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RP-2001-0041

NOTICE OF APPLICATION

LEAVE TO LEASE ELECTRICITY DISTRIBUTION ASSETS LOCATED WITHIN THE CITY OF PORT COLBORNE

An Application has been filed on August 20, 2001 with the Ontario Energy Board (the "Board") by The Corporation of the City of Port Colborne (the "Municipality"), Port Colborne Hydro Inc. ("Port Colborne Hydro"), Canadian Niagara Power Inc. ("CNPI") and Canadian Niagara Power Company Limited. ("CNP") seeking an order of the Board granting leave for Port Colborne Hydro to lease to CNPI the electric distribution assets of Port Colborne Hydro, located within the City of Port Colborne, under the terms and conditions of a Lease Agreement for ten (10) years. The Application also seeks related orders from the Board.

Copies of the Application are available for inspection at the Board's offices, at the head office of CNPI/CNP, and at the offices of the Municipality at the addresses indicated below.

If you wish to participate in this proceeding you must make a written submission to the Board Secretary within 14 calendar days of the publication of this Notice. Information on how to participate may be obtained by calling the Board's Customer Service Centre toll-free at 1-877-632-2727, by email at Boardsec@oeb.gov.on.ca or from the frequently asked questions (FAQ) section of the Board's Web site at www.oeb.gov.on.ca. A copy of your submission must also be sent to the Municipality/Port Colborne Hydro and to CNPI/CNP.

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Ontario Energy Board
2300 Yonge Street
26th Floor
Toronto, ON M4P 1E4

Attn: Paul B. Pudge
Board Secretary

Toll free: 1-888-632-6273
Fax: 416-440-7656

The Corporation of the City of Port
Colborne / Port Colborne Hydro Inc.
66 Charlotte Street
Port Colborne, ON L3K 3C8

Attn: L.C. Hunt
Director - Port Colborne Hydro Inc.

Tel: (905) 835-0051
Fax: (905) 835-2969

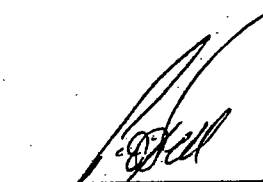
Canadian Niagara Power Inc./
Canadian Niagara Power Company
Limited
1130 Bertie Street
P.O. Box 1218
Fort Erie, ON L2A 5Y2

Attn: Timothy B. Curtis
Vice-President Finance and
Chief Financial Officer

Tel: 905-871-0330
Fax: 905-871-8676

DATED AT Toronto October 2, 2001

ONTARIO ENERGY BOARD



Peter H. O'Dell
Assistant Board Secretary

**APPLICATION FOR CANADIAN NIAGARA POWER INC. TO
ACQUIRE A LEASEHOLD INTEREST IN
PORT COLBORNE HYDRO INC.
RP-2001-0041**

**RESPONSE TO NOVEMBER 27, 2001
BOARD STAFF INTERROGATORY**

DATE: DECEMBER 12, 2001

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**Application for Canadian Niagara Power Inc. to
Acquire a Leasehold Interest in Port Colborne Hydro Inc.
RP-2001-0041
Response to November 27, 2001 Board Staff Interrogatory
Date: December 11, 2001**

Question 1:

With reference to section 1.3.4, provide the stub year financial results for Port Colborne Hydro-Electric Commission for the period January 1 to February 29, 2000.

Response:

Accompanying this response is a copy of the unaudited financial statements of the Port Colborne Hydro-Electric Commission for the months of January and February, 2000. (See Tab 2). The financial statements were reviewed by Grant Thornton LLP, Chartered Accountants. A copy of the Grant Thornton LLP Review Engagement Report, dated April 7, 2000, accompanies the financial statements.

Question 2:

With reference to section 1.3.5, the pro forma provided for CNPI based on December 31, 2000 financial statements for the first year of the lease. The pro formas indicate several adjustments in the first year of the lease to account for differences in tax status (as of December 31, 2000) of CNPI and Port Colborne Hydro, the need to rebuild the working capital and other factors. Also, most of the distribution assets, and the associated depreciation, will remain with Port Colborne Hydro. As a result, the projection is for a net loss for CNPI for the first year of the lease of \$148,000. Please provide pro formas for years 2 through 5 of the lease for CNPI (assuming that costs related to the start-up of the lease have been covered in previous years).

Response:

An Excel workbook containing the following pro forma statements for CNPI, for years 2002 to 2006, accompanies this response (see Tab 3):

- Forecast Income Statements
- Forecast Statement of Changes in Financial Position
- Forecast Balance Sheet

**Application for Canadian Niagara Power Inc. to
Acquire a Leasehold Interest in Port Colborne Hydro Inc.
RP-2001-0041
Response to November 27, 2001 Board Staff Interrogatory
Date: December 5, 2001**

Question 3:

With reference to sections 3.1.1 and 3.1.2, provide information on Canadian Niagara Power Company Limited's generation capacity and market share in Ontario.

Response:

Section 3.1.1

The generation operating capacity of Canadian Niagara Power Company Limited ("CNP"), in the Province of Ontario, is 74.6 MW at its Rankine Generating Station located at Niagara Falls. This capacity will remain unchanged after the completion of this transaction. About 40% of the generating capacity of CNP is currently being used to supply the 14,800 customers of Canadian Niagara Power Inc. ("CNPI") in Fort Erie. The remaining capacity is currently being exported, although occasionally sales are made to Ontario Power Generation Inc. This generation capacity is not subject to or affected by the lease transaction.

The Port Colborne operations of CNPI will derive the majority of its revenue from its distribution assets. There are no generation assets in Port Colborne owned by Port Colborne Hydro Inc, CNP or CNPI nor do any such assets form part of the lease transaction. Port Colborne Hydro Inc. will not own any share or have any right to any share of CNP's generation capacity.

Section 3.1.2

The generation market share of CNP, in the Province of Ontario, is less than 0.3% of the total Ontario market and 3.3% of the market share in the Niagara Region. This generation market share will remain unchanged after the completion of this transaction.

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Canadian Member Firm of
Grant Thornton International

Grant Thornton 

**Port Colborne Hydro-Electric
Commission**

February 29, 2000
(Unaudited)
Financial Report

Grant Thornton LLP
Chartered Accountants
Canadian Member Firm of
Grant Thornton International

7
Grant Thornton 

**Port Colborne Hydro-Electric
Commission**

February 29, 2000
(Unaudited)
Financial Report

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Review Engagement Report

To the Commissioners, Members of Council, Inhabitants and
Ratepayers of the Corporation of the City of Port Colborne

We have reviewed the balance sheet of the Port Colborne Hydro-Electric Commission as at February 29, 2000 and the statements of operations and equity and cash flow for the two months then ended. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by management.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

Port Colborne, Ontario
April 7, 2000


Chartered Accountants

Port Colborne Hydro-Electric Commission

Statement of Operations and Equity

(Unaudited)

for the two months ended February 29

2000

Year ended

Dec 31

1999

Service revenue

Residential	\$ 1,053,989	\$ 5,346,802
General	1,787,876	8,554,170
Large user		57,857
Street lighting	33,735	134,508
Sentinel lighting	395	

	2,875,995	14,093,337
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Service revenue adjustment	(274,302)	(41,536)
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	2,601,693	14,051,801
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Cost of power

Power purchased - Ontario Hydro	2,385,078	12,071,156
---------------------------------	-----------	------------

Gross margin on service revenue

	216,615	1,980,645
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Other operating revenue

	31,537	241,443
--	--------	---------

	248,152	2,222,088
--	---------	-----------

Operating and maintenance expense

Distribution	32,484	486,277
Utilization		1,015

	32,484	487,292
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Billing and collection

	39,709	353,535
--	--------	---------

General administration expense

	66,798	385,425
--	--------	---------

Depreciation

	93,210	554,617
--	--------	---------

	199,717	1,293,577
--	---------	-----------

Income before financial expense

	15,951	441,219
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Financial expense

Interest	10,735	73,867
----------	--------	--------

Net income

	\$ 5,216	\$ 367,352
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Equity

Beginning of period	\$ 8,208,833	\$ 7,841,481
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Net income	5,216	367,352
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End of period	\$ 8,214,049	\$ 8,208,833
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The accompanying notes are an integral part of this financial statement

Port Colborne Hydro-Electric Commission

Statement of Cash Flow

(Unaudited)

for the two months ended February 29

Year Ended

Dec 31

2000

1999

Cash provided from (used for)

Operations		
Net income	\$ 5,216	\$ 367,352
Depreciation and amortization	100,573	628,400
Gain on sale of equipment		(20,500)
	<u>105,789</u>	<u>975,252</u>
Changes in		
Accounts receivable	(313,494)	48,674
Inventories	22,619	37,100
Prepaid expenses	4,130	3,935
Accounts payable and accruals	(99,406)	63,059
	<u>(280,362)</u>	<u>1,128,020</u>
Financing		
Reduction in long term debt		(59,000)
Increase (decrease) in customers' deposits	20	(12,169)
Capital contributions	20,654	59,086
	<u>20,674</u>	<u>(12,083)</u>
Investing		
Purchase of		
Land and land rights	(802)	
Equipment	(233,780)	(432,520)
Vehicle		(124,883)
Proceeds from sale of assets		20,500
	<u>(234,582)</u>	<u>(536,903)</u>
Cash provided (used)	<u>(494,270)</u>	<u>579,034</u>
Cash		
Beginning of period	<u>1,322,235</u>	<u>743,201</u>
End of period	<u>\$ 827,965</u>	<u>\$ 1,322,235</u>

The accompanying notes are an integral part of this financial statement

Port Colborne Hydro-Electric Commission

Balance Sheet

(Unaudited)
February 29

2000

Dec 31
1999

Assets

Current

Cash	\$ 827,965	\$ 1,322,235
Accounts receivable	1,986,101	1,672,606
Inventories	563,301	585,920
Prepaid expenses	<u>20,152</u>	<u>24,282</u>

3,397,519 3,605,043

Land, buildings and equipment (note 2)

8,867,474 8,733,466

\$ 12,264,993 \$ 12,338,509

Liabilities

Current

Accounts payable and accruals	\$ 1,240,957	\$ 1,340,363
Long term debt payable within one year	65,000	65,000
Current portion of customers' deposits	<u>20,000</u>	<u>20,000</u>

1,325,957 1,425,363

Long term debt (note 3)

547,000 547,000

Customers' deposits

212,440 212,420

Vested sick leave (note 4)

21,130 21,130

2,106,527 2,205,913

Equity

Utility equity	8,214,049	8,208,833
Equity accumulated through contributed capital	<u>1,944,417</u>	<u>1,923,763</u>

10,158,466 10,132,596

\$ 12,264,993 \$ 12,338,509

Contingency (note 6)

The accompanying notes are an integral part of this financial statement

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Port Colborne Hydro-Electric Commission

Notes to the Financial Statements

(Unaudited)

February 29, 2000

1. Summary of Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost and net realizable value.

Depreciation and Amortization

Rates of depreciation and amortization applied to write-off the cost of land, buildings and equipment over their estimated lives on the straight-line method, are as follows:

Land rights	2%
Buildings	1.67%
Equipment	3.33%-20%
Vehicles	12.5%-25%

Contributed Capital

Capital contributed by customers or developers towards the acquisition of assets is recorded as equity accumulated through contributed capital. The commission does not record amortization of contributed capital.

2. Land, Buildings and Equipment

			<u>2000</u>	Dec 31 <u>1999</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land and land rights	\$ 98,302	\$ 22,642	\$ 75,660	\$ 75,070
Buildings	515,650	255,528	260,122	262,374
Equipment	14,513,847	6,221,795	8,292,052	8,149,195
Vehicles	891,540	651,900	239,640	246,827
	<u>\$ 16,019,339</u>	<u>\$ 7,151,865</u>	<u>\$ 8,867,474</u>	<u>\$ 8,733,466</u>

Port Colborne Hydro-Electric Commission

Notes to the Financial Statements

(Unaudited)
February 29, 2000

3. Long Term Debt

	<u>2000</u>	Dec 31 <u>1999</u>
Municipal debentures	\$ 612,000	\$ 612,000
Long term debt payable within one year	<u>65,000</u>	<u>65,000</u>
	<u>\$ 547,000</u>	<u>\$ 547,000</u>

The debenture bears interest at 10.25% and matures in 2006. Principal amounts payable on the long term debt within each of the next five years are as follows:

2000	\$ 65,000
2001	72,000
2002	75,000
2003	85,000
2004	95,000

4. Liability for Vested Sick Leave Benefits

Under the revised sick leave benefit plan, all accumulated vested benefits are to be paid to eligible employees. Earned sick time and its dollar value have been frozen and transferred to a separate account. The accumulation of vesting privileges has been terminated.

This liability has been fully provided for in the financial statements.

5. Pension Plans

The commission makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no employer or employee pension contributions required until December 31, 2001, as long as there is sufficient plan surplus. There will be a review of the OMERS plan surplus each year to determine whether the contribution holiday will continue. As a result, no amount was contributed to OMERS for 2000 (1999 \$ Nil) for current service.

Port Colborne Hydro-Electric Commission

Notes to the Financial Statements

(Unaudited)

February 29, 2000

6. Contingency

A class action suit claiming \$ 500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 2000. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Commission. During the period in question the Commission charged \$ 858,700 in late payment charges on overdue utility bills.

7. Industry Restructuring

The Ontario Government enacted the Energy Competition Act, 2000 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") will regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences will require compliance with establishing market rules and codes.

