

1. Ref: Exhibit 1/Tab1/Schedule 2

Algoma Power chose to file an application to set rates for each of 2010 and 2011 using a cost of service based approach.

- a) Please provide the reasons why Algoma Power did not consider using the Board's Incentive Regulation Mechanism to set rates for 2011.
- b) With respect to the setting of rates for 2012, does Algoma intend to file a cost of service application or will it file under the Incentive Regulation Mechanism?

RESPONSE:

- a) There are a number of factors which necessitated a cost of service application as opposed to a filing using the Board's Incentive Regulation Mechanism to set rates for 2011. These include the following: API believes that an application is consistent with the Board's expectations arising from its Decision and Order, EB-2007-0744; the need for an appropriate cost allocation study; the ongoing accumulation in the deferral account related to the Seasonal Customer Class; the accumulation of foregone revenue related to the Street Lighting Class; Incentive Regulation Mechanism limitations related to Algoma's high cost, low revenue service area; and the change in operating control.

In its Decision and Order, EB-2007-0744¹, the Board wrote, "*Conventional ratemaking cannot result in a rate that will cover the Company's costs, provide for a reasonable return on investment, while being reasonable from a ratepayer's point of view.*"

As discussed later in that Decision and Order, the adoption of Regulation 445/07, the "Reclassification Regulation" and amendment of Regulation 442/01, the "RRRP Regulation" were an effective response to the issue of the high cost, low revenue service area dilemma. The adoption of these Regulations extended rural and remote rate protection to virtually all of Algoma's customers. However, Street Light and Seasonal customers' rates were protected from the high cost of service using rate mitigation techniques including deferral accounts and foregone revenue which were adopted to limit rate impacts. In its Decision and Order, EB-2007-0744, the Board clearly expected that the applicant present a plan in its next rate application to clear the balances².

Current cost allocation to API's customer classes is not based on a cost allocation study. In its Decision and Order, EB-2007-0744, the Board indicated

¹ Ontario Energy Board, Decision and Order, EB-2007-0744, page 3

² Ontario Energy Board, Decision and Order, EB-2007-0744, page 37

that a cost allocation is a key element in conventional rate making and rate design and went on to say that it would be prudent to conduct such a study³. The Board's Incentive Regulation Mechanism, the Third Generation Incentive Regulation Mechanism, utilizes a stretch factor premised upon the operating cost per customer. As stated here earlier, because of its geographical attributes, API has been recognized by the Board to be a high cost, low revenue service area and conventional ratemaking cannot yield an appropriate rate. The current form of incentive rate regulation does not accommodate these unique characteristics.

As presented in its Application⁴, API's distribution business is operationally very different from the way it was in 2007, when it was last before the Board for distribution rates. Historically, it was operated as a division of Great Lakes Power Limited ("GLPL") as part of an integrated utility that included generation, transmission and distribution. As a new corporation, now licenced to own and operate an electricity distribution business on a "stand-alone" basis in Northern Ontario, API is going through a significant transition.

On the basis of the foregoing, API believes that it is prudent to submit a cost of service application for 2010 and 2011 electricity distribution rates. In addition, API believes that it was the Board's expectation arising from its Decision and Order, EB-2007-0744, that the applicant would apply to the Board in due course and address the issues identified in both the decision and the cost of service application.

- b) It would be API's preference to utilize a form of incentive regulation to set rates for 2012. It is API's expectation that accommodation can be achieved in incentive regulation that recognizes the unique attributes of API. At a minimum, accommodation would need to recognize the high cost, low revenue service area and consider the application of the RRRP.

³ Ontario Energy Board, Decision and Order, EB-2007-0744, page 33

⁴ Algoma Power Inc., EB-2009-0278, Application, Exhibit 1, Tab 2, Schedule 1, page 7 of 11

2. Ref: Exhibit 1/Tab1/Schedule 2

Algoma Power's filed its application on June 1, 2010 which is after the April 30, 2010 closing date for 2010 cost of service rate applications as set out in the Board's April 20, 2010, letter: "Application for Rates for the 2010 Rate Year – Direction Regarding Filing."

Please provide a comprehensive explanation for the four-week delay in Algoma Power's filing of its 2010 cost of service rate application.

RESPONSE:

API was acquired by FortisOntario in October of 2009, at which time API started to diligently prepare its cost of service distribution rate application. Prior to the acquisition, API's predecessor had not commenced preparation of an application or supporting evidence for a 2010 cost of service filing. In addition to transitioning to new ownership, a significant amount of effort was required to prepare the rate application. API had to prepare a weather normalized forecast and cost allocation study, where no previous studies had been prepared under API's predecessor. As such, commencing in October of 2009, API had to prepare all such evidence from scratch.

Further, because API's distribution rates are set in accordance with Ontario Regulation 442/01, API's rates can only recover the Board approved average of rate adjustments for other distributors in the same year, it appears that the Board's IRM rate setting methodology is incompatible with API's legislated rate setting methodology. In order to avoid filing a second application in August 2010 for 2011 rates, the application that API filed included both 2010 and 2011 Test Years. The additional work involved in developing a multi-year rate application contributed to the time it took to complete the application.

API (or its predecessor Great Lakes Distribution) was not identified as a 2010 (or 2011) cost of service rate rebasing applicant in the Board's letter dated March 5, 2009 related to Multi-year Electricity Distribution Rate Setting Plan. On January 11, 2010, API met with Board staff to discuss its plan to submit a 2010 and 2011 cost of service application.

Prior to receiving the letter dated April 20, 2010, API had not understood that it was subject to the earlier prescribed filing deadline. The ten-day deadline from receipt of the April 20th letter was insufficient time for API to complete its application.

On April 23, 2010, API wrote to the Board, a copy of which is in the record, explaining its position and committing to a filing date of June 1, 2010.

3. Ref: Exhibit 1 /Tab 1/ Schedule 17

With respect to the Board's decision on GLPL's "rate mitigation plan" and the subsequent appeal to the Divisional Court (which was dismissed), Algoma Power notes that GLPL was granted leave to appeal to the Ontario Court of Appeal, and that appeal was heard on April 29, 2010. Board staff understands that the Ontario Court of Appeal has ruled in the aforementioned matter.

- a) Please file a copy of the court's ruling.
- b) Please indicate what action, if any, Algoma intends to take in light of the court's decision.

RESPONSE:

- a) Attached please find a copy of the Court of Appeal Decision.
- b) API has not taken any action in this regard. API understands that GLPL has until September 2, 2010 to seek leave to appeal to the Supreme Court of Canada.

CITATION: Great Lakes Power Limited v. Ontario Energy Board, 2010 ONCA 399
DATE: 20100603
DOCKET: C51267

COURT OF APPEAL FOR ONTARIO

Doherty, Simmons and Epstein JJ.A.

BETWEEN

Great Lakes Power Limited

Appellant

and

Ontario Energy Board

Respondent

Alan H. Mark and Christine Kilby, for the appellant

Glenn Zacher and Patrick G. Duffy, for the respondent

Heard: April 29, 2010

On appeal from the order of the Divisional Court (J. M. Wilson, S. N. Lederman and K. E. Swinton JJ.), dated July 21, 2009.

By the Court:

[1] The appellant, Great Lakes Power Limited, is an electricity distributor. The rate it is entitled to charge its customers for electricity is set by the respondent, the Ontario Energy Board, under s. 78(3) of the *Ontario Energy Board Act, 1998* S.O. 1998, c. 15, Sched. B.

[2] In 2002, the utility applied to the Board for approval of its proposed rates for that year. This application was premised on a revenue requirement of \$12.7 million per year. However, in order to avoid “rate shock” to its customers, the utility reduced its request to \$9.8 million per year. The remaining \$2.9 million per year would be recorded on its books as a “rate deferral plan”, to be recovered from its customers later. The utility proposed to record these amounts in a specific account referred to as “Account 1574”.

[3] On May 13, 2002, the Board issued an interim order approving the utility’s rates in amounts corresponding to a \$9.8 million revenue requirement pending a full public hearing.

[4] Before the Board could hold a public hearing, the Ontario government enacted legislation in December, 2002 that temporarily froze electricity rates. The legislation, known as “Bill 210”, also deemed any existing interim orders of the Board to be final. The rate freeze was in effect for two years. On December 9, 2004, Bill 210 was repealed.

[5] In August, 2007, the utility applied to the Board for approval of its rates for 2007. Included in the application was a claim for disbursement of \$14.9 million - the utility’s remaining deferral account balance as recorded in account 1574 – over several years. The utility argued not only that the Board had approved its revenue requirement of \$12.7 million and the rate deferral plan in its interim decision of 2002, but also that the decision had become final by virtue of Bill 210.

[6] The Board rejected the utility's claim for recovery of the \$14.9 million. The Board held that in its interim order of 2002, it had not approved the utility's revenue requirement of \$12.7 million, or its rate deferral plan. Indeed, the interim order made no mention of either. The Board made it clear that it would not have provided the utility with the approvals it sought without holding a public hearing.

[7] The utility appealed the decision to the Divisional Court, arguing that the Board misinterpreted the scope of the 2002 interim order and erred by failing to take into account the effect of Bill 210. As a result, the Board's decision denied the utility the opportunity to realize a fair and reasonable return on its investment. See: *British Columbia Electric Railway v. Public Utilities Commission of British Columbia et al.* (1960), 25 D.L.R. (2d) 689 (S.C.C.).

