should not be re-opened in the context of this proceeding. As a result, the supplementary interrogatories of SEC with respect to the Master Implementation Agreement are irrelevant.

INTERROGATORY # 13

[SEC #25] Please provide the requested information with respect to the Applicant Port Colborne Hydro Inc. It is irrelevant whether the Board has included the lease payments in past, non-cost of service proceedings. The Board has determined that Port Colborne Hydro Inc. is an applicant in this proceeding, and therefore as an applicant Port Colborne Hydro Inc. must provide normal regulatory financial information.

RESPONSE:

CNPI confirms its position as set out by its counsel by its counsel in the letter from Ogilvy Renault to the OEB dated January 16, 2009. As stated on page 5 of Schedule "A" – Responses to SEC, CNPI believes that the inquiry made in this supplementary interrogatory is irrelevant to the Applications. CNPI submits that the Port Colborne lease arrangement, lease amount and inclusion of the lease payments in CNPI's revenue requirement has already been considered and approved by the Board.

INTERROGATORY # 14

[SEC #26] Please confirm that the attached document is the latest audited financial information of the City of Port Colborne. If the City of Port Colborne currently holds its interest in Port Colborne Hydro Inc. through Port Colborne Energy Inc., please provide the latest audited financial statements of Port Colborne Energy Inc.

RESPONSE:

As previously responded in SEC #26, CNPI has no ownership interest in the City of Port Colborne and cannot confirm that the document attached is the latest audited financial information of the City of Port Colborne.

CNPI lease arrangements are with the City of Port Colborne and Port Colborne Hydro Inc. A copy of the Lease Agreement and the Master Implementation Agreement are provided in response to SEC #24. CNPI has no ownership interest in Port Colborne Energy Inc. and does not have access to its financial statement.

CNPI does not believe the requested information is relevant to the Applications before the Board.

INTERROGATORY # 15

[SEC #27] Please provide the valuation reports requested.

RESPONSE:

Please refer to the response to SEC #27 filed with the Board on December 12, 2008.

INTERROGATORY # 16

[SEC #33] Please provide the amount, due date, and payment date of each lease payments to Port Colborne in 2008. Please advise if any change in the payment pattern is anticipated in 2009 and, if so, what that change is expected to be.

RESPONSE:

Below is a table showing the amount, due date and payment date of each lease payment to Port Colborne in 2008. No change is anticipated in 2009.

Due Date 2008	Payment Date 2008	Amount
2-Jan	2-Jan	\$ 121,902.87
1-Feb	1-Feb	\$ 121,902.87
3-Mar	3-Mar	\$ 121,902.87
1-Apr	1-Apr	\$ 121,902.87
1-May	1-May	\$ 121,902.87
2-Jun	2-Jun	\$ 121,902.87
2-Jul	2-Jul	\$ 121,902.87
1-Aug	1-Aug	\$ 121,902.87
2-Sep	2-Sep	\$ 121,902.87
1-Oct	1-Oct	\$ 121,902.87
3-Nov	3-Nov	\$ 121,902.87
1-Dec	1-Dec	\$ 121,902.87

INTERROGATORY # 17

[SEC #34] Please provide the recalculation requested.

RESPONSE:

Please refer to the response to SEC #34 filed with the Board on December 12, 2008.

INTERROGATORY # 18

[VECC #4] Please confirm that, although assets were damaged or destroyed by the storm, and no longer used and useful, the lease payments for Port Colborne Hydro Inc. did not change, and so the cost of those assets to the ratepayers did not change.

RESPONSE:

The lease payments to Port Colborne Hydro Inc. did not change.

INTERROGATORY # 19

[VECC #26] Please provide the transmission rate base used in the calculation of tax, and with the three rate base amounts set forth in the initial answer, reconcile the total tax with the anticipated tax actually payable by the company for 2009.

RESPONSE:

Please refer to Exhibit 4/Tab 3/ Schedule 2, Tax Calculations, the transmission rate base is provided on the schedule, \$20,792,152. The total income tax payable on the schedule is approximately \$1.5 million, using the grossed up amount for the distribution divisions. The anticipated income tax actually payable by CNPI in 2009 is approximately \$1.3 million. The difference is primarily the result of the distribution rate increase becoming effective May 1, 2009.

INTERROGATORY # 20

[EPRF #11] Please confirm that charges from Cornwall to CNPI do not include any amount for overheads or return on capital. If they do include those amounts, please breakdown the charges between those components.

RESPONSE:

The charges from Cornwall to CNPI referred to in EPRF-EOP Interrogatory #11 a) are based on actual time charged using the fully loaded labour rate for the applicable cost centre. The fully loaded labour rate includes wages, benefits, vehicles and other general and administrative expenses. Please refer to Interrogatory SEC-06 for an example of the calculation of the fully loaded labour rate. The labour rate does not include an amount for a mark up or return on capital.

INTERROGATORY # 21

[EPRF #12] Please advise how many actual employees are included in the three FTEs, including persons who are allocated in part to that category. If the number is more than three, please report the employee compensation in that category as requested.

RESPONSE:

As indicated in evidence in the Application (Exhibit 4, Tab 2, Schedule 5, Appendix A, tables entitled "Compensation" footnote 2), and in the Responses to EPRF Interrogatory #12 EOP, EPRF Interrogatory #13 FE, and EPRF Interrogatory #7 PC, as there are fewer than three FTE's in the category of Executive, this category has been aggregated with the category of Management pursuant to the provisions of the 2006 Electricity Distribution Handbook, Schedule 6-4: Employee Compensation, pg 48. As provided for in the Handbook, "In cases where there are three or fewer full-time equivalents (FTE's) in any category, the application may aggregate this category with the category to which it is most closely related." In all three Applications there is either one, or less than one FTE in the category of Executive. Accordingly, this information has been aggregated in the category to which it is most closely related (i.e., Management).