Pursuant to this legislation, the Municipality of the City of Port Colborne, as owners of the Commission, must enact a by-law by November 7, 2000 to authorize the incorporation of one or more companies created for the purpose of continuing the current distributing and retailing activities of the Commission. This by-law will also authorize the transfer of assets and liabilities of the Commission to the applicable, newly created corporations.

8. Subsequent Event

The Commission was incorporated on March 1, 2000 and the City of Port Colborne was in the process of negotiating a \$ 2.5 million bank loan on behalf of the new corporation.

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Canadian Niagara Power Inc.
Forecast Income Statements
Years 2003-2006

	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Revenue	41,249	42,168	42,800	43,442
less purchased power	(26,840)	(27,108)	(27,379)	(27,653)
	<u>14,409</u>	<u>15,060</u>	<u>15,421</u>	<u>15,789</u>
Operating Expenses				
Wheeling	0	0	0	0
Transmission	317	321	326	331
Distribution	2,326	2,361	2,397	2,433
General	4,776	4,800	4,824	4,848
Municipal and other taxes	553	559	565	570
	<u>7,973</u>	<u>8,042</u>	<u>8,111</u>	<u>8,182</u>
Depreciation and amortization	2,392	2,512	2,632	2,752
Operating Income	4,045	4,506	4,678	4,855
Other income				
Interest on investments	0	0	0	0
Services	1,035	1,086	1,141	1,198
Gain (loss) on FX, disposals	0	0	0	0
	<u>1,035</u>	<u>1,086</u>	<u>1,141</u>	<u>1,198</u>
Other income deductions				
Lease expense	1,740	1,740	1,740	1,740
Loan interest expense	1,600	1,600	1,600	1,600
Less allowance for funds used during construction	24	24	24	24
	<u>3,316</u>	<u>3,316</u>	<u>3,316</u>	<u>3,316</u>
Earnings before income taxes	1,764	2,277	2,503	2,737
Provision for Income Taxes				
Current	706	911	1,001	1,095
Deferred	0	0	0	0
	<u>706</u>	<u>911</u>	<u>1,001</u>	<u>1,095</u>
Net Income	<u>1,058</u>	<u>1,366</u>	<u>1,502</u>	<u>1,642</u>

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Canadian Niagara Power Inc.
Forecast Statement of Changes in Financial Position
Current Operations
Years 2003-2006

	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Operating activities				
Net income for the year	1,058	1,366	1,502	1,642
Add non-cash items				
Depreciation	2,392	2,512	2,632	2,752
Amortization	0	0	0	0
Change in working capital	(64)	(104)	(144)	(184)
Deferred pension costs	0	0	0	0
Deferred income taxes	0	0	0	0
	<u>2,328</u>	<u>2,408</u>	<u>2,488</u>	<u>2,568</u>
Cash from operations	3,386	3,774	3,990	4,210
Financing activities				
Equity contributions	0	0	0	0
Additions to long-term debt	0	0	0	0
Contributions in aid of construction	0	0	0	0
Dividends paid	0	(1,000)	(1,000)	(1,000)
	<u>0</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>
Investing activities				
Net additions to utility plant	(3,688)	(3,202)	(2,585)	(2,958)
Investments in affiliates	0	0	0	0
Additions of other assets	0	0	0	0
	<u>(3,688)</u>	<u>(3,202)</u>	<u>(2,585)</u>	<u>(2,958)</u>
Change in short term borrowing	(302)	(428)	405	252
Short term borrowing, beginning	(1,369)	(1,671)	(2,099)	(1,694)
Short term borrowing, end	(1,671)	(2,099)	(1,694)	(1,442)

**Canadian Niagara Power Inc.
Forecast Balance Sheet
Current Operations
Years 2003-2006**

	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Fixed assets	73,056	76,258	78,843	81,801
less accumulated depreciation	(23,325)	(25,733)	(28,221)	(30,789)
Total Fixed Assets	49,731	50,525	50,622	51,012
Cash and investments	0	0	0	0
Accounts receivable	2,809	2,809	2,809	2,809
Inventory	900	900	900	900
Other current assets	0	0	0	0
Total Current Assets	3,709	3,709	3,709	3,709
Investments	0	0	0	0
Deferred Pension	1,860	1,860	1,860	1,860
Other assets	50	50	50	50
Other Long-term Assets	1,910	1,910	1,910	1,910
Total Assets	55,350	56,144	56,241	56,631
Common stock	21,400	21,400	21,400	21,400
Retained earnings	2,958	3,324	3,826	4,468
Total Shareholder's Equity	24,358	24,724	25,226	25,868
Accounts payable	1,000	1,000	1,000	1,000
Income taxes payable	500	500	500	500
Short term borrowing	1,671	2,099	1,694	1,442
Total Current Liabilities	3,171	3,599	3,194	2,942
Long-term Debt	24,821	24,821	24,821	24,821
Other Long-term Liabilities	3,000	3,000	3,000	3,000
Total Shareholder's Equity and Liabilities	55,350	56,144	56,241	56,631

Port Colborne Hydro Inc.
c/o The City of Port Colborne
66 Charlotte Street
Port Colborne, Ontario
L3K 3C8

The Corporation of the
City of Port Colborne
66 Charlotte Street
Port Colborne, Ontario
L3K 3C8

Canadian Niagara Power Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2

19
Canadian Niagara Power
Company Limited
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2

August 17, 2001

DELIVERED

Ontario Energy Board
26th Floor
PO Box 2319
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Attention: Paul Pudge, Board Secretary

Re: Application for Ontario Energy Board Order – Lease of Port Colborne Hydro Inc. Distribution System

Port Colborne Hydro Inc., the Corporation of the City of Port Colborne, Canadian Niagara Power Inc., and Canadian Niagara Power Company Limited hereby apply to the Ontario Energy Board ("OEB") for an Order:

1. Granting leave, pursuant to section 86(1) of the *Ontario Energy Board Act, 1998*, to the lease of the Port Colborne Hydro Inc. electricity distribution system to Canadian Niagara Power Inc. in accordance with a Lease Agreement and Master Implementation Agreement, executed on July 19, 2001, among Port Colborne Hydro Inc. (as Lessor), the Corporation of the City of Port Colborne (as Shareholder of the Lessor), Canadian Niagara Power Inc. (as Lessee), and Canadian Niagara Power Company Limited (as Guarantor of the Lessee);
2. Amending the Transitional Distribution Licence ED-1999-0160 of Canadian Niagara Power Inc. effective on the date of the approval of the Lease Agreement and Master Implementation Agreement, by including the current service area of Port Colborne Hydro Inc. in the amended Canadian Niagara Power Inc. service area; and
3. Approving the acquisition by Canadian Niagara Power Inc., as an affiliate of a generator (Canadian Niagara Power Company Limited), of a leasehold interest in a distribution system in Ontario, pursuant to section 81 of the *Ontario Energy Board Act, 1998*.

The undersigned consent to the disposition of these proceedings by the OEB without a hearing in the event that the OEB determines that no person other than the applicants will be materially affected by the outcome of these proceedings, which the undersigned submit is the case.

Canadian Niagara Power Company Limited ("CNP") requests that its audited financial statements as at and for the years ending December 31, 2000 and December 31, 1999 (required pursuant to section 1.3.4 of the OEB's MAADs Guidelines) be treated as confidential pursuant to


20 Rule 13 of the OEB Rules of Practice and Procedure, and the OEB's Phase I Guidelines for the Treatment of Filings Made in Confidence, effective March 19, 2001. Should this matter be dealt with by way of an oral hearing (although the parties submit that an oral hearing is not necessary), CNP requests that those parts of the hearing dealing with these statements be held in the absence of the public in accordance with Rule 47. Accompanying this letter is a cover letter of Canadian Niagara Power Company Limited in respect of the confidentiality request. CNP submits that this information is subject to confidentiality as it falls within those items set out in Appendix 1 of the OEB's Confidentiality Guidelines, which the OEB has "...previously assessed or treated as confidential, and which may be treated as confidential in future Proceedings." More particularly, CNP submits that these statements constitute "...financial...information, supplied in confidence implicitly or explicitly, where the disclosure could reasonably be expected to...prejudice significantly the competitive position...of a person...", pursuant to paragraph 17(1)(a) of the *Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c. F-31 (see Item 5 of Appendix 1). An abridged version of the CNP financial statements accompanies the cover letter and the Application as Attachment 1.3.4.

The attached application adheres to the Filing Requirements for Mergers, Acquisitions, Amalgamations and Divestitures in the Ontario Electricity Transmission and Distribution Sector. We would be pleased to assist the OEB in any way in its review of this application. In that regard, we would be pleased to provide any additional information, if required, or meet, or have our advisors meet, with OEB staff in order to expedite the OEB's review.


Sincerely,




Ross Tuck, Chair
Port Colborne Hydro Inc.



Mayor Vance Badawey
The Corporation of the City of Port
Colborne



Timothy B. Curtis
Vice-President Finance and CFO
Canadian Niagara Power Inc.



Timothy B. Curtis
Vice-President Finance and CFO
Canadian Niagara Power Company Limited

cc. J. Mark Rodger, Borden Ladner Gervais LLP
Patrick Monahan, Davies Ward Phillips & Vineberg LLP

PART I: GENERAL MINIMUM FILING REQUIREMENTS

1.1 Identification of the Parties

1.1.1 Applicant

Name of Applicant Port Colborne Hydro Inc.	File No: (OEB Use Only)	
Address of Head Office c/o The City of Port Colborne 66 Charlotte Street Port Colborne, Ontario L3K 3C8	Telephone Number (905) 835-2900	
	Facsimile Number (905) 835-2969	
	E-mail Address	
Name of Individual to Contact J. Mark Rodger Partner Borden Ladner Gervais LLP Suite 4100, 40 King Street West Toronto, Ontario M5H 3Y4	Telephone Number (416) 367-6190	
	Facsimile Number (416) 361-7088	
	E-mail Address mrodger@blgcanada.com	

1.1.2 Other Parties to the Transaction

Name of Other Party The Corporation of the City of Port Colborne	OEB Use Only	
Address of Head Office 66 Charlotte Street Port Colborne, Ontario L3K 3C8	Telephone Number (905) 835-2900	
	Facsimile Number (905) 835-2969	
	E-mail Address	
Name of Individual to Contact J. Mark Rodger Partner Borden Ladner Gervais LLP Suite 4100, 40 King Street West Toronto, Ontario M5H 3Y4	Telephone Number (416) 367-6190	
	Facsimile Number (416) 361-7088	
	E-mail Address mrodger@blgcanada.com	

Name of Other Party Canadian Niagara Power Inc.	OEB Use Only	
Address of Head Office 1130 Bertie Street P.O. Box 1218 Fort Erie, Ontario L2A 5Y2	Telephone Number (905) 871-0330	
	Facsimile Number (905) 871-8676	
	E-mail Address	
Name of Individual to Contact Timothy B. Curtis Vice President Finance and Chief Financial Officer	Telephone Number (905) 994-3632	
	Facsimile Number (905) 994-2203	
	E-mail Address Tim.Curtis@cnpower.com	

Name of Other Party Canadian Niagara Power Company Limited	OEB Use Only	
Address of Head Office 1130 Bertie Street P.O. Box 1218 Fort Erie, Ontario L2A 5Y2	Telephone Number (905) 871-0330	
	Facsimile Number (905) 871-8676	
	E-mail Address	
Name of Individual to Contact Timothy B. Curtis Vice President Finance and Chief Financial Officer	Telephone Number (905) 994-3632	
	Facsimile Number (905) 994-2203	
	E-mail Address Tim.Curtis@cnpower.com	

1.1.3	Attach a list of the officers, directors and shareholders of each of the parties to the proposed transaction.	
	Port Colborne Hydro Inc. ("PC Hydro") Directors: Ross Tuck Evan Weaver Mayor Vance Badawey Len Hunt Gary Bruno Shareholders: The Corporation of the City of Port Colborne is the sole shareholder	
	The Corporation of the City of Port Colborne (the "City") Officers: Janet Beckett, City Clerk Council: Mayor Vance Badawey Jack Roy Bill Steele Frank DiBartolomeo Yvon Doucet Bea Kenny Gary Bruno Ron Bodner Barbara Butters	
	Canadian Niagara Power Inc. ("CNPI") Directors: Mardon J. Erbland Dennis G. Gleason James A. Lea Timothy B. Curtis Officers: Mardon J. Erbland, President & CEO Timothy B. Curtis, Vice President, Finance & CFO William J. Daley, Vice President, Human Resources Frederick J. O'Brien, Vice President, Operations Shareholders: Canadian Niagara Power Company Limited is the sole shareholder	
	Canadian Niagara Power Company Limited ("CNP") Directors: Gilbert S. Bennett H. Stanley Marshall Albert J. Budney Karl W. Smith William E. Davis Richard Drouin Officers: Richard Drouin, Chairman of the Board Mardon J. Erbland, President & CEO Timothy B. Curtis, Vice President, Finance & CFO William J. Daley, Vice President, Corporate Development Frederick J. O'Brien, Vice President, Operations Ronald W. McCabe, Corporate Secretary Shareholders: Niagara Mohawk Holdings Inc. holds 50% and Fortis Inc. holds 50%	
1.1.4	Attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.	
	Corporate charts describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates are provided as Attachment 1.1.4.	