[8] Applying the standard of review of reasonableness, the Divisional Court upheld the Board's decision. The utility appeals that decision to this court.

[9] For the following reasons, we would dismiss the appeal.

Analysis

[10] Before examining the utility's arguments, we will deal with the standard of review and briefly explain the concept of a prudence review.

(i) Standard of Review

[11] In terms of the standard of review, we do not agree with counsel for the utility that the Divisional Court erred in reviewing the decision of the Board on the basis of reasonableness. The issue before the Board involved an interpretation of its own order, an issue calling upon the Board's expertise and policy considerations. Accordingly, the recent decisions of this court in *Graywood Investments Ltd. v. Toronto Hydro Electric System Ltd.*, 2006 CanLII 16823 at para. 24 (ON C.A.) *Natural Resource Gas Ltd. v. Ontario Energy Board*, 2006 CanLII 24440 at paras. 23 and 24 (ON C.A.) and *Toronto Hydro-Electric System Limited v. Ontario Energy Board*, 2010 ONCA 284, apply. These decisions establish that, in these circumstances, the standard of review from orders of the Board, is reasonableness.

(ii) Prudency Review

[12] Through a process called a prudency review, the Board responds to its obligations under the Act to protect the interest of ratepayers by reviewing a distributor's revenue requirement and ensuring that it is reasonable before passing the costs off to its customers. It is undisputed that the utility's full revenue requirement of \$12.7 million did not undergo the usual prudency review process which, in the normal course, would have required, among other things, notice to interested parties and an opportunity for them to present submissions at a hearing.

(iii) The Utility's Arguments

[13] First, the utility submits that the Board and the Divisional Court erred in failing to recognize that the 2002 interim order constituted an approval of its revenue requirement and its rate deferral plan.

[14] We disagree.

[15] The Board rejected the utility's submissions that, in the 2002 interim decision, it approved the proposed \$12.7 million revenue requirement and the rate deferral plan. It gave reasons for this rejection that can be summarized, as follows:

- 1) The submission was not supported by the evidence and therefore was entirely speculative. The Board's silence on the issue could not reasonably be interpreted as supporting the inference that the Board was endorsing a material proposition affecting present and future rates.
- 2) The 2002 interim order was the first order the Board made in its regulation of the utility's distribution business. It is inconceivable that the Board would approve something of this magnitude without hearing from interested individuals.
- 3) The utility was attaching more importance to the 2002 interim order than is warranted as interim orders are generally based on an incomplete evidentiary record that is generally not tested.

[16] Based on these findings, the Board had no difficulty concluding that the proposed revenue requirement and the rate deferral plan had never explicitly or implicitly been

approved. Accordingly, allowing the utility to dispose of Account 1574 as requested, would be contrary to regulatory practice.

[17] In the light of the considerable deference to which the Board is entitled in determining what it means and does not mean in one of its orders, we agree with the Divisional Court's conclusion that the Board's holding that the interim order was not meant to cover the \$12.7 million revenue requirement and the rate deferral plan, is reasonable

[18] Having upheld the Board's conclusion that the interim order did not deal with the \$12.7 million revenue requirement and the rate deferral plan, it is not necessary to consider the appellant's argument based on Bill 210's having rendered the interim order, final. The Bill cannot render final an issue that was not dealt with in the interim order.

[19] Finally, counsel for the utility raises the issue of fairness. He forcefully argues that Bill 210 should not be interpreted in such a way as to interfere with his client's right to a fair return on its investment.

[20] The objective of fairness, no matter how compelling, cannot justify a redefinition of the terms of the interim order.

[21] Furthermore, the argument that the Board's interpretation of Bill 210 would have the effect of foreclosing the utility's right to prove its entitlement to the amounts accrued under the rate deferral plan, ignores those parts of the legislation that allow the utility to

approach the Board for that very purpose. Having made a conscious decision to forego a prudency review under Bill 210 and related regulatory framework, the utility's argument that it has been unfairly treated must fail.

Conclusion

[22] A public utility must undergo a prudency review before passing along its costs to consumers. To this point, the utility has not done so and therefore is not entitled to the benefit of an approved rate of return.

[23] Our conclusion that this appeal must be dismissed should not be taken to preclude the utility from going before the Board, with proper evidence, for a prudency review. We note that before this court, counsel for the Board did not suggest that the provisions in Bill 210 relating to Account 1574, were not available to the utility. He also did not argue that the utility could not now apply for approval of the proposed \$12.7 million revenue requirement and the rate deferral plan under s. 78 of the Act. Moreover, despite some arguable ambiguity in the language used in the Board's 2007 decision, counsel for the Board submitted that the Board had not in any way denied the utility's entitlement to go before the Board and seek approval for its revenue requirement or its rate deferral plan.

[24] Having regard to the "regulatory compact" (as coined by the Supreme Court of Canada in *Atco Gas & Pipelines Ltd. v. Alberta Utilities Board*, 2006 D.L.R. (4th) 193 at para. 63) that requires a balancing of rights and interests of utilities against those of

ratepayers, the ideal situation would be for the Board to decide upon the utility's entitlement to approval of its proposed revenue requirement and the rate deferral plan, based on a proper prudency hearing.

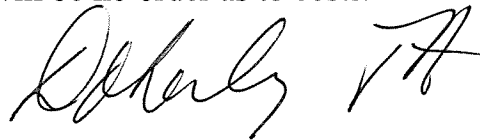
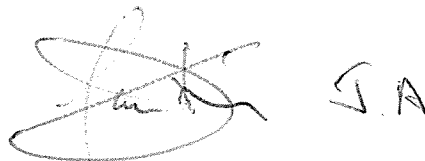
[25] While, in our view, that would be the best result, we leave it to the utility to decide whether to approach the Board on that basis and to the Board to determine whether such a review is authorized or permissible at this stage.

Disposition

[26] For these reasons, the appeal is dismissed.

[27] On the consent of the parties, there will be no order as to costs.

RELEASED: JUN - 3 2010

A handwritten signature in cursive, possibly reading "J.A.", with a large, loopy flourish above it.A handwritten signature in cursive, possibly reading "D. Kelly", with a large flourish above it.A handwritten signature in cursive, possibly reading "J.A.", with a large flourish above it.A handwritten signature in cursive, reading "Gloria Epstein J.A.".

4. Ref: Exhibit 1 /Tab 1/ Schedule 2-1

Please provide a copy of Algoma Power's current Tariff of Rates and Charges.

RESPONSE:

A copy of API's current Tariff of Rates and Charges, effective September 1, 2007 is attached.

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

IMPLEMENTATION DATES

DISTRIBUTION RATES – January 1, 2009 for all consumption or deemed consumption service used on or after that date.
SPECIFIC SERVICE CHARGES – January 1, 2009 for all charges incurred by customers on or after that date.
RETAIL SERVICE CHARGES – January 1, 2009 for all charges incurred by retailers or customers on or after that date.
LOSS FACTOR ADJUSTMENT – January 1, 2009 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

SERVICE CLASSIFICATIONS

Residential Customers

For the purposes of rates and charges, a residential service is defined in two ways:

- a dwelling occupied as a residence continuously for at least eight months of the year and, where the residential premises is located on a farm, includes other farm premises associated with the residential electricity meter, and
- consumers who are treated as residential-rate class customers under Ontario Regulation 445/07 (Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the *Ontario Energy Board Act, 1998*) made under the *Ontario Energy Board Act, 1998*.

Residential – R1

This classification refers to a Residential service with a demand of less than, or is forecast to be less than, 50 kilowatts, and which is billed on an energy basis.

Residential – R2

This classification refers to a Residential service with a demand equal to or greater than, or is forecast to be equal to or greater than, 50 kilowatts, and which is billed on a demand basis.

Seasonal Customers

This classification includes all services supplied to single-family dwelling units for domestic purposes, which are occupied on a seasonal/intermittent basis. A service is defined as Seasonal if occupancy is for a period of less than eight months of the year.

Street Lighting

This classification refers to an account for roadway lighting. The consumption for these unmetered accounts will be based on the calculated connection load times the calculated hours of use established in the approved OEB street lighting load shape template.

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

MONTHLY RATES AND CHARGES

Residential – R1

Service Charge	\$	20.41
Distribution Volumetric Rate	\$/kWh	0.0287
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0041)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Residential – R2

Service Charge	\$	596.12
Distribution Volumetric Rate	\$/kW	2.4549
Deferral Account Rate Rider – effective until December 31, 2010	\$/kW	(0.2025)
Retail Transmission Rate – Network Service Rate	\$/kW	2.1218
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7882
Retail Transmission Rate – Network Service Rate – Interval Metered >1,000 kW	\$/kW	2.2508
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered >1,000 kW	\$/kW	1.9763
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Seasonal

Service Charge	\$	24.00
Distribution Volumetric Rate	\$/kWh	0.0700
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0041)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Street Lighting

Service Charge	\$	0.00
Distribution Volumetric Rate	\$/kWh	0.0496
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0016)
Retail Transmission Rate – Network Service Rate	\$/kW	1.6002
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3824
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

Specific Service Charges

Customer Administration		
Arrears certificate (credit reference)	\$	15.00
Returned cheque charge (plus bank charges)	\$	15.00
Notification charge	\$	15.00
Legal letter charge	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Special meter reads	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	\$	30.00
Disconnect/Reconnect at meter – during regular hours	\$	65.00
Disconnect/Reconnect at pole – during regular hours	\$	185.00
Install/Remove load control device – during regular hours	\$	65.00
Specific Charge for Access to the Power Poles \$/pole/year	\$	22.35

Allowances

Transformer Allowance for Ownership – per kW of billing demand/month	\$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

Retail Service Charges (if applicable)

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year		no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer	1.1025
Total Loss Factor – Primary Metered Customer	1.0915

5. Ref: Exhibit 1 /Tab 2 /Schedule 2

The budget process Algoma Power used to prepare its budget for the upcoming year is described in Exhibit 1 Tab 2 Schedule 2.

- a) Please describe the method Algoma Power used to calculate the impact on costs of the introduction on July 1, 2010 of the Harmonized Sales Tax ("HST").
- b) Please provide the dollar amount impact of the HST on OM&A and Capital for test years 2010 and 2011.

RESPONSE:

- a) There is no HST included in post-July 1, 2010 costs.
- b) There is no impact to OM&A and Capital for the test years 2010 and 2011

6. Ref: Exhibit 1 /Tab 2 /Schedule 1

- a) Please confirm that the revenue requirement numbers for 2010 and 2011 are based on CGAAP, and not IFRS, accounting principles.
- b) In which fiscal year will Algoma Power begin reporting its (audited) actual results on an IFRS basis?

RESPONSE:

- a) The revenue requirement numbers for the 2010 and 2011 Test Years are based on Canadian GAAP.
- b) See response to OEB #8.

7. Ref: Responses to Letter of comment

- a) Subsequent to the publication of the Notice of Application, did Algoma Power receive any letters of comment?
- b) If so, did Algoma Power reply to the customer? If so, please file the letter of response?
- c) If Algoma Power did not reply, please explain why a response was not considered necessary.

RESPONSE:

- a) API did not receive any letters of comment subsequent to the Notice of Application.
- b) Not applicable.
- c) Not applicable.

8. Ref: Exhibit 1/ Tab 2/ Schedule 3 p1

Algoma Power indicates that after the finalization of the *Asset Amortization Study* prepared by Kinectrics the amortization rates in the 2011 Test Year would be updated based on the study and that subsequent evidence will be filed.

- a) In light of the Board's letter dated, July 8, 2010, to all Electricity Distributors re: *The depreciation study for use by electricity distributors....*, please confirm whether or not Algoma Power will file updated evidence in this proceeding.
- b) If so please state the date by which this evidence will be filed.

RESPONSE:

- a) The IASB met in July 2010 at which time they discussed the key issue of whether regulatory assets and liabilities can be recognized based on the current IFRS *Framework for the Preparation and Presentation of Financial Statements*. As a result of those meetings, the IASB decided to continue with the project; however, no decision was made as to whether regulatory assets and liabilities can be recognized under IFRS. A final standard, if any, is still not anticipated before the latter half of 2011.

On July 23, 2010, the Canadian Accounting Standards Board ("AcSB") met to discuss the IASB's latest decisions with respect to the Rate-Regulated Activities project. On July 28, 2010, the AcSB issued an Exposure Draft proposing that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in Part V of the CICA Handbook for an additional two years.

The Exposure Draft provides a two-year deferral of the adoption of IFRS for qualifying entities, based on the expectation that the IASB will complete its project on Rate-Regulated Activities in 2011 or 2012, and gives qualifying entities sufficient time to meet the requirements of a new IFRS on rate-regulated activities in the event one is issued late in, or shortly following, what would otherwise be their year of IFRS adoption.

If the Exposure Draft is approved, API will elect to defer the adoption of IFRS until 2013 and will, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for annual periods ending on or before December 31, 2012.

The purpose of the Kinectrics Inc. study was to assist utilities in making the transition from GAAP to IFRS. Since API will not prepare its financial statements in accordance with IFRS until January 1, 2013, updated evidence with respect to depreciation rates will not be filed in this proceeding. Prior to the adoption of IFRS in 2013, API will review the impacts of IFRS in aggregate.

- b) n/a

9. Ref: Exhibit 2 /Tab 4 /Schedule 4 p.1-2

Algoma Power states that its proposed overhead capitalization methodology is consistent with the methodology used by CNPI and approved by the Board in EB-2008-0222. The amounts capitalized for 2010 and 2011 is \$821,000 and \$874,000 respectively.

Please calculate the amounts that would have been proposed for capitalization under the methodology used by GLPL.

RESPONSE:

GLPL previously did not capitalize overhead costs.

10. Ref: Exhibit 2/ Tab 4/ Schedule 4 p.2 n 11-12

The evidence states: "API is aware of the Board's letter dated February 24, 2010, *Accounting for Overhead Costs Associated with Capital Works*, and therefore is requesting specific approval."

Please clarify to what exactly in the evidence this requested approval pertains.

RESPONSE:

The specific approval requested can be found in Exhibit 1 Tab 2 Schedule 3 'Changes in Methodology' p. 1 n 16-17;

'API capitalizes costs that are directly attributable to capitalize projects and *is requesting the approval to capitalize overhead costs associated with capital work* (emphasis added).'

Table 1 on p.2 outlines the amounts that API is proposing to capitalize.

The OEB letter dated February 24, 2010 re: Accounting for Overhead Costs Associated with Capital Work states on p.2 'As stated in the Board Report at Issue 3.3, the Board is requiring full compliance with IFRS requirements (e.g. IAS 16) as applicable to non-regulated enterprises and *only where the Board authorizes specific alternative treatment for regulatory purposes is alternative treatment acceptable*' (emphasis added).

API has specially requested approval to capitalize overhead costs in accordance with the February 24th letter. The proposed methodology is consistent with that used by Canadian Niagara Power Inc. API is aware that the OEB recently approved the continued capitalization of overhead for Hydro One Networks Inc.

11. Ref: Exhibit 2 /Tab 2 /Schedule 1

The footnote in the Fixed Assets Continuity Statement for 2009 reads “ The splitting out of the distribution assets from Great Lakes Power Limited to Great Lakes Power Distribution Inc. on July 1, 2009 did not include the building on Sackville Road in Sault Ste. Marie, certain fleet vehicles, and the information technology hardware and software. The removal of those assets was based on the net book value.”

Please explain the difference in treatment between “splitting out of assets” versus “removing the assets based on the net book value”.

RESPONSE:

Effectively, there is no difference between “splitting” versus “removing” since both are based on net book value. When Great Lakes Power Limited transferred the distribution assets to Great Lakes Power Distribution Inc. effective July 1, 2009, the transfer of the assets was based on the net book value. To align with this asset transfer, certain assets referred to above had to be removed from GLPD’s rate base, which was also based on net book value.

12. Ref: Exhibit 2 /Tab 3/ Schedule 3

Please provide a "source reference" (e.g. 2007 tariff sheet, Nov 2009 RRP) for each of the rates used to calculate the Cost of Power Amount that is included in the proposed Working Capital for 2010 and 2011.

RESPONSE:

The source reference for each of the rates used to calculate the Cost of Power Amount that is included in the proposed Working Capital for 2010 and 2011 is the Ontario Energy Board Price Plan Report, November 1, 2009 to October 31, 2010, dated October 15, 2009 and the Ontario Energy Board Price Plan Report, May 1, 2010 to April 30, 2011, dated April 15, 2010. Specifically, API has used \$66.97 / MWh (\$0.06697 per kWh) for 2010 forecasting which is the weighted average of \$62.15 / MWh from the October 15, 2009 Report and \$69.38 / MWh from the April 15, 2010 Report. The 2011 forecast uses \$69.38 / MWh from the April 15, 2010 Report.

The source reference for the per unit rates for Retail Transmission Service Rates, the Wholesale Market Service Rates and the Rural and Remote Protection Rate is the API's current Tariff of Rates and Charges, effective September 1, 2007 and provided in the response to OEB IR #4.

13. Ref: Exhibit 2 /Tab 4/ Schedule 2

With respect to the High Risk Conductor Replacement Program (50 km) Capital expenditures of \$4,107,674 in 2009, Algoma Power notes that the accounting transfer from Work in Progress to Rate Base was completed in early 2009 for many of the projects placed in service late in 2008. As a result, approximately \$1.87M of the \$4.11M total above relates to 2008 projects.

Please indicate where this transfer is captured in the Fixed Asset Continuity Statements that are presented in Exhibit 2 Tab 2 Schedule 1.

RESPONSE:

The transfer is captured in Exhibit 2, Tab 2, Schedule 1 in the 2009 table, under Cost Additions, in accounts 1830 and 1835.

14. Ref: Exhibit 2/ Tab 4 /Schedule 2

Algoma Power's capital expenditures for 2007, 2008 and 2009 were approximately \$8.2 million, \$9.1 million and \$9.3 million respectively. This averages to about \$8.9 annually. The 2010 and 2011 Test Year Capital Forecasts are about 26% and 23% respectively higher than the last three years of actual experience.

What alternatives or adjustments to the listed capital projects did Algoma Power consider to keep the 2010 and 2011 Capital Forecast closer to the historical average?

RESPONSE:

The 2010 increase above the historical average capital spending relates primarily to the replacement supply to St. Joseph Island. The 2011 increase above the historical average capital spending relates primarily to the IT hardware and IT software projects required as a result of the expiry of an IT services agreement.