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1.2 Description of the Businesses of the Each of the Parties

1.2.1	Attach a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").
	<p>The following is a description of each of the parties to the proposed transaction, and their affiliates.</p> <p>Port Colborne Hydro Inc./City of Port Colborne – On January 31, 2000 the City passed a transfer by-law that transferred the employees, assets, liabilities, rights and obligations of the Port Colborne Hydro Electric Commission ("Port Colborne HEC") to PC Hydro, effective March 1, 2000. PC Hydro was incorporated under the <i>Ontario Business Corporations Act</i> ("OBCA") in accordance with section 142 of the <i>Electricity Act, 1998</i>, as the corporate successor to the Port Colborne HEC. The City is the sole shareholder of PC Hydro. A copy of the transfer by-law is provided in Attachment 1.2.1. By virtue of this transfer by-law, PC Hydro owns, operates and manages the assets associated with the distribution of electrical power and energy within the geographic territory of the City of Port Colborne, specified in Transitional Distribution Licence ED-1999-0069, which is provided in Attachment 1.2.1. PC Hydro owns property rights for the purposes of operating and maintaining the distribution facilities.</p> <p>Canadian Niagara Power Inc. / Canadian Niagara Power Company Limited – Canadian Niagara Power Company Limited ("CNP") was founded in 1892 for the purpose of building a generating plant at Niagara Falls. CNP began generating electricity from its Rankine Generating Station in 1905. In 1907, CNP began serving customers in Fort Erie using a transmission line that it constructed between Niagara Falls and Fort Erie. CNP is a minority investor in two other regulated electric distribution utilities: Rideau St. Lawrence Holdings Inc. ("Rideau St. Lawrence"), and Westario Power Holdings Inc. ("Westario"). CNP owns and operates a hydroelectric generating plant and is the sole shareholder of Canadian Niagara Power Inc. ("CNPI"). In addition, CNP is engaged in providing energy procurement services as a broker and consultant and is engaged in selling energy in the United States ("US") wholesale electricity market. With the exception of the wholesale electricity sales, all of CNP's business is conducted in Ontario. Niagara Mohawk Holdings Inc., a utility holding company headquartered in Syracuse, New York, and Fortis Inc., a Newfoundland-based company, are equal shareholders of CNP. CNP is licensed as an electricity generator by the OEB (OEB Generation Licence EG-1999-0387). It is also licensed by the OEB as a retailer of gas (OEB Gas Marketer Licence GM-2000-0034) and electricity (OEB Electricity Retailer Licence ER-2000-0030), and as a wholesaler of electricity (OEB Electricity Wholesale Licence EW-2000-0247). CNP is licensed by the US Federal Energy Regulatory Commission (Docket ER99-1875) to sell electricity at market-based rates in the US. It is a member of the New York Independent System Operator and is in the process of registering to transact business with the Ontario IMO. CNP holds two permits from the National Energy Board ("NEB") for the import/export of electricity between Canada and the US. NEB Permit EPE-149 grants permission to export and re-import up to 50 MWs after wheeling in New York and EPE-84 (Amending Order AO-1-EPE-84) grants permission to export up to 300 MW.</p> <p>CNPI was incorporated under the OBCA on February 17, 1999. CNPI is a wholly owned subsidiary of CNP. On March 31, 1999 the transmission and distribution businesses of CNP were transferred to CNPI to comply with the <i>Energy Competition Act, 1998</i>. The head office of CNPI is located in Fort Erie, Ontario. CNPI distributes electricity to approximately 15,000 customers in the Town of Fort Erie pursuant to Transitional Distribution Licence ED-1999-0160, a copy of which is provided in Attachment 1.2.1. It is also a Licensed Transmitter with an OEB Transmitter Licence ET-1999-0501. CNPI holds permits from the NEB authorizing it to own and operate international electric transmission lines between Canada and the US (EP-137.)</p>

1.2.2	Attach a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.																			
	<p>Port Colborne Hydro Inc. – PC Hydro serves the geographical territory of the City of Port Colborne. This is evidenced in Transitional Distribution Licence ED-1999-0069. A map illustrating the geographic territory served by PC Hydro is provided as Attachment 1.2.2.</p> <p>Canadian Niagara Power Inc./Canadian Niagara Power Company Limited – CNPI serves the geographic territory of the Town of Fort Erie. This is evidenced in Transitional Distribution Licence EB-1999-0160. A map illustrating the geographic territory served by CNPI, Westario and Rideau St. Lawrence is provided as Attachment 1.2.2. The attached map outlines (heavy highlight) the territories served by CNPI directly as well as by Westario and Rideau St. Lawrence, in which CNP has a 10% ownership interest.</p>																			
1.2.3	Attach a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.																			
	<p>Port Colborne Hydro Inc. (Port Colborne)</p> <table><tr><td></td><td>Number (1999)</td></tr><tr><td>Residential Customers</td><td>7,875</td></tr><tr><td>General Service Customers</td><td>1,138</td></tr><tr><td>Standby Customers</td><td>2</td></tr><tr><td>Total:</td><td>9,015</td></tr></table> <p>PC Hydro serves approximately 9,000 residential, commercial and industrial customers in the City of Port Colborne. The City of Port Colborne has a population of approximately 18,000. PC Hydro uses two customer classes for the purpose of rates and billings: Residential and General Service. As of 1999, the General Service Customer Class includes 1069 customers with a demand less than 50 kW and 69 customers with a demand greater than or equal to 50 kW.</p> <p>Canadian Niagara Power Inc. (Fort Erie)</p> <table><tr><td></td><td>Number (1999)</td></tr><tr><td>Residential Customers</td><td>13,222</td></tr><tr><td>General Service Customers</td><td>1,457</td></tr><tr><td>Total:</td><td>14,679</td></tr></table> <p>CNPI serves approximately 14,700 residential, commercial, and industrial customers in the Town of Fort Erie. The Town of Fort Erie has a population of approximately 27,000. CNPI currently uses only two customer classes for the purpose of rates and billing: Residential and General Service. The Residential class includes both residential customers and a sub-class termed "seasonal". There are currently 12,008 residential customers and 1,214 seasonal customers being served by CNPI. The General Service class includes all commercial and industrial businesses. There are currently 1,336 customers with a load less than or equal to 50 kW and 121 customers with a load greater than 50 kW.</p>		Number (1999)	Residential Customers	7,875	General Service Customers	1,138	Standby Customers	2	Total:	9,015		Number (1999)	Residential Customers	13,222	General Service Customers	1,457	Total:	14,679	
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Residential Customers	13,222																			
General Service Customers	1,457																			
Total:	14,679																			
1.2.4	Provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.																			
	<p>The proposed transaction will not change the PC Hydro geographic service area. However, CNPI's Transitional Distribution Licence would be amended by expanding the geographic service area to include PC Hydro's service area. A map illustrating the respective service areas after completion of the proposed transaction is provided in Attachment 1.2.4.</p>																			

1.3 Description of the Proposed Transaction

1.3.1	Indicate the nature of the application/notification:	Check Box	
	Amalgamation of a distributor with another corporation (s. 85)		
	Sale, lease or other disposal of all or part of a transmission or distribution system (s. 86(1))	X	
	Acquisition of shares of a transmitter or distributor (s. 86(2))		
	Acquisition/construction of a generation facility by a transmitter or distributor (s. 80). If yes, complete Part III		
	Acquisition/construction of a transmission or distribution system by a generator (s. 81). If yes, complete Part III	X	
	Amendment to conditions of licence as a result of the proposed transaction. If yes, complete Part IV	X	

1.3.2	Attach a detailed description of the proposed transaction.	
	<p>On July 19, 2001 PC Hydro as Lessor, the City of Port Colborne as the Shareholder of the Lessor, CNPI as Lessee and CNP as Lessee Guarantor executed the Lease Agreement and the Master Implementation Agreement (collectively the "Agreements") to lease PC Hydro's distribution system to CNPI for the purposes of distributing electricity in the Port Colborne area. Under the Agreements, CNPI has agreed to pay PC Hydro over a ten year lease term, subject to certain adjustments at closing, monthly lease payments of approximately \$127,350 per month. In exchange, CNPI will receive all revenues from the distribution system pursuant to the terms of the Agreements. CNPI has an option to purchase the distribution system of PC Hydro at the end of the lease term for the purchase price of \$6,900,000.</p> <p>CNPI has committed to provide a level of service to local customers that is no less than the level of service provided to CNPI's current customers. Moreover, CNPI has agreed to adopt the rates approved by the OEB with respect to an application filed on November 30, 2000 by PC Hydro for approval of its proposed distribution rates.</p> <p>In addition, CNPI has agreed to enter into ancillary agreements with the City of Port Colborne with respect to street lighting services, access to municipal property, and utility pole access.</p> <p>CNPI will operate and manage the distribution system and will pay for all operating costs incurred in operating, managing, repairing, maintaining and replacing the lease assets and lease properties during the lease term. All replacement assets which are characterized as operating expenses will become the property of PC Hydro and be part of the leased assets.</p> <p>New assets which require a capital investment by CNPI, including assets which expand the existing PC Hydro distribution system and major assets which replace existing PC Hydro assets, will become the property of CNPI and will not be part of the leased assets. If CNPI does not exercise its option to purchase the PC Hydro distribution system at the end of the lease term, PC Hydro will purchase these assets from CNPI.</p> <p>CNPI and PC Hydro have obtained an advanced tax ruling from the Ministry of Finance indicating that this transaction does not result in any tax liabilities under s.94(1) of the <i>Electricity Act, 1998</i>.</p>	

1.3.3	Attach the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.	
	<p>PC Hydro has agreed to lease its distribution system to CNPI in consideration for the lease payments of approximately \$127,350 per month subject to certain adjustments at closing. In exchange, CNPI would receive all revenues from the distribution business. CNPI will also have an option to purchase the distribution business of PC Hydro at the end of the ten year term for the purchase price of \$6,900,000.</p>	

1.3.4	Attach the financial statements (including balance sheet, income statement, and sources and uses of funds) of the parties to the proposed transaction for 2 complete years prior to the proposed transaction.	
	<p>Copies of the audited financial statements for PC Hydro for the years ending December 31, 2000 and December 31, 1999 are provided in Attachment 1.3.4.</p> <p>Copies of the audited financial statements for CNPI for the years ending December 31, 1999 and December 31, 2000 are provided in Attachment 1.3.4.</p> <p>CNP requests that its audited financial statements for the years ending December 31, 2000 and December 31, 1999, be treated as confidential as requested in the cover letter to this Application and in a separate letter from CNP which accompanies this Application. A copy of CNP's audited financial statements has been enclosed with the separate letter, in keeping with the OEB's Guidelines for the Treatment of Filings made in Confidence. Copies of the abridged versions of CNP's audited financial statements are included in the Fortis Inc. 2000 annual financial statements provided as Attachment 1.3.4. (see Note 19 in the Notes to the Fortis Inc. 2000 financial statements). CNP notes that as Fortis Inc. has a 50% interest in CNP, the abridged 2000 financial statements present CNP-related financial information in a manner consistent with such interest. This point is noted in the "Summary of Accounting Policies" in the notes to the Fortis Inc. 2000 financial statements.</p>	

1.3.5	Attach the pro forma financial statements of each of the parties reflecting completion of the proposed transaction.	
	<p>The pro forma financial statement for PC Hydro is provided as Attachment 1.3.5.</p> <p>The pro forma financial statement for CNPI is provided as Attachment 1.3.5.</p>	

1.4 Other Information

1.4.1	Provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.	
	To date, none of the parties or their affiliates has publicly filed annual reports, proxy circulars, prospectuses or other information with securities commissions or similar authorities or sent such information to shareholders.	

1.4.2	Attach copies of all legal documents (or the most recent drafts, if not yet executed) to be used to implement the proposed transaction.	
	Copies of the Master Implementation Agreement and the Lease Agreement, executed on July 19, 2001 by PC Hydro as Lessor, the City of Port Colborne as Shareholder of the Lessor, CNPI as Lessee and CNP as the Lessee Guarantor, are provided in Attachment 1.4.2.	

1.4.3	Attach confirmation that the parties to the proposed transaction are in compliance with all licence and code requirements, and will continue to be in compliance after completion of the proposed transaction.	
	As noted in paragraph 1.2.1 above, PC Hydro and CNPI have Transitional Distribution Licences effective April 1, 1999. To the best of their knowledge, all parties are currently in compliance with all licence and code requirements. It is expected that following the completion of this transaction, PC Hydro and CNPI will be fully compliant with all licences and codes.	

1.4.4	Explain whether the proposed transaction will result in a change of control of any of the parties. If yes, please complete Part II.	
	There will be no change in the control of any of the parties as a result of this transaction.	

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PART II: ADDITIONAL FILING REQUIREMENTS

2.1 Facilitate Competition

2.1.1	Attach a short description of the impact, if any, of the proposed transaction on competition. If there will be no impact on competition, please state the reasons.	
	<p>There will be no impact on competition. This transaction is consistent with the policy direction set out by the Provincial Government in the White Paper, the <i>Energy Competition Act, 1998</i>, and statements made by the Minister of Energy, Science and Technology in the legislature, to encourage municipalities to consolidate their electric utilities in order to create a more efficient and competitive electric industry. While this transaction does not represent a consolidation of ownership of distribution utilities, the operation of the PC Hydro distribution system by CNPI will further the creation of greater efficiencies in the electricity distribution sector.</p> <p>The competitive electricity market being introduced in Ontario will allow customers to choose their competitive retail supplier of electricity. As a distributor of electricity, PC Hydro's rates are regulated by the OEB, and the distribution sector is not competitive. As the only "retailing" carried on by distributors will be pursuant to section 29 of the <i>Electricity Act, 1998</i>, the lease of PC Hydro's distribution system by CNPI will have no direct impact on a customer's access to competitive electricity provision, nor will the fact that CNP is an owner of generation assets and a retailer of electricity interfere with customer choice. This situation is no different from that of other utilities with affiliates that are energy service providers. CNPI's operation of PC Hydro's distribution system may indirectly facilitate a customer's access to competitive electricity supply, since retail suppliers will be more likely to offer their product and services to customers in utilities with larger customer bases, and retail suppliers in the Port Colborne and Fort Erie service areas will only have to deal with a single distributor for the competitive supply of electricity to a larger customer base.</p>	

2.2 Non-Discriminatory Access to Transmission and Distribution Systems

2.2.1	Provide confirmation that the proposed transaction will have no impact on access to the transmission or distribution system of the parties.	
	The transaction will have no negative impact on the access to the transmission or distribution systems of the parties.	