The various projects that required completion prior to constructing the replacement supply to St. Joseph Island (e.g. voltage conversions and load transfers in the Desbarats area) were previously planned for completion over multiple years, followed by construction of the replacement supply in the New Desbarats DS and retirement of the existing substation. Due to the amount of oil weeping from one of the main 667kVA transformers discovered in 2009, as well as trending in ongoing annual dissolved gas analysis, API determined that it would no longer be prudent to leave the substation in service beyond 2010.

API had previously planned to complete a refurbishment of its Wawa #2 DS in 2010, as the final project in a sequence of projects in the Wawa area initiated in 2008 to resolve a number of safety, environmental and reliability concerns that are described under the various project headings in Exhibit 2/Tab 4/Schedule 2. Recognizing the impact that bringing forward all of the St. Joseph Island projects would have on 2010 capital spending, API was able to delay the Wawa #2 DS refurbishment by completing a small amount of reconfiguration of a power transformer and feeder protections.

The Wawa #2 DS reconfiguration allowed four of the eight power transformers previously in service to be decommissioned and the feeder protections to be replaced with protections suitable for the new wye-configured feeders. This eliminated the highest-risk safety, environmental and reliability issues associated with the previous station configurations, allowing the larger refurbishment project to be delayed. Delaying the other Wawa projects listed in 2010 would have exposed customers in the Wawa area to the risk of prolonged outages in the event of equipment failure.

API undertook a review to determine whether it would be prudent to delay any of the other large projects that it had previously planned for 2010. As a result, the Bellevue Valley Line Relocation project and the Submarine Cable to Michipicoten Lighthouse project that were originally planned for 2010 were delayed to 2011.

Completion of the 2nd Feeder Desbarats DS project is required to enable load transfers from the Old Desbarats DS to the New Desbarats DS prior to energization of the new supply to St. Joseph Island, and as a result, this project could not be delayed.

The majority of the remaining 2010 projects listed in Exhibit 2/Tab 4/Schedule 2 are either driven by customer demand (e.g. Transformers, Richmond Mines Upgrade), or significant public safety issues (e.g. Goudreau DS, Buttermilk Ski Hill). API did not consider it prudent to delay these projects.

API also recognized the impact of the IT related projects on 2011 capital spending and examined other projects planned for 2011 to determine if any of these projects could be delayed. With the exception of the Bellevue Valley and Michipicoten Lighthouse projects mentioned above, and the ongoing High-Risk Conductor Replacement and Right-of-Way Expansion programs, API delayed all other major distribution, substation, voltage conversion, and system improvement project to future years.

For both 2010 and 2011, API determined that it would be prudent to continue as planned with its High-Risk Conductor Replacement and Right-of-Way Expansion programs for the reasons described in Exhibit 4/Tab 2/Schedule 1.

15. Ref: Exhibit 2 /Tab 4 /Schedule 2

The 2010 forecast Capital Budget includes about \$1.9 million for the “Replacement Supply to St. Joseph’s Island” project. The evidence also indicates that about \$.5 million was spent in 2008 for new submarine cables for St. Joseph’s Island.

When did Algoma Power first become aware that the substation structures and transformers serving St. Joseph’s Island had deteriorated to the point where they needed to be replaced due to safety, environmental and reliability risks?

RESPONSE:

In 2004, API recognized that the substation serving St. Joseph Island would likely have to be decommissioned within the next 5-10 years due to the condition of the structure and transformers, existing equipment ratings and the resulting safety and reliability concerns that these items presented.

16. Ref: Exhibit 2 /Tab 4/ Schedule 5

The 2011 Forecast Capital Budget includes \$.415 million for IT software and \$.625 for IT hardware.

Please provide a copy of the business case, including a NPV or cost benefit analysis, which justifies this proposed expenditure.

RESPONSE:

Please note that the question makes an incorrect reference to the numbers in Exhibit 2, Tab 4, Schedule 5. The capital additions for 2011 referred to in this Schedule for 2011 are approximately \$400,000 for IT hardware and \$1,000,000 for IT software. Please refer to the response to VECC 10b in respect of the revenue requirements impact of the SAP migration.

The business case for the SAP migration is set out below. API currently maintains its IT system under a service agreement which terminates in October, 2011. As noted in evidence (EB-2009-0278, Exhibit 2, Tab 4, Schedule 5, Appendix A), API will not have an operational IT system capable of meeting its business needs beyond this date. Accordingly, the business case for incurring the software expenditure (\$783,469) for the migration of the IT system to SAP is based upon business continuity. It is important to note that the hardware cost is independent of the SAP Migration, and would have been incurred regardless of the SAP Migration.

To provide for business continuity, Management considered the migration to SAP and an alternative technology. On a stand-alone basis, Management determined that the cost of carrying out an implementation of an alternative technology would likely be comparable to or exceed the cost of carrying out an implementation of SAP. For example, the hardware costs would still be incurred, regardless of whether the system was SAP or an alternative technology. However, the main cost advantage for choosing SAP is that the business information will be consolidated into a standard technology currently in use by all of API's operating affiliates. This model provides for efficiencies in the form of economies of scale, and the sharing of future costs associated with further upgrades and future IT

improvements. These efficiencies result in cost savings that can be passed along to customers. Installing a separate system based upon an alternative technology would not provide for these cost sharing opportunities.

In summary, the business case considered the following:

- The status quo option of remaining on the existing technology is not possible as it is no longer available beyond October, 2011.
- The consideration of an alternative technology would result in additional costs and inefficiencies compared to SAP.
- An SAP migration would result in a common technology with other operating affiliates that provides for the sharing of future costs.

17. Ref: Exhibit 2 /Tab6 /Schedule 1

Algoma Power provided both service quality and reliability statistics for 2005-2009 as per the table below.

Year	2005	2006	2007	2007*	2008	2009	2009*	5-year Avg	5-year Avg*
SAIDI	6.32	9.34	9.35	9.29	8.04	9.87	8.03	8.58	8.20
SAIFI	2.47	3.64	3.32	2.84	2.49	3.42	2.64	3.07	2.82
CAIDI	2.56	2.57	2.82	3.27	3.23	2.88	3.04	2.81	2.93

* indicates loss of supply (transmission) outages excluded.

Algoma noted that the 2005- 2008 figures reflect revisions to those previously submitted through RRR annual filings. During the upgrades to its outage database in 2009, Algoma Power had performed an audit of previously entered data and had found some anomalies which needed cleansing.

- a) Please confirm whether Algoma Power has formally filed with the Board its updated RRR numbers.
- b) Please quantify, to the extent possible, the impact that Algoma Power expects its capital investments, maintenance program and operational practices will have on future actual results.

RESPONSE:

- a) API has not yet filed with the Board its updated RRR numbers.
- b) The SAIDI, SAIFI and CAIDI numbers in the table above include a large number of planned outages that have been required to implement API's High Risk Conductor Replacement and Right-of-Way ("ROW") Expansion Programs in previous years. As these programs near completion in the coming years, a reduction in planned outages is expected to further improve reliability.

The table below provides outage counts for each of the five years for forced outages only (i.e. both planned outages and loss of supply are excluded). Analysis of outage count data with the above items excluded shows a strong correlation between outage counts and the number of kilometres of ROW that has been expanded. As the number of kilometres of expanded ROW that have been expanded increases year over year, there is a corresponding decrease in the number of tree-related outages as the expected results from the program start to materialize.

For other outage causes, an analysis of comments in the outage database shows that in many cases, while the primary outage cause is not tree-related, tree contact is a secondary cause. For example, outages during winter storms may be entered with an outage code of “wind”, “snow”, or “ice”, however the comments indicate that these weather conditions caused the conductor to make contact with trees. This contact likely would not have occurred had the right of way already been expanded. API expects that the reduction in forced outage counts for all other causes is related to both the ROW expansion program as well as the other capital programs such as conductor replacement and substation upgrades undertaken in previous years.

Algoma expects that its ongoing capital and maintenance program will continue to result in fewer outages and the reliability improvement seen over the last couple of years is expected to continue. Algoma also expects that as its Right of Way Maintenance program will have a further positive impact on reliability as newly expanded right of ways become more stable over time. Algoma expects its other capital and maintenance programs to have an overall positive effect on reliability.

Trending Outage Counts vs Line km ROW Expansion Completed				
Year	km ROW Expanded	All Other Causes	% Tree Related	Trees - Falling & Contact
2005	640	449	44%	354
2006	835	410	40%	268
2007	1033	353	40%	237
2008	1238	294	44%	234
2009	1410	231	45%	189

18. Ref: Exhibit 3 /Tab 2 /Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Weather Normalization

On page 5, it states: "Algoma Power has adopted the 10 year average from 2000 to 2009 as the definition of weather normal. Our view is that a ten-year average based on the most recent ten calendar years available is a reasonable compromise that likely reflects the "average" weather experienced in recent years."

Using a similar method to develop the weather normalized forecast for 2010 and 2011, please provide the following scenarios.

- a) Instead of using the average monthly heating degree days (HDD) and cooling degree days (CDD) from 2000 to 2009, please develop the weather normalized forecast for 2010 and 2011 by using average monthly HDD and CDD from 1990 to 2009. Please calculate the variance and percent variance from the 2010 and 2011 proposed weather normalized forecast.
- b) Instead of using the average monthly HDD and CDD from 2000 to 2009, please develop the weather normalized forecast for 2010 and 2011 by using a trend of monthly HDD and CDD from 2000 to 2009. Please calculate the variance and percent variance from the 2010 and 2011 proposed weather normalized forecast.

RESPONSE:

Below is a calculated definition of weather normal as requested in both a) and b) above. The table below displays HDD and CDD calculated by using the monthly average from 1990 to 2009 as well as a using a linear trend from 2000 to 2009. These results are displayed along with the calculated weather normal, which is the monthly average from 2000 to 2009.

OBSERVATIONS FROM SAULT STE. MARIE AIRPORT			
MONTH	HEATING DEGREE DAYS		
	AVG. 2000-2009	AVG. 1990-2009	TREND, 2000-2009
Jan	844.7	859.2	843.0
Feb	763.2	766.6	735.3
Mar	693	695.7	664.0
Apr	425.7	438.5	442.8
May	255.9	256.0	238.2
Jun	97.8	98.9	104.8
Jul	40.9	47.6	34.6
Aug	41.9	47.9	38.7
Sep	122	140.0	137.2
Oct	330.1	336.1	334.5
Nov	486.6	508.0	497.2
Dec	726.4	717.9	720.3
Total	4,828.2	4,912.3	4,790.7

COOLING DEGREE DAYS			
MONTH	AVG. 2000-2009	AVG. 1990-2009	TREND, 2000-2009
Jan	0.0	0.0	0.0
Feb	0.0	0.0	0.0
Mar	0.0	0.0	0.0
Apr	0.0	0.2	0.0
May	2.3	2.1	0.4
Jun	18.9	18.3	16.9
Jul	42.7	35.1	53.5
Aug	32.6	31.6	38.0
Sep	15.2	11.8	19.3
Oct	1.3	0.7	0.9
Nov	0.0	0.0	0.0
Dec	0.0	0.0	0.0
Total	113.0	99.7	128.9

Using the above “weather normal” definitions, API has calculated a weather normal load forecast for WSL kWh. The variance and per cent variance from the 10-yr 2000-2009 weather normal forecast has been calculated for each, as requested and shown below.

	10-YR 2000-2009	20-YR 1990-2009	VARIANCE	
YEAR	WEATHER NORMAL	WEATHER NORMAL	FROM FORECAST	% VARIANCE
2010	162,292,439	162,680,488	388,049	0.24%
2011	164,406,451	164,794,500	388,049	0.24%
	10-YR 2000-2009	10-YR 1990-2009	VARIANCE	
YEAR	WEATHER NORMAL	LINEAR TREND	FROM FORECAST	% VARIANCE
2010	162,292,439	162,477,986	185,547	0.11%
2011	164,406,451	164,591,999	185,547	0.11%

19. Ref: Exhibit 3/ Tab 2 /Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Load Forecast

On page 7 it states: "For the larger use customers in the R2 class, consumption for 2010 and 2011 are estimated at an annual throughput of 41.2 GWh, consistent with the volume in 2009."

- a) Please confirm whether the larger use customers mentioned above are the same customers that were removed from the weather sensitive load (WSL) calculations.
- b) Please provide the basis of the above estimate for the larger use customers in R2 class for 2010 and 2011.

RESPONSE:

- a) API confirms that the larger use customers mentioned above are the same customers that were removed from the weather sensitive load (WSL) calculations.
- b) As stated on page 7 of the Weather Normalized Distribution System Load Forecast: 2010 – 2011 found in Exhibit 3 Tab 2 Schedule 1 Appendix A, the basis for the R2 Class large use customers forecast is their actual usage in 2009.

20. Ref: Exhibit 3/ Tab 2/ Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Load Forecast

Referring to page 6, Table 3 titled: "Weather Corrected WSL kWh, Algoma Power", please provide the period of each year the "Weather Normal" was calculated.

RESPONSE:

The "Weather Normal" was calculated for each of the twelve months in the year.

21. Ref: Exhibit 3/ Tab 2/ Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Load Forecast

Referring to page 7, Table 5 titled: 10-yr (2000-2009) Weather Normal kWh Throughput, Algoma Power”,

- a) Please confirm whether the load listed under column R2 included non-WSL.
- b) If the answer in (a) is “yes”, please provide a breakdown for WSL and non-WSL for R2 class.
- c) Please provide detail calculations of how the total WSL kWh allocated to each individual classes and ensure the allocated WSL kWh is equal to the total WSL kWh.

RESPONSE:

- a) API confirms that the load listed under column R2 includes non-WSL.
- b) The breakdown on an historical “actual weather” basis is provided in Table 4 at page 6 of the Weather Normalized Distribution System Load Forecast: 2010 – 2011 found in Exhibit 3 Tab 2 Schedule 1 Appendix A. A “weather normal” breakdown including a separate forecast for R2 Net and Large Users is provided below.

BREAKOUT OF R2 NET AND LARGE USERS, WEATHER NORMAL			
YEAR	R2 NET	LARGE USERS	R2 TOTAL
2006	22,390,979	46,296,103	68,687,082
2007	25,441,145	50,213,041	75,654,186
2008	26,870,599	39,169,209	66,039,808
2009	28,630,609	41,178,371	69,808,980
2010	29,028,773	41,200,000	70,228,773
2011	29,406,900	41,200,000	70,606,900

- c) The share calculations are outlined in the Weather Normalized Distribution System Load Forecast: 2010 – 2011 found in Exhibit 3 Tab 2 Schedule 1 Appendix A, starting at page 6. Table 4 on page 6 shows each weather sensitive class’s share of WSL (R1, R2 Net exclusive of large users, Seasonal, and Street Lighting, which as explained in the Weather Normalized Distribution System Load Forecast: 2010 – 2011 is included in the WSL kWh). Specifically referring to the R2 class, the share is calculated for the R2 Net share of WSL, which does not include the non-WSL portion of the R2 class. The WSL weather normal and forecast amounts are allocated to the R2 class based on these shares and the non-WSL portion of R2 (Large Users) is then added to the R2 Class, as outlined in the table in response to part (b) above.

22. Ref: Exhibit 3/ Tab 2/ Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Load Forecast

On page 4, it states: "Using the data discussed, a multiple regression analysis was used to develop an equation describing the relationship between monthly actual WSL kWh and the explanatory variables. The resulting equation, estimated using the 50 observations from 2005:11-2009:12 is displayed in Table 1 ..."

Table 1 includes the following variables: HDD, CDD, PeakDays, time, and const.

- a) Please provide more detail on the purpose and use of the variable "time".
- b) Please explain the rationale for not using "number of customers" as an explanatory variable in the regression equation.
- c) Please prepare a load forecast for 2010 & 2011 using the regression equation, kWh=f (Total customers, HDD, CDD, PeakDays, time) + constant. If monthly customer data is not available, please make a reasonable assumption for the purpose of completing the interrogatory.
- d) Please provide the statistical results of the above equation and update Table 7 (page 8 of the "Weather Normalized Distribution System Load Forecast: 2010-2011" report) based on the results.
- e) Please provide the impact on the proposed 2010 and 2011 load and the revenue deficiency, if the load forecast based on the above regression equation is adopted.

RESPONSE:

- a) The variable time is a time trend variable starting at 1 and increasing in increments of 1 (i.e., 1, 2, 3, etc...). Such time trend variables are commonly used in regression analysis and serve as a proxy for a variable that affects the dependent variable and is not directly observable -- but is highly correlated with time.
- b) Based on the consultant's experience in preparing numerous load forecasts for Ontario LDCs, the number of customers does not yield meaningful results when included in a regression analysis of load. Inclusion of number of customers often yields statistically insignificant results, or even worse, results that are counterintuitive (i.e., wrong sign). Board Staff noted this issue in the case of Burlington Hydro Inc.'s Application for 2010 Rates (EB-2009-0259).

Further, arising from EB-2007-0744, the customer class structure in API changed from a conventional customer class structure (Residential and General Service) to the current structure that is based primarily on Residential Energy and Demand customers. As a result, historical customer counts would have

discontinuities. Therefore, monthly customer counts are not available for much of the historical time period used to develop the regression analysis.

For these reasons, API did not use number of customers as an explanatory variable in the regression equation. Further, because significant time and resources would be required to conduct the analysis requested in parts c, d and e, and that analysis would ultimately provide unreliable results for the reasons described above, API respectfully declines to conduct the analysis requested in parts c, d, and e of this Interrogatory.

23. Ref: Exhibit 3/ Tab 2/ Schedule 2, Report titled "Weather Normalized Distribution System Load Forecast: 2010-2011" – Load Forecast

On page 8, it states: "Annual average customer counts are developed by averaging year-end customer counts. No new customer attachments (or customer losses) are expected in the R2 and Streetlight classes. R1 and Seasonal are expected to continue grow at the long term growth rate of roughly 0.3 per cent per annum."

Please explain how the 0.3 per cent per annum is determined.

RESPONSE:

The 0.3 per cent per annum is the average growth rate in both these classes' year-end customer counts from 2003 to 2009.

24. Ref: Exhibit 3/ Tab 3/ Schedule 1

Please explain why Algoma Power forecasts no revenue in 2010 and 2011 in account 4405 (Interest and Dividend Income).

RESPONSE:

Per Exhibit 1, Tab 3, Schedule 2, API will be in a bank indebtedness position and thus earn no interest income.