2.3 Protect Interests of Consumers

2.3.1	Provide details of the costs and benefits of the proposed transaction to the consumers of the parties to the proposed transaction.	
	<p>The lease of PC Hydro's distribution system to CNPI will ensure the continued safe and reliable supply of energy to its customers. PC Hydro and the City of Port Colborne utilized a competitive Request for Proposal process and determined that the CNP proposal represents fair market value for the distribution system. PC Hydro and the City of Port Colborne are confident that the transactions contemplated under the Lease Agreement and Master Implementation Agreement will result in continued reliable supply of electricity to its customers at a high service level. CNPI and CNP have extensive electricity distribution expertise and have a demonstrated record of safe and reliable energy practices.</p> <p>The transaction will not result in a rate increase for PC Hydro's customers (see section 2.3.6 below). With respect to employee job security, CNPI has agreed to offer employment to PC Hydro's employees and has negotiated and reached agreements with local unions. CNPI is committed to the Port Colborne area, and will contribute the sum of at least \$10,000.00 per year for the term of the lease to local economic development and community facilities and event sponsorship programs.</p>	

2.3.2	Describe the steps, including details of any capital expenditure plans, that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.	
	<p>CNPI will plan and execute projects on the Port Colborne distribution systems that are designed to ensure system integrity, reduce losses, lessen exposure from aging facilities, and maintain regulatory compliance. Upon completion of the proposed transaction, CNPI will evaluate the existing capital and maintenance plans of the previous PC Hydro management and those identified during CNPI's due diligence inspections, as a means of developing a five year plan and budget to ensure the operational safety and system integrity of the Port Colborne operation. Examples of areas covered in the five year plan include:</p> <ul style="list-style-type: none"> • customer driven upgrades and expansion requirements, • system driven capital rebuild and expansion requirements, • preventive maintenance inspections and refurbishments, • vegetation management requirements, • health and safety requirements, • environmental requirements, and • property, fleet and tool requirements. <p>Accordingly, the distribution system covered under the proposed transaction would be incorporated into the distribution planning processes of CNPI.</p>	

2.3.3	Provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction.	
	<p>The Master Implementation Agreement [at section 8.1(f)] commits CNPI to provide a level of service to the Port Colborne service area that is comparable in the aggregate for each customer class to that provided by CNPI to its customers in the Fort Erie service area. It further requires CNPI to maintain a customer service office in the City of Port Colborne during the term of the lease and to liaise with City officials. To this end, CNPI intends to maintain a service center located in Port Colborne. Certain facilities, vehicles and tools will continue to be utilized to meet the needs of Port Colborne customers. In addition, resources are available from CNPI's Fort Erie operation to be used in place of or to supplement the Port Colborne resources. As the existing facilities have been assessed to be adequate to service the area under normal operating conditions, it is anticipated that extensive capital expenditures for tools, vehicles and property will not be required. CNPI will re-evaluate this assumption after completion of the proposed transaction and then routinely on a yearly basis, particularly in the areas of manpower, vehicles and tools. The functions of providing new service connections, underground locates, meeting customer appointments, and providing emergency and general dispatch response, will be performed from both Port Colborne and Fort Erie. Telephone accessibility and responses to written enquiries will follow the same process of being provided from both Port Colborne and Fort Erie. Reliability indicators will be monitored and analyzed as primary performance indicators of the system's health. Corrective action will be taken as required. These indicators will be tracked separately from the Fort Erie indicators.</p>	

2.3.4	Indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed.	
	<p>The Master Implementation Agreement [at section 8.3(b)] commits CNPI to adopt the rates resulting from PC Hydro's November 2000 application to the OEB. Accordingly, the parties do not currently intend to undertake a rate harmonization process.</p>	

2.3.5	If rate harmonization is planned, please confirm that such rate harmonization will conform with the rate harmonization process contained in the Distribution Rate Handbook.	
	As CNPI will initially adopt PC Hydro's existing rate structure, this question is not applicable.	

2.3.6	Describe the changes, if any, in rate levels that parties to the proposed transaction are planning.	
	PC Hydro is in the process of establishing its unbundled and market-adjusted electricity distribution rates using the Rate Unbundling Design model designed by the OEB and the guidelines set out in the OEB's Electricity Distribution Rate Handbook and Ontario Energy Board Decision with Reasons (RP-2000-0069) of September 29, 2000 in determining the rate structure. This Rate Application is currently pending before the OEB. The Master Implementation Agreement [at Subsection 8.3(b)] provides that, "Lessee shall assume the Rates established or to be established by any Rate Order in response to Lessor's Rate Application." The Master Implementation Agreement also provides that the Lessee shall make all subsequent Rate Applications and applications for adjustments to the rates (such as for Z factor/transition cost items) that may be required by the OEB during the Term of the Lease; obtain or prepare the cost of service study that may be required for Second Generation PBR; and "...respond generally to all notices and directives of the OEB in connection with future Rate Applications during the Lease Term." There will be no changes in rate levels as a result of this transaction.	

2.3.7	Describe how the proposed change, if any, in rates has been communicated to affected ratepayers.	
	As there will be no change in the rates as a result of this proposed transaction, this question is not applicable.	

2.4 Promote Economic Efficiency

2.4.1	Identify and quantify any costs, efficiencies and/or economies of scale that may result from the proposed transaction.	
	Efficiencies and economies of scale may be realized over time in the administrative functions such as management, customer service, finance, human resources and health and safety. As the service territories of Fort Erie and Port Colborne are adjacent, some economies of scale and efficiencies may also be realized in metering and electrical services.	

2.5 Financial Viability

2.5.1	Provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.	
	PC Hydro received a number of competitive offers for the acquisition of PC Hydro from its Request for Proposals process, and is therefore confident that the payment terms set out in the Lease Agreement and Master Implementation Agreement represent fair and reasonable value for the distribution system being leased.	
2.5.2	Provide details of the financing of the proposed transaction.	
	Under the Lease Agreement and Master Implementation Agreement, CNPI will receive all revenues from the PC Hydro distribution system. CNPI anticipates financing this transaction from its own cash flow which should be sufficient to make the monthly lease payments of approximately \$127,350. As lessee guarantor, CNP would be able to service the annual lease commitment of approximately \$1,500,000 should CNPI require additional funding, as CNP has a net annual income of over \$9,000,000.	

2.5.3	Outline the interest coverage ratios and cashflow to debt ratios of the parties to the proposed transaction prior to and after completion of the proposed transaction.	
	<p>For the year 2000, the interest coverage ratio for CNPI is as follows: EBITDA is \$3,572,000; Interest and Lease Expense is \$1,345,000; and Interest Coverage Ratio is 2.7. The cash flow to debt ratio for CNPI is as follows: EBITDA is \$3,572,000; Debt is \$10,000,000; and Cash Flow to Debt Ratio is 0.4.</p> <p>The following are the Pro Forma ratios for CNPI. The interest coverage ratio for CNPI is as follows: EBITDA is \$4,643,000; Interest and Lease Expense is \$2,873,000; and Interest Coverage Ratio is 1.6. The cash flow to debt ratio for CNPI is as follows: EBITDA is \$4,643,000; Debt is \$10,000,000; and Cash Flow to Debt Ratio is 0.5.</p>	

2.5.4	Provide the most recent individual or joint public health and safety audits or environmental audits of the facilities of the parties to the proposed transaction. If public health and safety audits, or environmental audits have not been conducted, provide details of how the potential liability associated with the continued operation of assets has been determined. Provide details of how the parties propose to deal with any potential liabilities.	
	<p>Environmental and safety assessments of PC Hydro's distribution system were undertaken by CNPI as part of its due diligence process. CNPI is satisfied that any potential liability is not onerous. PC Hydro has owned, operated and occupied its facilities and lands in substantial compliance with applicable environmental laws and authorizations. The parties agreed that CNPI would bear the cost and liability of addressing certain environmental or occupational health and safety matters with respect to the PC Hydro distribution system. CNPI has extensive insurance coverage provided as part of the Fortis Group of Companies insurance policies.</p>	

2.6 Facilitate Energy Efficiency and Use of Environmentally Benign Energy Sources

2.6.1	Provide the details of environmental policies and programs established by each of the parties to the proposed transaction and indicate changes to these policies, if any, that would arise as a result of the proposed transaction.	
	<p>CNPI has an Environmental Management System ("EMS") in place which is consistent with ISO 14001 standards for environmental management systems. The EMS lays out CNPI's environmental policies and control procedures. In addition CNPI, through CNP's membership in the Canadian Electricity Association ("CEA"), participates in the CEA's Environmental Commitment and Responsibility Program ("ECR Program"). It is CNPI's intention to incorporate the Port Colborne operation into its EMS and to make the Port Colborne operation a part of its commitment to the ECR Program.</p> <p>During CNPI's due diligence efforts leading to the proposed transaction, it conducted Phase I and Phase II environmental site assessments of the PC Hydro distribution system (facilities and properties). It is CNPI's intention to incorporate the results of these assessments into its environmental plans for the PC Hydro operation.</p>	
2.6.2	Provide the details of any energy efficiency policies and programs of each of the parties to the proposed transaction and indicate changes to these programs, if any, that would arise as a result of the proposed transaction.	
	<p>CNPI will incorporate the PC Hydro distribution system operation into its corporate programs in these areas and include any programs in future corporate business plans. At this stage there are no programs that will be changed as a result of this transaction. However, the management and board of PC Hydro and CNPI will examine energy efficiency policies and programs.</p>	

2.7.1	Provide details of any public consultation process engaged in by the parties to the proposed transaction, and the details of any communication plans for public disclosure of the proposed transaction.
	<p>As noted herein, the parties issued joint media releases at various key milestones during the negotiations. Responses to the proposed transaction have been positive.</p> <p>On January 19, 2001 a press conference was held at the City of Port Colborne to "announce a significant and historic decision respecting hydro services in the City of Port Colborne." PC Hydro and CNPI issued a joint press release outlining the terms of the Letter of Intent and their commitment to negotiate a lease agreement. A copy of a Letter dated January 18, 2001 from the Office of the Mayor and the Joint Press Release are provided as Attachment 2.7.1.</p> <p>On January 22, 2001 the City of Port Colborne, at a City Council Meeting, reviewed the Letter of Intent and the proposal to lease PC Hydro's distribution system to CNPI. Representatives from CNPI attended the meeting and provided a briefing on their expectations. Copies of the City Council Minutes and the Mayor's Report dated January 22, 2001 are provided as Attachment 2.7.1.</p> <p>On February 27, 2001 PC Hydro and CNPI held a public information session on the proposed transaction which was advertised in local papers. Copies of the public notices are provided as Attachment 2.7.1. J. Mark Rodgers, counsel for PC Hydro, gave a presentation to the attendees that provided an overview of the restructuring of Ontario's energy sector in general, and of this proposed transaction.</p> <p>On July 10, 2001, the City of Port Colborne, at a City Council Meeting, enacted a by-law to authorize PC Hydro and the City of Port Colborne to execute a Lease Agreement and Master Implementation Agreement. A copy of By-Law No. 4094/89/01 and the City Council Minutes are provided as Attachment 2.7.1.</p> <p>On July 16, 2001 at a City Council Meeting, an announcement was made that PC Hydro Inc. would be signing a lease agreement with CNPI on July 19, 2001. A copy of the Mayor's Report is provided as Attachment 2.7.1.</p> <p>On July 20, 2001, the City of Port Colborne issued a joint press release announcing that PC Hydro, the City of Port Colborne, CNPI and CNP had signed a Lease Agreement and Master Implementation Agreement to lease PC Hydro's distribution system to CNPI. A copy of the Joint Press Release dated July 20, 2001 is provided as Attachment 2.7.1.</p> <p>On July 30, 2001 at a City Council Meeting, an update on the lease agreement was made as well as an update on the OEB application. A copy of the Mayor's Report is provided as Attachment 2.7.1.</p> <p>Throughout the negotiation of the Lease Agreement and Master Implementation Agreement the media has reported positive local support for the proposed lease agreement. Copies of local media reports are provided as Attachment 2.7.1.</p> <p>The Parties also note that potential Intervenor will have an opportunity to express their concerns to the OEB in response to the notice that will be published pursuant to the OEB's directions in this regard.</p>

2.7.2	Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.	
	<p>PC Hydro is not aware of any suits, actions, inquiries or proceedings by any government body, or other legal or administrative proceeding, except for proceedings before the OEB, that have been instituted or threatened against it except for the following:</p> <ul style="list-style-type: none"> • A class action claiming \$500 million in restitutionary payments plus interest was served on the Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is based on the premise that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the <i>Criminal Code</i>. PC Hydro is a member of the Defendant Class. The Municipal Electric Association is undertaking the defence of this action. At this time, it is not possible to quantify the effect, if any, on the financial statements of each the parties. <p>CNP and CNPI are not aware of any suits, actions, inquiries or proceedings by any government body, or other legal or administrative proceeding, except for proceedings before the Ontario Energy Board that have been instituted or threatened against them.</p>	
2.7.3	Please provide the Board with any other information that is relevant to the application.	
	N/A.	

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PART III: ACQUISITIONS BETWEEN ELECTRICITY TRANSMITTERS AND DISTRIBUTORS AND ELECTRICITY GENERATORS

If the transaction requires a notice under sections 80 or 81 of the Act, please complete and submit the following information.

3.1.1	Describe the generation capacity, within the Province of Ontario, of the parties to the proposed transaction, including each of their respective Energy Sector Affiliates, prior to and after the completion of the proposed transaction.
	<p>Neither PC Hydro nor the City of Port Colborne, has any generation capacity. CNPI does not have any generation capacity.</p> <p>CNP, the sole shareholder of CNPI, owns and operates a hydroelectric generating plant in Niagara Falls, Ontario. CNP is licensed as an electricity generator by the OEB (Generator Licence EG-1999-0387). The generation capacity of CNP will not change as a result of this transaction.</p>
3.1.2	Describe the generation market share, within the Province of Ontario, of the parties to the proposed transaction, including each of their respective Energy Sector Affiliates, prior to and after completion of the proposed transaction.
	The City of Port Colborne, PC Hydro and CNPI do not have any generation capacity and will not gain any generation capacity as a result of this transaction. This transaction will not result in a change in CNP's generation market share.
3.1.3	Describe what gains in efficiency would result from the proposed transaction.
	This question is not applicable.

PART IV: AMENDMENTS TO LICENCE

If any of the parties to the proposed transaction is requesting an amendment to its licence as a result of the proposed transaction, please complete and submit the following information.

4.1.1	If the proposed transaction will require an amendment to the description of the licensed territory contained in Schedule I to the licence of any party to the transaction, please provide a detailed description of the requested change.	
	The Master Implementation Agreement [section 6.1] requires CNPI to make an application pursuant to section 60 of the OEB Act to amend its Transitional Distribution Licence ED-1999-0160 (Fort Erie area) to include the distribution area set out in PC Hydro's Transitional Distribution Licence ED-1999-0069 (Port Colborne area). As a result of discussions with OEB staff, the parties understand that this requirement may be addressed through this MAADs filing process. A map illustrating the respective service areas after completion of the proposed transaction has been referred to in paragraph 1.2.4 and accompanies this application as Attachment 1.2.4.	
4.1.2	If any of the parties will not be in compliance with all applicable codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)	
	The parties expect to be in compliance with all applicable codes and rules after completion of the proposed transaction.	

::ODMA\PCDOCS\CCT\235126\10

Ontario Energy
Board
P.O. Box 2319
2300 Yonge Street
26th. Floor
Toronto ON M4P 1E4
Telephone: (416) 481-1967
Facsimile: (416) 440-7656

Commission de l'Énergie
de l'Ontario
C.P. 2319
2300, rue Yonge
26e étage
Toronto ON M4P 1E4
Téléphone: (416) 481-1967
Télécopieur: (416) 440-7656

905-871-8676



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August 22, 2001

BY FAX ONLY

Mr. Ross Tuck, Chair
Port Colborne Hydro Inc.
c/o The City of Port Colborne
66 Charlotte Street
Port Colborne, Ontario
L3K 3C8

Mr. Timothy B. Curtis
Vice-President Finance and CFO
Canadian Niagara Power Inc.
1130 Bertie Street
P.O.Box 1218
Fort Erie, Ontario
L2A 5Y2

Dear Sirs:

Re: Lease of the Port Colborne Hydro Inc. to Canadian Niagara Power Inc., request for new Licence of Canadian Niagara Power Inc. and approving the acquisition by Canadian Niagara Power Company Limited.

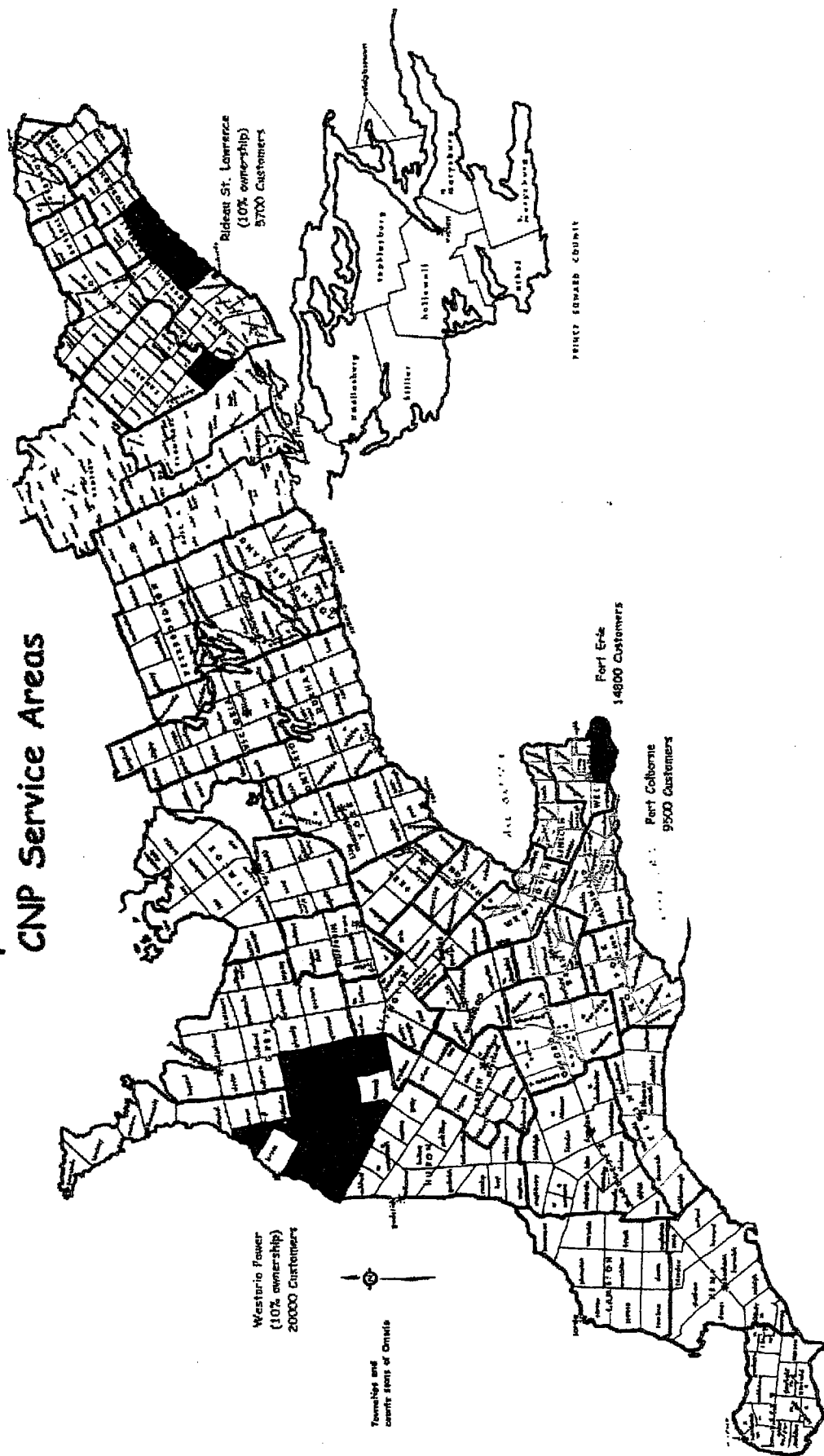
This will acknowledge receipt on Aug 20, 2001 of the Application filed by the Canadian Niagara Power Inc., Canadian Niagara Power Company, Port Colborne Hydro Inc. The Corporation of the City of Port Colborne.

The Board has assigned file number **RP-2001-0041** (EB-2001-0492) to this matter. Please refer to this number in all future correspondence to the Board on this Application.

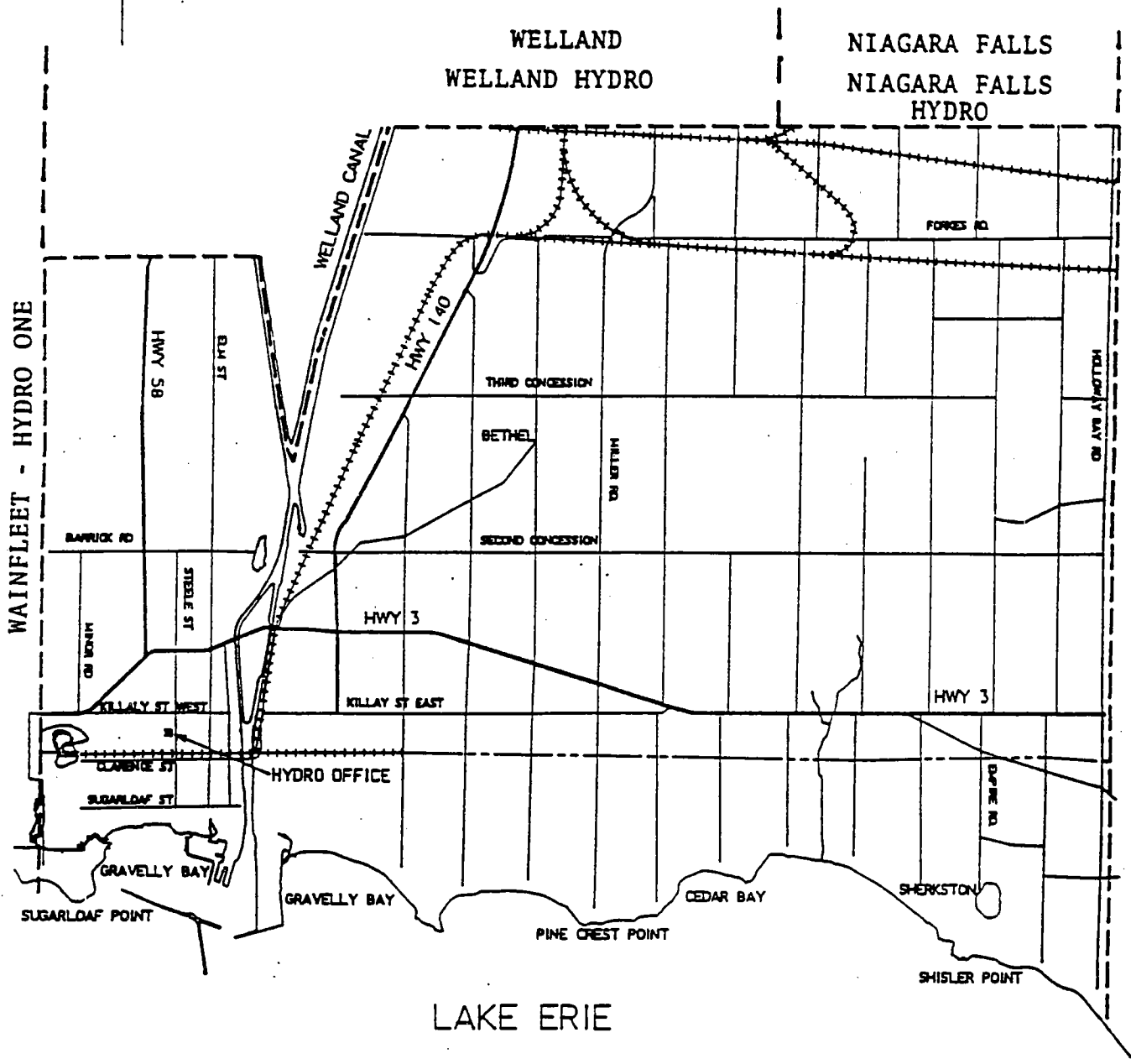
Yours truly,

Peter H. O'Dell
Assistant Board Secretary

Map of Southern Ontario CNP Service Areas

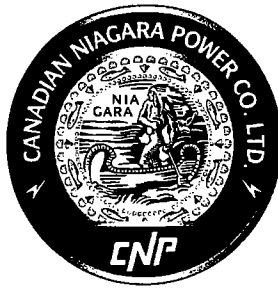


PORT COLBORNE HYDRO SERVICE AREA SCALE 82000:1



FORT ERIE
 CANADIAN NIAGARA POWER

LAKE ERIE



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August 17, 2001

Ontario Energy Board
26th Floor
P.O. Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Paul Pudge, Board Secretary

Canadian Niagara Power Company Limited
Confidential Treatment of Financial Statements

We are writing further to the letter dated of equal date hereof in respect of an application (the "Application") being made pursuant to provisions of the *Ontario Energy Board Act, 1998* concerning the proposed lease of Port Colborne Hydro Inc.'s electricity distribution system to Canadian Niagara Power Inc.

In accordance with Rule 13 of the Rules of Practice and Procedure (the "Rules") and Part 3 of the Guidelines for the Treatment of Filings made in Confidence - Phase I (the "Guidelines") of the Ontario Energy Board (the "OEB"), we request that the enclosed 1999 and 2000 financial statements of Canadian Niagara Power Company Limited ("CNP") required by section 1.3.4 of the Application be held in confidence by the OEB. In accordance with Rule 47 of the Rules, should the subject matter of the Application be dealt with by way of an oral hearing, we request that those parts of the hearing dealing with the enclosed financial statements be held in the absence of the public.

The enclosed financial statements of CNP come within the ambit of the exceptions listed in section 17(1) of the *Freedom of Information and Protection of Privacy Act* (the "FIPPA") and therefore correspond with Item Number 5 in Appendix 1 to the Guidelines, which appendix lists those records which the OEB has previously assessed or maintained as confidential. The financial statements fall within section 17(1) of the FIPPA on the basis that they constitute detailed financial information supplied in confidence which, if disclosed, could reasonably be expected to prejudice significantly the competitive position of CNP's unregulated and competitive operations. CNP is a private company and, as such, the enclosed financial statements are not currently available on the public record. Previous filings of CNP's financial statements made with the OEB have been made in confidence on the same basis.