25. Ref: Exhibit 4/Tab1/Schedule 1 p.1 and Exhibit 6/Tab1/Schedule1 p2

Algoma Power's OM&A expenses are forecast to total \$9,059,236 for 2010 and \$9,840,207 for 2011. The calculation of the revenue requirement for 2010 and 2011 includes OM&A expenses of \$8,889,236 and \$9,670,207 respectively.

- a) For each of 2010 and 2011 please explain what comprises the difference between the amounts presented in Exhibit 4 and Exhibit 6.

RESPONSE:

The difference between the amounts in Exhibit 4, Tab 1, Schedule 1, Page 1 and Exhibit 6, Tab 1, Schedule 1, Page 2 is reconciled below.

	2010	2011
OM&A per Exhibit 6, Tab 1, Schedule 1, Page 2	\$8,889,236	\$9,670,207
Property taxes (OEB acct 6105)	150,000	150,000
Donations (OEB acct 6205)	<u>20,000</u>	<u>20,000</u>
OM&A per Exhibit 4, Tab 1, Schedule 1, Page 1	\$9,059,236	\$9,840,207

The property taxes are shown separately on Exhibit 6, Tab 1, Schedule 1, Page 2 for the revenue requirement. The donations are not included in the revenue requirement.

26. Ref. Exhibit 4/ tab2/ Scedule2 p. 1

Algoma Power indicates that its OM&A expenses for 2010 and 2011 include \$20,000 and \$20,000 respectively in Donations.

- a) Please describe the nature of these Donations?
- b) Does Algoma Power have a Low Income Energy Assistance Program? If so, how much is budgeted for the Program in 2010 and 2011?

RESPONSE:

- a) API donates to various causes within the communities it serves. The focus of the donation budget is in the following categories: regional health care, education, community events, and social needs.
- b) API does not have a Low Income Energy Assistance Program.

27. Exhibit 4/Tab1/ Schedule 1 p. 2-4

Vegetation Management Program expenditures are shown as \$1.8, \$2.2, and \$2.5 million for 2009 actual, 2010 test year and 2011 test year respectively. A goal of the program is to control vegetation utilizing a 6 year cycle. Algoma Power also notes that it is managing its transition from the combined expansion/maintenance program to a fully operational 6-year vegetation maintenance cycle.

- a) Please provide the Vegetation Management Program expenditures for 2007 Board-approved, 2007 actual and 2008 actual.
- b) What are the Program's projected expenditures for 2012 and 2013?

RESPONSE:

- a) Expenditures for API's Vegetation Management Program are as follows:

2007 Board Approved	\$1.6M
2007 Actual	\$1.7M
2008 Actual	\$1.6M
- b) The 2012 and 2013 program costs are projected to be approximately \$3.1M in each year based on current information available.

28. Exhibit 4/Tab1/ Schedule 2 p. 4

Algoma Power states that "... the business has recently transitioned from an integrated distribution and transmission business to a stand-alone distribution business. On an interim basis, API will continue to utilize the IT system of Great Lakes Power Limited's transmission business and receive support through a services agreement plus limited support from CNPI..... an implementation plan has been developed for the migration to an SAP IT system."

Please explain whether the purchase of the distribution business by FortisOntario from Great Lakes Power is either wholly or partly responsible for the need to migrate to an SAP IT system.

RESPONSE:

The purchase of the distribution business was not responsible for the need to migrate to an SAP IT system. The need to migrate was necessitated by the requirement under section 71 of the *Electricity Act*, which required separation of the business. Also the migration was required since the current IT services agreement is due to expire in 2011. The system will no longer be available to API beyond October 2011.

FortisOntario and its operating subsidiaries utilize SAP as their primary system of records and given that API is a subsidiary, its data requires migration into SAP. This will provide a consolidated location for all data and give API the ability to have functional and market compliant billing and reporting system. Future cost benefits will be realized through the sharing of future costs with affiliates.

29. Exhibit 4/Tab 3/ Schedule 1

With respect to metering reading expense, the evidence states that the increase of \$118,300 between 2007 Board-approved and 2010 Test Year is due to the manual reading that will be required until Smart Meter reading remote capabilities are implemented in 2011.

Assuming that the capabilities are implemented as planned, will this manual reading expense continue to be incurred in 2012?

RESPONSE:

Assuming that remote reading capabilities are implemented as planned, the manual reading expense will not continue to be incurred in 2012.

30. Ref: Exhibit 4/ Tab 1/ Schedule 1 – Regulatory costs

On page 5, it states: “API is requesting a recovery of regulatory expenses in the amount of \$75,000 in 2010. This amount is one third of the total forecasted regulatory costs for this Application”.

Please provide the rationale for recovering the costs over a three year period.

RESPONSE:

API's Application anticipates cost recovery for a two year timeframe, 2010 and 2011. In 2012, as discussed in OEB Staff Interrogatory No. 1 part b, API anticipates filing a form of incentive regulation for rates effective 2012. Therefore, API has requested, in its Application, to recover one third of the forecasted regulatory costs per year through to December 31, 2012.

31. Ref: Exhibit 4/ Tab 1/ Schedule 1/ Page 1 – Inflation rate

What inflation rate was used for the 2010 and 2011 OM&A forecast and what is the source document for the inflation assumptions?

RESPONSE:

The 2010 OM&A costs presented in the Application are budget amounts developed from current cost parameters and wage increases stipulated in API's collective agreement with unionized employees.

For the 2011 OM&A forecast, API has used a 3 per cent inflationary rate for labour costs that is consistent with the collective agreement. Non-labour amounts are forecasted using a 2 per cent inflationary rate. API has set this rate based on the Bank of Canada's monetary policy¹ aimed at keeping inflation at 2 per cent.

¹ Bank of Canada Public Website, http://bankofcanada.ca/en/monetary/inflation_target.html

32. Ref: Exhibit 4/ Tab 3/ Schedule 1 – Administration and General Expenses

On page 5, it states: “The increase in costs of \$571,000 from 2007 Board Approved to 2010 Test Year is the result of the following: increase in FTE’s and corresponding compensation costs associated with the split from the transmission business, an increase in FTE’s as a result of bringing contracted work in house, and increased wages and employee benefit costs. Certain allocations from FortisOntario also contributed to the increase. These increases have been partially offset by the reduction in outside services employed, the elimination of cost sharing of general management salaries and expense with transmission, and the removal of Ontario Operations Allocation from Brookfield Renewable Power.”

- a) Please provide the amount, and explanation, of the increase contributed by allocations from FortisOntario.
- b) Please provide the breakdown of the amounts mentioned above that have been reduced in 2010 and 2011 in the areas of i) outside services employed, ii) the elimination of cost sharing of general management salaries and expense with transmission, and iii) the removal of Ontario Operations Allocation from Brookfield Renewable Power.

RESPONSE:

- a) Please see Exhibit 4, Tab 3, Schedule 1, page 5 of 7, line 11 which identifies costs of \$581,342 allocated by FortisOntario for shared corporate services described in Exhibit 1, Tab 1, Schedule 13.
- b) API notes an error in the pre-filed evidence at Exhibit 4, Tab 3, Schedule 1, page 5 of 7, at line 8, where it states “the elimination of cost sharing of general management salaries and expenses with transmission” was an offset to the costs in accounts 5610, 5615, 5620, and 5630. In fact, these specific costs contribute to the increase in these accounts in 2010 and 2011.

2010

- i. Outside services employed - \$446,142
- ii. General management salaries and expenses are not reduced – see explanation above
- iii. Removal of Ontario Operations Allocation - \$226,175

2011

- i. Outside services employed - \$316,130
- ii. General management salaries and expenses are not reduced – see explanation above
- iii. Removal of Ontario Operations Allocation - \$226,175

33. Ref: Exhibit 4/ Tab 4/ Schedule 1 – Employee Compensation

On page 1, it states: “Salary increases for 2010 and 2011 were based on market information, including adjustments for performance and economic market conditions.”

Please file with the Board the market information that Algoma Power used to determine the salary increases and demonstrate how Algoma Power has used that information to determine the salary increases.

RESPONSE:

The market information consisted of consideration of the negotiated collective bargaining increases for the unionized employees of API, which is approximately 3% per annum for the period 2010-2012.

34. Ref: Exhibit 4/ Tab 4/ Schedule 3/ Page 1 – FTE

Regarding the increase of 7.86 in the non-union FTEs over the period from 2007 Actual to 2011 Test year, please identify the year that each position was or will be added and indicate whether the position is classified as managerial position or not.

RESPONSE:

The response to this question is found in evidence at Exhibit 4, Tab 4, Schedule 3 which explains the additional FTE's required. The year of year request is not practical to answer given the combined business that existed prior to July 1, 2009. When 2011 Test Year is compared to the 2007 Actual there is a difference of 7.86 FTE's. The above variance is associated with FTE's that are outlined as follows:

- (i) The separation of transmission and distribution businesses contributed since a few new positions (3.86 FTEs) – this is primarily in the following areas:
 - i. Regional Manager and Assistant;
 - ii. Accounting, Payroll, Procurement; and
 - iii. Health, Safety and Environment.
- (ii) There was a replacement of three externally contracted positions with three regular employee positions representing (3 FTEs)
- (iii) There was an increase in land and land-rights operational requirements associated with a move to the 6 year ROW maintenance cycle requiring a new position of Land Technician (1 FTE)

Only one of the above positions, General Manager, is classified as Managerial.