Doc #: 963924.2

We have included in a separate envelope the financial statements of CNP for which we are requesting confidential treatment. We have also included herewith and with the schedules to the Application an abridged version of the financial statements as included in the Fortis Inc. 2000 annual financial statements which we propose be placed on the public record (see note 19 in the notes to the Fortis Inc. financial statements). The difference between the two sets of financial statements is that the abridged version aggregates and presents in summary format the detailed financial information included in the full versions. As well, given that Fortis Inc. has a 50% interest in CNP, the abridged financial statements provide financial information presented in a manner consistent with such interest. This point is noted in the "Summary of Accounting Policies" in the notes to the Fortis Inc. financial statements. As discussed above, disclosure of the detailed financial information would adversely affect the competitive position of CNP's unregulated and competitive operations. The information provided in the abridged version is in sufficient detail to demonstrate CNP's ability to service the annual lease commitment of its wholly-owned subsidiary, Canadian Niagara Power Inc., in CNP's role as guarantor under the proposed transaction, as discussed in section 2.5.2 of the Application.

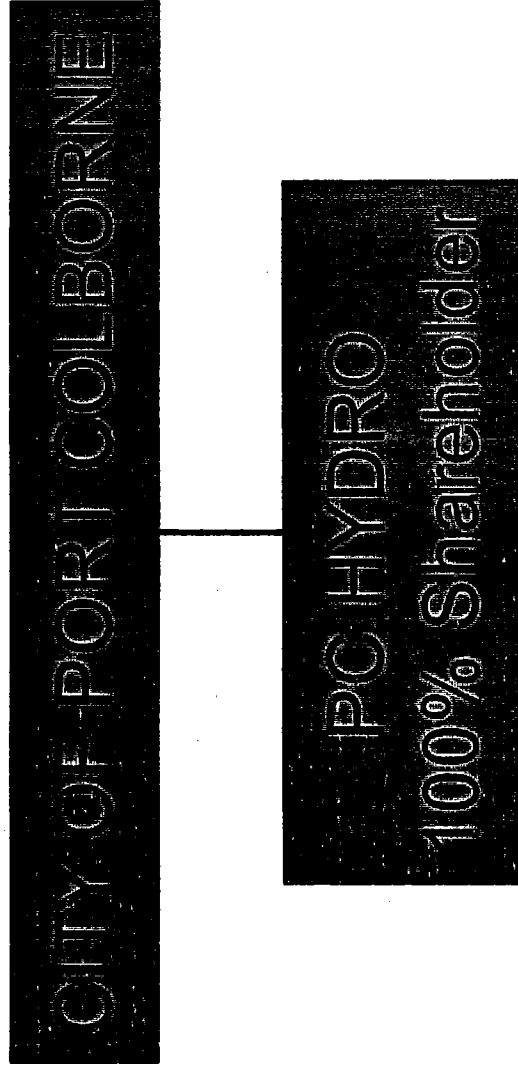
We would be pleased to assist the OEB in any way in its consideration of this request for confidential treatment. Please do not hesitate to contact us if you have any questions or require anything further.

Yours very truly,



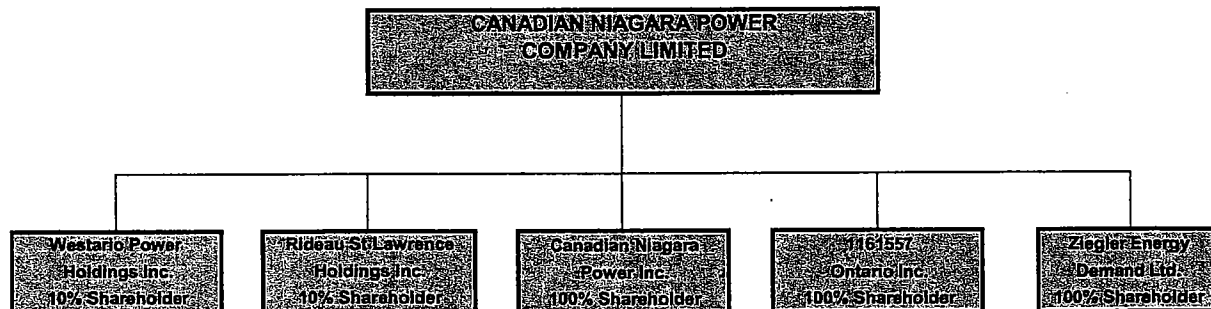
Timothy B. Curtis

CORPORATE CHART

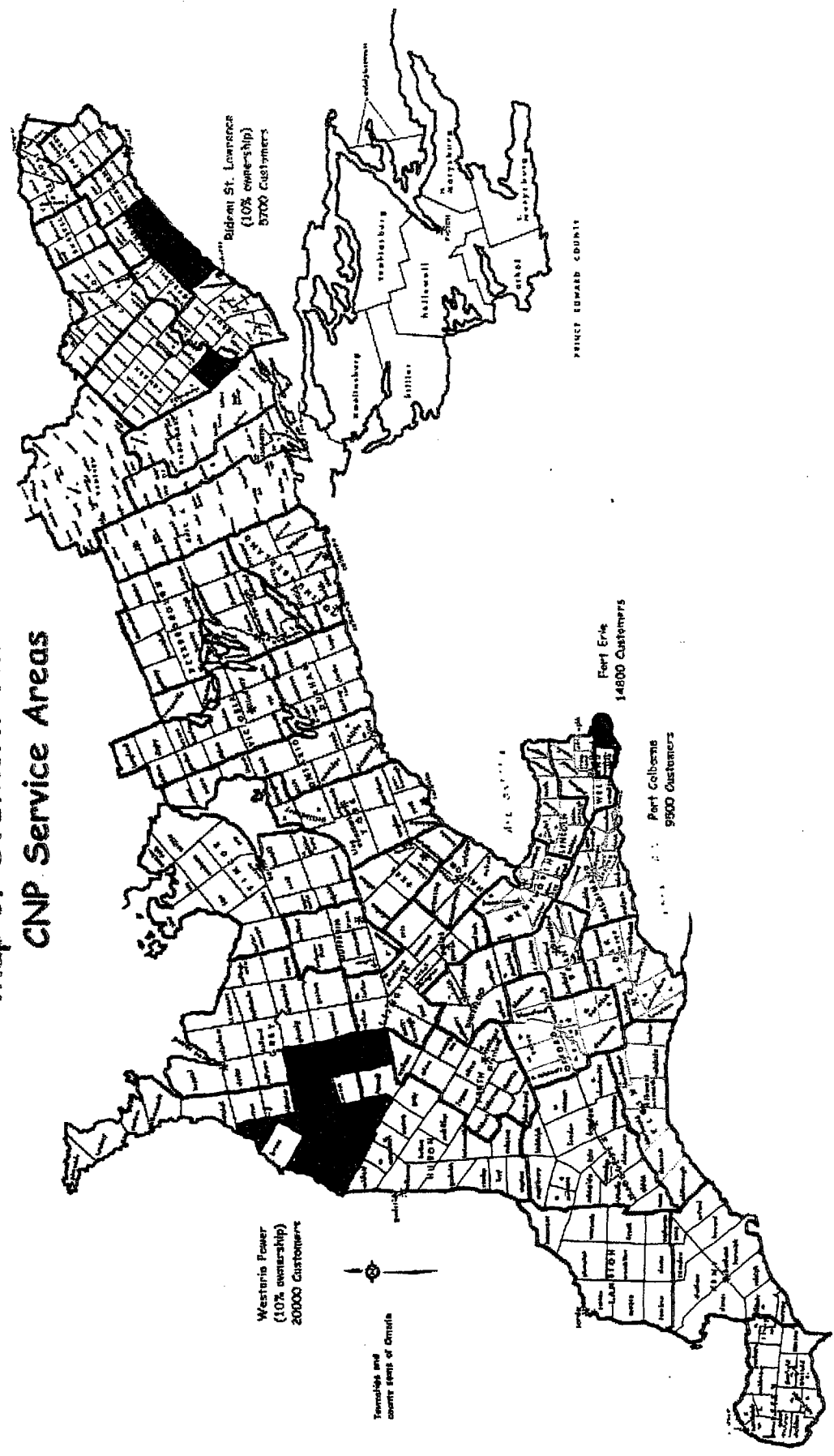


Filing Requirement 1.1.4

Corporate Chart showing the relationship between CNPI and CNP.



Map of Southern Ontario CNP Service Areas



Auditors' Report

To the shareholder

We have audited the balance sheet of Port Colborne Hydro Inc. as at December 31, 2000 and the statements of earnings, retained earnings and cash flows for the ten months then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Port Colborne Hydro Inc. as at December 31, 2000 and the results of its operations for the ten months then ended in accordance with the generally accepted accounting principles.

Port Colborne, Ontario
June 15, 2001


Chartered Accountants

Port Colborne Hydro Inc.**Balance Sheet**

December 31, 2000

Assets**Current**

Cash	\$ 990,132
Accounts receivable	1,979,162
Inventories	549,507
Prepaid expenses	<u>25,309</u>

3,544,110

Land, buildings and equipment (Note 3) 8,610,295

\$ 12,154,405**Liabilities****Current**

Payables and accruals	\$ 1,439,971
Vested sick leave payable (Note 4)	21,130
Current portion of customers' deposits	20,000
Current portion of long term debt	<u>72,000</u>

1,553,101

Customers' deposits	214,065
Liability for future benefits (Note 5)	495,362
Note payable (Note 7)	4,725,070
Long term debt (Note 6)	<u>475,000</u>

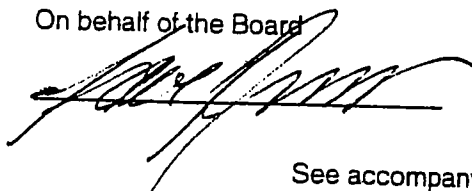
7,462,598**Shareholder's Equity**

Capital stock (Note 8)	4,234,195
Retained earnings	<u>457,612</u>

4,691,807\$ 12,154,405

Contingency (Note 6)

On behalf of the Board



See accompanying notes to the financial statements

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Port Colborne Hydro Inc.

Notes to the Financial Statements

December 31, 2000

1. Incorporation

The Ontario government enacted the Energy Competition Act, 1998 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this, the Ontario Energy Board (the "OEB") will regulate industry participants by issuing licenses for the right to generate, transmit, distribute or retail electricity. These licenses will require compliance with established market rules and codes.

Pursuant to this legislation, the municipality of the City of Port Colborne, as owners of the former Port Colborne Hydro-Electric Commission, incorporated one company, created for the purpose of continuing the distributing and retailing activities of the former commission. Port Colborne Hydro Inc. issued 1,000 common shares to the City of Port Colborne upon incorporation on March 1, 2000 for the net assets of the former Port Colborne Hydro-Electric Commission. Active operations commenced on March 1, 2000.

A City of Port Colborne transfer by-law authorized the transfer of substantially all the assets and liabilities of the former commission to the newly created corporation. In this regard, net assets of \$ 8,959,265 were transferred to Port Colborne Hydro Inc. on March 1, 2000. In consideration for the transfer of the net assets, the corporation issued a promissory note payable to the City of Port Colborne and 1,000 common shares.

Net assets transferred to the corporation, at the assigned values, are as follows:

Cash	\$ 127,965
Other current assets	2,569,554
Land buildings and equipment, net of accumulated depreciation	8,853,874
Current liabilities	(1,325,947)
Other liabilities	<u>(780,570)</u>
	9,444,866
Liability for future benefits	<u>(485,611)</u>
Net assets	<u>\$ 8,959,265</u>

Consideration issued by the corporation was as follows:

Note payable	\$ 4,725,070
1,000 common shares	<u>4,234,195</u>
	<u>\$ 8,959,265</u>

Port Colborne Hydro Inc. Notes to the Financial Statements

December 31, 2000

3. Land, buildings and equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and land rights	\$ 84,702	\$ 23,694	\$ 61,008
Buildings	515,650	266,791	248,859
Equipment	14,789,220	6,692,498	8,096,722
Vehicles	<u>846,907</u>	<u>643,201</u>	<u>203,706</u>
	<u>\$ 16,236,479</u>	<u>\$ 7,626,184</u>	<u>\$ 8,610,295</u>

4. Liability for vested sick leave benefits

Under the revised sick leave benefit plan, all accumulated vested benefits are to be paid to eligible employees. Earned sick time and its dollar value have been frozen and transferred to a separate account. The accumulation of vesting privileges has been terminated.

This liability has been fully provided for in the financial statements.

5. Liability for future benefits

Port Colborne Hydro Inc. pays certain benefits of its retired employees. Effective March 1, 2000, Port Colborne Hydro Inc. adopted The Canadian Institute of Chartered Accountants new accounting standards for future benefits. Port Colborne Hydro Inc. recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit liability at January 1, 2000 of \$ 485,611 and the expense for the year then ended December 31, 2000, was determined by actuarial valuation using a discount rate of 6%.

Information about Port Colborne Hydro Inc.'s defined benefit plan is as follows:

Accrued benefit liability recognized in the balance sheet at January 1, 2000	\$ 485,611
Expense for the period January 1, 2000 to December 31, 2000	37,274
Benefits paid for the period	<u>(27,523)</u>
Projected accrued benefit obligation at December 31, 2000	<u>\$ 495,362</u>

This liability has been retroactively adjusted through the net assets transferred from the City of Port Colborne (Note 1).