35. Ref: Exhibit 4 /Tab 5/ Schedule 1 – Services Agreements

On page 1, it states: “Services Agreements between FortisOntario and its Board licensed affiliates have been previously filed and are due to expire in September 2010. Upon expiry, FortisOntario will enter renewed service agreements with all of its business units including API. In the interim, API and its affiliates abide by the terms of the agreements filed with the Board.”

- a) Please provide a copy of the aforementioned existing service agreements between FortisOntario and its Board licensed affiliates.
- b) Please indicate the date by which Algoma Power will file the renewed service agreements.

RESPONSE:

- a) Copies of the services agreements are attached.

- b) Renewed services agreements will be entered into on or prior to expiry of the existing services agreements (September 15, 2010) and filed shortly thereafter.

SERVICES AGREEMENT

BETWEEN

**FortisOntario Inc.
Canadian Niagara Power Inc.
FortisOntario Generation Corporation**

AND

Cornwall Street Railway, Light and Power Company Limited

MADE AS OF

SEPTEMBER 15, 2005

TABLE OF CONTENTS
SERVICES AGREEMENT

ARTICLE 1 – GENERAL

1.01	Services.....	1
1.02	Term of Agreement.....	2

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01	Fee for Services and Cost Mechanism	3
2.02	Expenses.....	3
2.03	Invoices	3
2.04	Cost Allocation Methodology	3

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01	Services.....	3
3.02	Time of Services	3
3.03	Licences and Permits	3
3.04	Rules and Regulations.....	4
3.05	Regulatory Compliance.....	4
3.06	Insurance.....	4
3.07	Indemnity.....	4
3.08	Non-disclosure and Confidentiality.....	5
3.09	Access to Confidential Information.....	5
3.10	Monitoring.....	5

ARTICLE 4 – TERMINATION

4.01	Termination by Corporations or Service Provider for Cause	5
4.02	Termination by Corporations or Service Provider on Notice.....	5
4.03	Provisions which Operate Following Termination.....	5

ARTICLE 5 – ARBITRATION

5.01	Arbitration of Disputes	5
5.02	Appointment of Arbitrator and Arbitration Procedures	6

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01	Sections and Headings.....	6
6.02	Extended Meanings.....	6
6.03	Benefit of Agreement.....	6
6.04	Entire Agreement.....	6
6.05	Amendments and Waivers.....	6
6.06	Assignment.....	7
6.07	Severability.....	7
6.08	Notices	7
6.09	Further Assurances	7
6.10	Governing Law	8
6.11	Attornment.....	8

SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of September 15, 2005

BETWEEN:

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

– and –

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

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

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render any one or more of the following services to the Corporations:

- a) electric utility operation and management services, including transmission and distribution systems;
- b) repair and maintenance for lines and facilities, including line clearing services;
- c) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA;
- d) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- e) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- f) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- g) customer service and customer care services, including meter reading, (including verification, testing, approval, installation and removal systems) billing and collection services and related SAP systems;

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

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on September 15, 2005 and shall continue until September 15, 2010 or earlier if terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services and Cost Mechanism

In respect of fee for services, the Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return and shall be reviewed by the parties at the option of either party. For the purpose of this Agreement, reasonable rate of return shall mean a return on invested capital that is the higher of the utility's approved rate of return or the bank prime rate.

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

2.02 Expenses

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

2.03 Invoices

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

2.04 Cost Allocation Methodology

In respect of shared costs, costs shall be allocated based upon an appropriate cost allocation methodology to be determined by the parties. The cost allocation methodology shall be reviewed by the parties at the option of either party, or at least every five years. The allocation factors that comprise the methodology shall be reviewed and updated by the parties annually.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

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

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to

from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

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

3.04 Rules and Regulations

The Service Provider shall (subject to applicable exemptions) comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware, and the applicable provision of the *Electricity Act, 1998* (Ontario) and the regulations thereunder, the *Ontario Energy Board Act, 1998* (Ontario) and the regulations thereunder, applicable licences from the Ontario Energy Board, IESO market rules, the Affiliate Relationships Code, the Distribution System Code, the Transmission System Code, the Retail Settlement Code, and the Standard Service Supply Code and such other applicable codes, rules and regulations, which from time to time shall come into force.

3.05 Regulatory Compliance

The Service Provider shall ensure that any order or measure made or taken by the Ontario Energy Board:

- (i) that is brought to its attention or of which it becomes aware;
- (ii) that is directed at or affects the Corporation(s); and
- (iii) that, in order to be implemented or complied with, is dependent in whole or in part upon any service or task that the Service Provider is obligated to perform hereunder;

shall be fully implemented or complied with to the extent of obligations hereunder. In connection with this section, the Corporation(s) agrees that it (they) will promptly notify the Service Provider of any order or measure of the Ontario Energy Board directed at or affecting the Corporation(s).

Nothing in this Agreement will prevent the Corporation(s) from taking any steps, including without limitation using the Corporation(s) own resources or those of a third party, that are necessary to implement or comply with the applicable Ontario Energy Board licence, or any other applicable provisions of the applicable legislation, regulations and market rules, or any order or measure made or taken by the Ontario Energy Board.

3.06 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance

concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.07 Indemnity

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

3.08 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate or any other party to which it may offer a competitive advantage.

3.09 Access to Confidential Information

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

3.10 Monitoring Services

The Service Provider shall provide to the Corporation(s) all information that the Corporation(s) requires so that the Corporation(s) can monitor the provision of its applicable licensed services provided by the Service Provider. The Service Provider will also provide information as requested by the Corporation(s), which is required for the Corporation(s) in fulfillments of its applicable Ontario Energy Board licence.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

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

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the

Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 days' fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

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

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02.

5.02 Appointment of Arbitrator and Arbitration Procedures

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

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

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

6.02 Extended Meanings

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

6.03 Benefit of Agreement

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

6.04 Entire Agreement

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

6.05 Amendments and Waivers

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

6.06 Assignment

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

6.07 Severability

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

6.08 Notices

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

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2
Attention: R. Scott Hawkes
Fax: (905) 994-2211

To the Service Provider:

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

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

6.09 Further Assurances

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

6.10 Governing Law

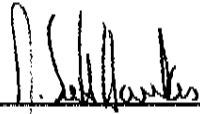
This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

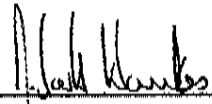
For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: 

Cornwall Street Railway, Light and Power Company Limited

Per: 

FortisOntario Generation Corporation

Per: 

FortisOntario Inc.

Per: 

SCHEDULE "A"

ARBITRATION

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

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

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

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

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

SERVICES AGREEMENT

BETWEEN

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

AND

Canadian Niagara Power Inc.

MADE AS OF

SEPTEMBER 15, 2005

TABLE OF CONTENTS

SERVICES AGREEMENT

ARTICLE 1 – GENERAL

1.01	Services.....	1
1.02	Term of Agreement.....	2

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01	Fee for Services and Cost Mechanism	3
2.02	Expenses.....	3
2.03	Invoices	3
2.04	Cost Allocation Methodology	3

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01	Services.....	3
3.02	Time of Services	3
3.03	Licences and Permits	3
3.04	Rules and Regulations.....	4
3.05	Regulatory Compliance.....	4
3.06	Insurance.....	4
3.07	Indemnity.....	4
3.08	Non-disclosure and Confidentiality.....	5
3.09	Access to Confidential Information.....	5
3.10	Monitoring.....	5

ARTICLE 4 – TERMINATION

4.01	Termination by Corporations or Service Provider for Cause	5
4.02	Termination by Corporations or Service Provider on Notice.....	5
4.03	Provisions which Operate Following Termination.....	5

ARTICLE 5 – ARBITRATION

5.01	Arbitration of Disputes	5
5.02	Appointment of Arbitrator and Arbitration Procedures	6

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01	Sections and Headings.....	6
6.02	Extended Meanings.....	6
6.03	Benefit of Agreement.....	6
6.04	Entire Agreement.....	6
6.05	Amendments and Waivers.....	6
6.06	Assignment.....	7
6.07	Severability.....	7
6.08	Notices	7
6.09	Further Assurances	7
6.10	Governing Law	8
6.11	Attornment.....	8

SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of September 15, 2005

BETWEEN:

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

- and -

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

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

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render any one or more of the following services to the Corporations:

- a) electric utility operation and management services, including transmission and distribution systems;
- b) repair and maintenance for lines and facilities, including line clearing services;
- c) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA;
- d) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- e) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- f) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- g) customer service and customer care services, including meter reading, (including verification, testing, approval, installation and removal systems) billing and collection services and related SAP systems;

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

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on September 15, 2005 and shall continue until September 15, 2010 or earlier if terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services and Cost Mechanism

In respect of fee for services, the Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return and shall be reviewed by the parties at the option of either party. For the purpose of this Agreement, reasonable rate of return shall mean a return on invested capital that is the higher of the utility's approved rate of return or the bank prime rate.

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

2.02 Expenses

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

2.03 Invoices

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

2.04 Cost Allocation Methodology

In respect of shared costs, costs shall be allocated based upon an appropriate cost allocation methodology to be determined by the parties. The cost allocation methodology shall be reviewed by the parties at the option of either party, or at least every five years. The allocation factors that comprise the methodology shall be reviewed and updated by the parties annually.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

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

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to

from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

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

3.04 Rules and Regulations

The Service Provider shall (subject to applicable exemptions) comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware, and the applicable provision of the *Electricity Act, 1998* (Ontario) and the regulations thereunder, the *Ontario Energy Board Act, 1998* (Ontario) and the regulations thereunder, applicable licences from the Ontario Energy Board, IESO market rules, the Affiliate Relationships Code, the Distribution System Code, the Transmission System Code, the Retail Settlement Code, and the Standard Service Supply Code and such other applicable codes, rules and regulations, which from time to time shall come into force.