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Port Colborne Hydro Inc.

Notes to the Financial Statements

December 31, 2000

7. Note payable

The note is due to the City of Port Colborne. Interest has been set at a rate of 7.25% and should accrue from the date of opening of the Ontario electricity market as announced by the Ministry of Energy, Science and Technology. There are no set repayment terms for principal. The City of Port Colborne has the option to convert some or all of the principal into common shares of the company.

8. Capital stock

Authorized:

The company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares.

Issued:

1,100	common shares	<u>\$ 4,234,195</u>
-------	---------------	---------------------

During the year the company issued 1,000 common shares for the net assets of Port Colborne Hydro Inc. (Note 1) and 100 common shares at the date of incorporation.

9. Supplemental cash flow information

Change in non-cash operating working capital

Decrease in accounts receivable	\$ 6,940
Decrease in inventories	13,794
Increase in prepaid expenses	(5,157)
Increase in payables and accruals	<u>199,014</u>
	<u>\$ 214,591</u>

The company paid interest of \$ 59,416 during the ten months ended December 31, 2000.

The company received interest of \$ 43,151 during the ten months ended December 31, 2000.

10. Pension agreements

The corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no employer or employee pension contributions required until December 31, 2002, as long as there is sufficient plan surplus. There will be a review of the OMERS plan surplus each year to determine whether the contribution holiday will continue. As a result, no amount was contributed to OMERS for 2000 (1999 \$ Nil) for current service.

Port Colborne Hydro Inc.

Notes to the Financial Statements

December 31, 2000

13. Industry restructuring (continued)

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. The OEB may also prescribe license requirements and conditions to electricity distributors, which may include among other things, specified accounting records, regulatory accounting principles, separation of accounts for distinct businesses and filing and process requirements for rate setting purposes.

Prior to the EA and OEBA, the former Ontario Hydro exercised regulatory control over the electricity distribution sector through its powers under the Power Corporation Act. However, with the implementation of the EA and OEBA, the Power Corporation Act was repealed and the powers previously held by Ontario Hydro over electricity distribution sector were passed to the OEB.

14. Subsequent event

On January 16, 2001 the City of Port Colborne signed a letter of intent with Canadian Niagara Power to lease the electricity distribution business for a ten year period for \$ 14,500,000. The lease is subject to the approval of the OEB.

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member Firm of
Grant Thornton International

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Grant Thornton 

Port Colborne Hydro Inc.
Financial Statements
December 31, 2000

Port Colborne Hydro-Electric Commission Statement of Operations and Equity

for the year ended December 31

	1999	1998
Service revenue		
Residential	\$ 5,346,802	\$ 5,194,147
General	8,554,170	8,544,779
Large user	57,857	21,046
Street lighting	<u>134,508</u>	<u>134,361</u>
	14,093,337	13,894,333
Service revenue adjustment	<u>(41,536)</u>	<u>38,898</u>
	14,051,801	13,933,231
Cost of power		
Power purchased - Ontario Hydro	<u>12,071,156</u>	<u>11,966,726</u>
Gross margin on service revenue	1,980,645	1,966,505
Other operating revenue	<u>241,443</u>	<u>195,045</u>
	<u>2,222,088</u>	<u>2,161,550</u>
Operating and maintenance expense		
Distribution	486,277	427,083
Utilization	<u>1,015</u>	<u>1,016</u>
	<u>487,292</u>	<u>428,099</u>
Billing and collection	353,535	362,361
General administration expense	385,425	345,293
Depreciation	<u>554,617</u>	<u>537,780</u>
	<u>1,293,577</u>	<u>1,245,434</u>
Income before financial expense	441,219	488,017
Financial expense		
Interest	<u>73,867</u>	<u>83,001</u>
Net income	<u>\$ 367,352</u>	<u>\$ 405,016</u>
Equity		
Beginning of year	\$ 7,841,481	\$ 7,436,465
Net income	<u>367,352</u>	<u>405,016</u>
End of year	<u>\$ 8,208,833</u>	<u>\$ 7,841,481</u>

The accompanying notes are an integral part of this financial statement

Port Colborne Hydro-Electric Commission

Statement of Cash Flow

for the year ended December 31

1999

1998

Cash provided from (used for)

Operations		
Net income	\$ 367,352	\$ 405,016
Depreciation and amortization	628,400	598,843
Gain on sale of equipment	<u>(20,500)</u>	<u> </u>
	975,252	1,003,859
Changes in		
Accounts receivable	48,674	25,356
Inventories	37,100	161,416
Prepaid expenses	3,935	3,782
Accounts payable and accruals	<u>63,059</u>	<u>121,126</u>
	<u>1,128,020</u>	<u>1,315,539</u>
Financing		
Reduction in long term debt	(59,000)	(53,000)
Decrease in customers' deposits	(12,169)	(41,871)
Capital contributions	<u>59,086</u>	<u>153,362</u>
	<u>(12,083)</u>	<u>58,491</u>
Investing		
Purchase of		
Land and land rights		(1,031)
Building additions		(7,409)
Equipment	(432,520)	(711,904)
Vehicle	(124,883)	
Proceeds from sale of assets	<u>20,500</u>	<u> </u>
	<u>(536,903)</u>	<u>(720,344)</u>
Cash provided	579,034	653,686
Cash		
Beginning of year	<u>743,201</u>	<u>89,515</u>
End of year	<u>\$ 1,322,235</u>	<u>\$ 743,201</u>

The accompanying notes are an integral part of this financial statement

Port Colborne Hydro-Electric Commission Balance Sheet

December 31	1999	1998
Assets		
Current		
Cash	\$ 1,322,235	\$ 743,201
Accounts receivable	1,672,606	1,721,280
Inventories	585,920	623,020
Prepaid expenses	<u>24,282</u>	<u>28,218</u>
	3,605,043	3,115,719
Land, buildings and equipment (note 2)	<u>8,733,466</u>	<u>8,804,462</u>
	<u>\$ 12,338,509</u>	<u>\$ 11,920,181</u>
Liabilities		
Current		
Accounts payable and accruals	\$ 1,340,363	\$ 1,277,304
Long term debt payable within one year	65,000	59,000
Current portion of customers' deposits	<u>20,000</u>	<u>20,000</u>
	1,425,363	1,356,304
Long term debt (note 3)	547,000	612,000
Customers' deposits	212,420	224,589
Vested sick leave (note 4)	<u>21,130</u>	<u>21,130</u>
	<u>2,205,913</u>	<u>2,214,023</u>
Equity		
Utility equity	8,208,833	7,841,481
Equity accumulated through contributed capital	<u>1,923,763</u>	<u>1,864,677</u>
	<u>10,132,596</u>	<u>9,706,158</u>
	<u>\$ 12,338,509</u>	<u>\$ 11,920,181</u>

Contingency (note 6)

The accompanying notes are an integral part of this financial statement

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Port Colborne Hydro-Electric Commission Notes to the Financial Statements

December 31, 1999

3. Long Term Debt	1999	1998
Municipal debentures	\$ 612,000	\$ 671,000
Long term debt payable within one year	<u>65,000</u>	<u>59,000</u>
	<u>\$ 547,000</u>	<u>\$ 612,000</u>

The debenture bears interest at 10.25% and matures in 2006. Principal amounts payable on the long term debt within each of the next five years are as follows:

2000	\$ 65,000
2001	72,000
2002	75,000
2003	85,000
2004	95,000

4. Liability for Vested Sick Leave Benefits

Under the revised sick leave benefit plan, all accumulated vested benefits are to be paid to eligible employees. Earned sick time and its dollar value have been frozen and transferred to a separate account. The accumulation of vesting privileges has been terminated.

This liability has been fully provided for in the financial statements.

5. Pension Plans

The commission makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rates of pay.

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no employer or employee pension contributions required until December 31, 2001, as long as there is sufficient plan surplus. There will be a review of the OMERS plan surplus each year to determine whether the contribution holiday will continue. As a result, no amount was contributed to OMERS for 1999 (1998 \$ 20,618) for current service.

Port Colborne Hydro-Electric Commission

Notes to the Financial Statements

December 31, 1999

1. Summary of Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost and net realizable value.

Depreciation and Amortization

Rates of depreciation and amortization applied to write-off the cost of land, buildings and equipment over their estimated lives on the straight-line method, are as follows:

Land rights	2%
Buildings	1.67%
Equipment	3.33%-20%
Vehicles	12.5%-25%

Contributed Capital

Capital contributed by customers or developers towards the acquisition of assets is recorded as equity accumulated through contributed capital. The commission does not record amortization of contributed capital.

2. Land, Buildings and Equipment

			<u>1999</u>	<u>1998</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land and land rights	\$ 97,500	\$ 22,430	\$ 75,070	\$ 76,319
Buildings	515,650	253,276	262,374	275,889
Equipment	14,280,069	6,130,874	8,149,195	8,258,083
Vehicles	<u>891,540</u>	<u>644,713</u>	<u>246,827</u>	<u>194,171</u>
	<u>\$ 15,784,759</u>	<u>\$ 7,051,293</u>	<u>\$ 8,733,466</u>	<u>\$ 8,804,462</u>

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Port Colborne Hydro-Electric Commission

Notes to the Financial Statements

December 31, 1999

6. Contingency

A class action suit claiming \$ 500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1999. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Commission. During the period in question the Commission charged \$ 858,700 in late payment charges on overdue utility bills.

7. Industry Restructuring

The Ontario Government enacted the Energy Competition Act, 1999 to introduce competition to the Ontario electricity market by the year 2000. Under the terms of this legislation, the Ontario Energy Board (the "OEB") will regulate industry participants by issuing licences for the right to generate, transmit, distribute or retail electricity. These licences will require compliance with establishing market rules and codes.

Pursuant to this legislation, the Municipality of the City of Port Colborne, as owners of the Commission, must enact a by-law by November 7, 2000 to authorize the incorporation of one or more companies created for the purpose of continuing the current distributing and retailing activities of the Commission. This by-law will also authorize the transfer of assets and liabilities of the Commission to the applicable, newly created corporations.

8. Subsequent Event

Subsequent to December 31, 1999 the Commission was incorporated and the City of Port Colborne was in the process of negotiating a \$ 2.5 million bank loan on behalf of the new corporation.

Grant Thornton LLP
Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Grant Thornton 

**Port Colborne Hydro-Electric
Commission**

**1999
Financial Report**

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Balance Sheet	3
Notes to the Financial Statements	4-6

Auditors' Report

To the Commissioners, Members of Council, Inhabitants and
Ratepayers of the Corporation of the City of Port Colborne

We have audited the balance sheet of the Port Colborne Hydro-Electric Commission as at December 31, 1999 and the statements of operations and equity and cash flow for the year then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Port Colborne Hydro-Electric Commission as at December 31, 1999 and the results of its operations for the year then ended in accordance with the accounting principles prescribed for Ontario Hydro-Electric Commissions applied on a basis consistent with that of the preceding year.

Port Colborne, Ontario
February 10, 2000


Chartered Accountants

Canadian Niagara Power Inc.

2000 Financial Statements

Balance Sheet
As at December 31, 2000

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	2000 \$	1999 \$
Assets		
Current assets		
Cash	131,370	1,247,591
Accounts receivable	2,811,066	2,217,413
Materials and supplies, at average cost	904,970	887,508
Prepaid expenses	115,186	62,670
	<u>3,962,592</u>	<u>4,415,182</u>
Utility plants (note 2)	43,531,943	39,634,520
Future income taxes	-	227,436
Accrued pension benefit asset (note 3)	<u>1,859,722</u>	<u>1,819,042</u>
	<u>49,404,257</u>	<u>46,146,230</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,249,874	2,284,688
Income taxes payable	77,220	571,966
Due to parent (note 5)	<u>8,315,098</u>	<u>3,940,916</u>
	<u>9,642,192</u>	<u>6,797,570</u>
Note payable to parent (note 5)	14,320,811	24,320,811
Future income taxes	317,497	-
Accrued other retirement benefit liability (note 3)	1,904,757	2,012,100
Contributions in aid of construction	<u>394,395</u>	<u>803,789</u>
	<u>27,579,652</u>	<u>34,434,270</u>
Shareholder's Equity		
Capital stock (note 4)	21,400,000	11,400,000
Retained earnings	<u>424,605</u>	<u>311,960</u>
	<u>21,824,605</u>	<u>11,711,960</u>
	<u>49,404,257</u>	<u>46,146,230</u>

Approved by the Board of Directors

Tom Carter Director

Maday E. Ghod Director

62 Canadian Niagara Power Inc.
Statement of Earnings and Retained Earnings
For the year ended December 31, 2000

	2000 \$	1999 \$
Operating revenue	<u>21,065,063</u>	<u>14,709,370</u>
Expenses		
Operating	5,828,088	3,471,343
Purchased power	11,185,664	8,151,312
Other taxes	240,803	146,859
Amortization	<u>2,091,267</u>	<u>1,179,902</u>
	<u>19,345,822</u>	<u>12,949,416</u>
Operating earnings	<u>1,719,241</u>	<u>1,760,454</u>
Other income (expense)		
Interest income	22,242	109,491
Interest expense	(1,245,566)	(1,289,398)
Other	<u>(157,249)</u>	<u>(17,238)</u>
	<u>(1,380,573)</u>	<u>(1,197,145)</u>
Earnings before income taxes	<u>338,668</u>	<u>563,309</u>
Provision for income taxes		
Current	139,815	478,835
Future	<u>86,208</u>	<u>(227,486)</u>
	<u>226,023</u>	<u>251,349</u>
Earnings for the year	<u>112,645</u>	<u>311,960</u>
Retained earnings – Beginning of year	<u>311,960</u>	<u>-</u>
Retained earnings – End of year	<u>424,605</u>	<u>311,960</u>

Canadian Niagara Power Inc.

Statement of Cash Flows

For the year ended December 31, 2000

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	2000 \$	1999 \$
Cash flows from (used in)		
Operating activities		
Earnings for the year	112,645	311,960
Items not affecting cash		
Amortization	2,091,267	1,179,902
Future income taxes	544,953	(227,486)
Loss on sale of capital assets	142,134	-
Accrued pension benefit	(40,680)	(150,000)
Accrued post retirement benefit	(107,343)	-
	<u>2,743,006</u>	<u>1,114,376</u>
Change in non-cash working capital		
Accounts receivable	(593,653)	312,074
Materials and supplies	(17,462)	104,425
Prepaid expenses	(52,516)	(20,426)
Accounts payable and accrued liabilities	(1,034,814)	1,580,520
Income taxes payable	(494,746)	571,966
Due to parent	4,374,182	4,283,974
	<u>2,180,991</u>	<u>6,832,533</u>
	<u>4,923,997</u>	<u>7,946,909</u>
Investing activities		
Additions to utility plants	(6,207,675)	(6,828,763)
Proceeds on sale of capital assets	76,851	-
Increase in contributions in aid of construction	90,606	129,445
	<u>(6,040,218)</u>	<u>(6,699,318)</u>
Increase (decrease) in cash during the year	<u>(1,116,221)</u>	<u>1,247,591</u>
Cash - Beginning of year	<u>1,247,591</u>	<u>-</u>
Cash - End of the year	<u>131,370</u>	<u>1,247,591</u>
Supplemental cash flow information		
Cash paid during the year for		
Interest	1,363,109	1,289,398
Income taxes	405,792	-

1 Summary of significant accounting policies

Incorporation

The Corporation, a wholly owned subsidiary of Canadian Niagara Power Company, Limited, was incorporated on February 17, 1999 to comply with the Electricity Act, 1998 (Ontario) ("the Act"). The Act requires that the electric power transmission and distribution businesses, previously carried out by the parent company, be carried out in a separate legal entity. Effective March 31, 1999, the Corporation purchased the electric power transmission and distribution assets of its parent company and commenced operations.

Utility plants

Utility plants are stated at cost. Amortization is provided over the estimated useful lives of the utility plants using the straight-line method at a composite rate of 3.5% (1999 - 3.3%).

Contributions in aid of construction represent property, plant and equipment contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the assets involved.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Gains and losses on translation are included in the statement of earnings. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date.

Employee benefit plans

The Corporation accrues its obligations under employee benefit plans. The cost of pension benefits and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of discount rates, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Fair value of financial instruments

Short-term financial instruments are valued at their carrying amounts which are reasonable estimates for fair values due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, and due to related party. The carrying value of the note payable to parent is a reasonable estimate for fair value due to the floating interest rate attached to it.

2 Utility plants

	2000 \$	1999 \$
Utility plants	59,971,772	54,098,986
Less: Accumulated amortization	16,389,829	14,414,466
	<u>43,581,943</u>	<u>39,684,520</u>

Canadian Niagara Power Inc.

Notes to Financial Statements

December 31, 2000

3 Employee future benefits

The Corporation is a participating employer with its parent Canadian Niagara Power Company, Limited in a defined benefit pension plan and a defined benefit plan providing other retirement benefits.

Information about the Corporation's defined benefit plans as at December 31, 2000 is as follows:

	<u>Pension benefit plan</u>		<u>Other retirement plan</u>	
	2000	1999	2000	1999
	\$	\$	\$	\$
Accrued benefit asset (liability)				
Accrued benefit obligation	(8,725,923)	(8,448,277)	(1,735,800)	(2,012,100)
Fair value of plan assets	11,058,722	11,109,444	-	-
Funded status – plan surplus (deficit)	2,332,799	2,661,167	(1,735,800)	(2,012,100)
Accrued benefit asset (liability)	1,859,722	1,819,042	(1,904,757)	(2,012,100)
Significant assumptions used				
Discount rate	6.75%	6%	7%	6%
Expected long-term rate of return on plan assets	8%	8%		
Rate of compensation increase	5%	4%	5%	4%
Average remaining service period of active employees (years)	21	24	19	19
Other information				
Net benefit expense for the year	(13,133)	150,000	2,453	-
Benefits paid	893,000	962,350	106,049	-
Contributions	-	-	106,049	-

4 Capital stock

The authorized and issued shares consist of 21,400,000 (1999 – 11,400,000) common shares without par value. During the year, 10,000,000 common shares were issued for proceeds of \$10,000,000.

Canadian Niagara Power Inc.

Financial Statements
December 31, 2000

PricewaterhouseCoopers LLP
Chartered Accountants
21 King Street West
Main Floor
Hamilton Ontario
Canada L8P 4W7
Telephone - (905) 777 7000
Facsimile - (905) 777 7060

January 19, 2001

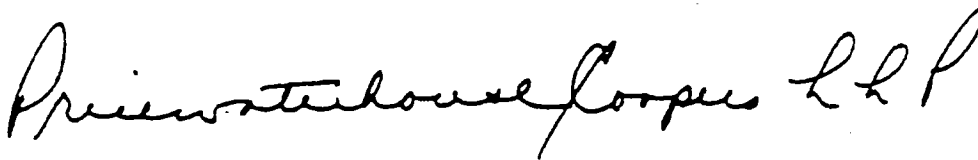
Auditors' Report

To the Shareholder of
Canadian Niagara Power Inc.

We have audited the balance sheet of **Canadian Niagara Power Inc.** as at December 31, 2000 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Hamilton, Ontario

Canadian Niagara Power Inc.

1999 Financial Statements

Canadian Niagara Power Inc.

Financial Statements
December 31, 1999

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PricewaterhouseCoopers LLP
Chartered Accountants
21 King Street West
Main Floor
Hamilton Ontario
Canada L8P 4W7
Telephone +1 (905) 777 7000
Facsimile +1 (905) 777 7060

January 21, 2000

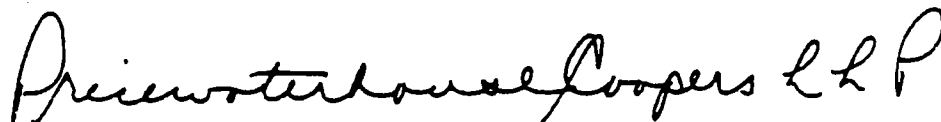
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**To the Shareholder of
Canadian Niagara Power Inc.**

We have audited the balance sheet of **Canadian Niagara Power Inc.** as at December 31, 1999 and the statements of earnings and retained earnings and cash flows for the period then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Hamilton, Ontario

Canadian Niagara Power Inc.

Balance Sheet

As at December 31, 1999

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1999
\$

Assets

Current assets

Cash	1,247,591
Accounts receivable	2,217,413
Materials and supplies, at average cost	887,508
Prepaid expenses	62,670

4,415,182

Utility plants (note 2)

39,684,520

Future income taxes

227,486

Accrued pension benefit asset (note 3)

1,819,042

46,146,230

Liabilities

Current liabilities

Accounts payable and accrued liabilities	2,284,688
Income taxes payable	571,966
Due to related party (note 5)	3,940,916

6,797,570

Note payable to parent (note 5)

24,820,811

Accrued other retirement benefit liability (note 3)

2,012,100

Contributions in aid of construction

803,789

34,434,270

Shareholder's Equity

Capital stock (note 4)	11,400,000
Retained earnings	311,960

11,711,960

46,146,230

Approved by the Board of Directors

Director

Director

73 Canadian Niagara Power Inc.

Statement of Earnings and Retained Earnings
For the period ended December 31, 1999

	1999 \$
Operating revenue	<u>14,709,870</u>
Expenses	
Operating	3,471,343
Purchased power	8,151,312
Other taxes	146,859
Amortization	<u>1,179,902</u>
	<u>12,949,416</u>
Operating earnings	<u>1,760,454</u>
Other income (expense)	
Interest income	109,491
Interest expense	(1,289,398)
Other	<u>(17,238)</u>
	<u>(1,197,145)</u>
Earnings before income taxes	<u>563,309</u>
Provision for income taxes	
Current	478,835
Future	<u>(227,486)</u>
	<u>251,349</u>
Earnings for the period	<u>311,960</u>
Retained earnings – Beginning of period	<u>-</u>
Retained earnings – End of period	<u>311,960</u>

Canadian Niagara Power Inc.

Statement of Cash Flows

For the period ended December 31, 1999

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	1999 \$
Cash flows from (used in)	
Operating activities	
Earnings for the period	311,960
Items not affecting cash	
Amortization	1,179,902
Future income taxes	(227,486)
Accrued pension benefit	(150,000)
	<u>1,114,376</u>
Change in non-cash working capital	
Decrease in accounts receivable	312,074
Decrease in materials and supplies	104,425
Increase in prepaid expenses	(20,426)
Increase in accounts payable and accrued liabilities	1,580,520
Increase in income taxes payable	571,966
Increase in due to related party	4,283,974
	<u>6,832,533</u>
	<u>7,946,909</u>
Investing activities	
Additions to utility plants	(6,828,763)
Increase in contributions in aid of construction	129,445
	<u>(6,699,318)</u>
Increase in cash during the period	1,247,591
Cash – Beginning of period	<u>-</u>
Cash – End of the period	<u>1,247,591</u>
Supplemental cash flow information	
Cash paid during the year for:	
Interest	1,289,398
Income taxes	-

1 Summary of significant accounting policies

Incorporation

The Corporation, a wholly owned subsidiary of Canadian Niagara Power Company, Limited, was incorporated on February 17, 1999 to comply with the Electricity Act, 1998 (Ontario) ("the Act"). The Act requires that the electric power transmission and distribution businesses, previously carried out by the parent company, be carried out in a separate legal entity. Effective March 31, 1999, the Corporation purchased the electric power transmission and distribution assets of its parent company and commenced operations.

Utility plants

Utility plants are stated at cost. Amortization is provided over the estimated useful lives of the utility plants using the straight-line method at a composite rate of:

Composite rate	3.3%
----------------	------

Contributions in aid of construction represent property, plant and equipment contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the assets involved.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Gains and losses on translation are included in the statement of earnings. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date.

Employee benefit plans

The Corporation accrues its obligations under employee benefit plans. The cost of pension benefits and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of discount rates, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are valued at fair value. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Canadian Niagara Power Inc.

Notes to Financial Statements

December 31, 1999

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Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

2 Utility plants

	1999 \$
Utility plants	54,098,986
Less: Accumulated amortization	<u>14,414,466</u>
	<u>39,684,520</u>

3 Employee future benefits

The Corporation is a participating employer with its parent Canadian Niagara Power Company, Limited in a defined benefit pension plan and a defined benefit plan providing other retirement benefits.

Information about the Corporation's defined benefit plans as at December 31, 1999 is as follows:

	Pension benefit plan 1999 \$	Other retirement plan 1999 \$
Accrued benefit asset (liability)		
Accrued benefit obligation	(8,448,277)	(2,012,100)
Fair value of plan assets	<u>11,109,444</u>	<u>-</u>
Funded status – plan surplus (deficit)	<u>19,557,721</u>	<u>(2,012,100)</u>
Accrued benefit asset (liability)	<u>1,819,042</u>	<u>(2,012,100)</u>

(2)

Canadian Niagara Power Inc.

Notes to Financial Statements

December 31, 1999

	Pension benefit plan 1999 \$	Other retirement plan 1999 \$
Significant assumptions used		
Discount rate	6%	6%
Expected long-term rate of return on plan assets	8%	-
Rate of compensation increase	4%	-
Average remaining service period of active employees	24 years	19 years
Other information		
Net benefit expense for the year	150,000	-
Benefits paid	962,350	-
Contributions	-	-

4 Capital stock

The authorized and issued shares consist of 11,400,000 common shares without par value.

5 Related party transactions

During the year, the Corporation entered into the following transactions with its parent company, Canadian Niagara Power Company, Limited:

	1999 \$
Revenues	
Administrative service fees	360,000
Reimbursement of expenses	82,177
Expenses	
Purchase of electric power	8,151,312
Management fees	225,000
Rent	648,585
Payroll charges	127,017
Interest on note payable	1,289,398

Canadian Niagara Power Inc.

Notes to Financial Statements

December 31, 1999

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

On March 31, 1999, the Corporation purchased the net assets of the electric power transmission and distribution businesses of its parent company for consideration of \$36,220,811. In exchange, the Corporation issued a note payable in the amount of \$24,820,811 and capital stock in the amount of \$11,400,000. This transaction was measured at the carrying amount of the net assets previously recorded in the accounts of the parent which was \$36,220,811.

At the end of the year, the balances due to the Corporation's parent company are summarized as follows:

	1999 \$
Due to parent	<u>3,940,916</u>
Note payable to parent	<u>24,820,811</u>

The amount due to parent is subject to normal trade credit terms.

The note payable to parent bears interest at the Toronto-Dominion bankers' acceptance rate plus 1% and is payable on demand. The note payable is not anticipated to be repaid in the current year and has therefore been classified as long-term.

6 Fair value of financial instruments

Short-term financial instruments are valued at their carrying amounts which are reasonable estimates for fair values due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, and due to related party.

The carrying value of the note payable to parent is a reasonable estimate for fair value due to the floating interest rate attached to it.

7 Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

(4)