3.05 Regulatory Compliance

The Service Provider shall ensure that any order or measure made or taken by the Ontario Energy Board:

- (i) that is brought to its attention or of which it becomes aware;
- (ii) that is directed at or affects the Corporation(s); and
- (iii) that, in order to be implemented or complied with, is dependent in whole or in part upon any service or task that the Service Provider is obligated to perform hereunder;

shall be fully implemented or complied with to the extent of obligations hereunder. In connection with this section, the Corporation(s) agrees that it (they) will promptly notify the Service Provider of any order or measure of the Ontario Energy Board directed at or affecting the Corporation(s).

Nothing in this Agreement will prevent the Corporation(s) from taking any steps, including without limitation using the Corporation(s) own resources or those of a third party, that are necessary to implement or comply with the applicable Ontario Energy Board licence, or any other applicable provisions of the applicable legislation, regulations and market rules, or any order or measure made or taken by the Ontario Energy Board.

3.06 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance

concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.07 Indemnity

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

3.08 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate or any other party to which it may offer a competitive advantage.

3.09 Access to Confidential Information

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

3.10 Monitoring Services

The Service Provider shall provide to the Corporation(s) all information that the Corporation(s) requires so that the Corporation(s) can monitor the provision of its applicable licensed services provided by the Service Provider. The Service Provider will also provide information as requested by the Corporation(s), which is required for the Corporation(s) in fulfillments of its applicable Ontario Energy Board licence.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

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

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the

Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 days' fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

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

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02.

5.02 Appointment of Arbitrator and Arbitration Procedures

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

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

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

6.02 Extended Meanings

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

6.03 Benefit of Agreement

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

6.04 Entire Agreement

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

6.05 Amendments and Waivers

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

6.06 Assignment

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

6.07 Severability

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

6.08 Notices

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

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2
Attention: R. Scott Hawkes
Fax: (905) 994-2211

To the Service Provider:

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

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

6.09 Further Assurances

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

6.10 Governing Law

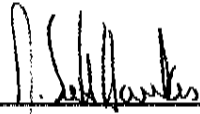
This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

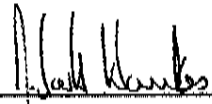
For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

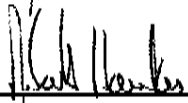
Canadian Niagara Power Inc.

Per: 

Cornwall Street Railway, Light and Power Company Limited

Per: 

FortisOntario Generation Corporation

Per: 

FortisOntario Inc.

Per: 

SCHEDULE "A"

ARBITRATION

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

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

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

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

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

SERVICES AGREEMENT

BETWEEN

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

AND

FortisOntario Generation Corporation

MADE AS OF

SEPTEMBER 15, 2005

TABLE OF CONTENTS

SERVICES AGREEMENT

ARTICLE 1 – GENERAL

1.01 Services..... 1
1.02 Term of Agreement..... 2

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services and Cost Mechanism 3
2.02 Expenses..... 3
2.03 Invoices 3
2.04 Cost Allocation Methodology 3

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services..... 3
3.02 Time of Services 3
3.03 Licences and Permits 3
3.04 Rules and Regulations..... 4
3.05 Regulatory Compliance..... 4
3.06 Insurance..... 4
3.07 Indemnity..... 4
3.08 Non-disclosure and Confidentiality..... 5
3.09 Access to Confidential Information..... 5
3.10 Monitoring..... 5

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause 5
4.02 Termination by Corporations or Service Provider on Notice..... 5
4.03 Provisions which Operate Following Termination..... 5

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes 5
5.02 Appointment of Arbitrator and Arbitration Procedures 6

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings..... 6
6.02 Extended Meanings 6
6.03 Benefit of Agreement 6
6.04 Entire Agreement..... 6
6.05 Amendments and Waivers..... 6
6.06 Assignment..... 7
6.07 Severability..... 7
6.08 Notices 7
6.09 Further Assurances 7
6.10 Governing Law 8
6.11 Attornment..... 8

SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of September 15, 2005

BETWEEN:

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

– and –

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

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

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render any one or more of the following services to the Corporations:

- a) electric utility operation and management services, including transmission and distribution systems;
- b) repair and maintenance for lines and facilities, including line clearing services;
- c) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA;
- d) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- e) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- f) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- g) customer service and customer care services, including meter reading, (including verification, testing, approval, installation and removal systems) billing and collection services and related SAP systems;

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

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on September 15, 2005 and shall continue until September 15, 2010 or earlier if terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services and Cost Mechanism

In respect of fee for services, the Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return and shall be reviewed by the parties at the option of either party. For the purpose of this Agreement, reasonable rate of return shall mean a return on invested capital that is the higher of the utility's approved rate of return or the bank prime rate.

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

2.02 Expenses

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

2.03 Invoices

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

2.04 Cost Allocation Methodology

In respect of shared costs, costs shall be allocated based upon an appropriate cost allocation methodology to be determined by the parties. The cost allocation methodology shall be reviewed by the parties at the option of either party, or at least every five years. The allocation factors that comprise the methodology shall be reviewed and updated by the parties annually.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

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

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to

from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

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

3.04 Rules and Regulations

The Service Provider shall (subject to applicable exemptions) comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware, and the applicable provision of the *Electricity Act, 1998* (Ontario) and the regulations thereunder, the *Ontario Energy Board Act, 1998* (Ontario) and the regulations thereunder, applicable licences from the Ontario Energy Board, IESO market rules, the Affiliate Relationships Code, the Distribution System Code, the Transmission System Code, the Retail Settlement Code, and the Standard Service Supply Code and such other applicable codes, rules and regulations, which from time to time shall come into force.

3.05 Regulatory Compliance

The Service Provider shall ensure that any order or measure made or taken by the Ontario Energy Board:

- (i) that is brought to its attention or of which it becomes aware;
- (ii) that is directed at or affects the Corporation(s); and
- (iii) that, in order to be implemented or complied with, is dependent in whole or in part upon any service or task that the Service Provider is obligated to perform hereunder;

shall be fully implemented or complied with to the extent of obligations hereunder. In connection with this section, the Corporation(s) agrees that it (they) will promptly notify the Service Provider of any order or measure of the Ontario Energy Board directed at or affecting the Corporation(s).

Nothing in this Agreement will prevent the Corporation(s) from taking any steps, including without limitation using the Corporation(s) own resources or those of a third party, that are necessary to implement or comply with the applicable Ontario Energy Board licence, or any other applicable provisions of the applicable legislation, regulations and market rules, or any order or measure made or taken by the Ontario Energy Board.

3.06 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance

concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.07 Indemnity

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

3.08 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate or any other party to which it may offer a competitive advantage.

3.09 Access to Confidential Information

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

3.10 Monitoring Services

The Service Provider shall provide to the Corporation(s) all information that the Corporation(s) requires so that the Corporation(s) can monitor the provision of its applicable licensed services provided by the Service Provider. The Service Provider will also provide information as requested by the Corporation(s), which is required for the Corporation(s) in fulfillments of its applicable Ontario Energy Board licence.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

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

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the

Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 days' fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

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

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02.

5.02 Appointment of Arbitrator and Arbitration Procedures

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

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

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

6.02 Extended Meanings

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

6.03 Benefit of Agreement

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

6.04 Entire Agreement

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

6.05 Amendments and Waivers

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

6.06 Assignment

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

6.07 Severability

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

6.08 Notices

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

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2
Attention: R. Scott Hawkes
Fax: (905) 994-2211

To the Service Provider:

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

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

6.09 Further Assurances

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

6.10 Governing Law

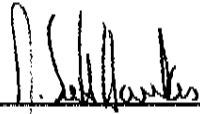
This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

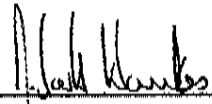
For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: 

Cornwall Street Railway, Light and Power Company Limited

Per: 

FortisOntario Generation Corporation

Per: 

FortisOntario Inc.

Per: 

SCHEDULE "A"

ARBITRATION

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

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

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

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

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

SERVICES AGREEMENT

BETWEEN

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

AND

FortisOntario Inc.

MADE AS OF

SEPTEMBER 15, 2005

TABLE OF CONTENTS

SERVICES AGREEMENT

ARTICLE 1 – GENERAL

1.01	Services.....	1
1.02	Term of Agreement.....	2

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01	Fee for Services and Cost Mechanism	3
2.02	Expenses.....	3
2.03	Invoices	3
2.04	Cost Allocation Methodology	3

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01	Services.....	3
3.02	Time of Services	3
3.03	Licences and Permits	3
3.04	Rules and Regulations.....	4
3.05	Regulatory Compliance.....	4
3.06	Insurance.....	4
3.07	Indemnity.....	4
3.08	Non-disclosure and Confidentiality.....	5
3.09	Access to Confidential Information.....	5
3.10	Monitoring.....	5

ARTICLE 4 – TERMINATION

4.01	Termination by Corporations or Service Provider for Cause	5
4.02	Termination by Corporations or Service Provider on Notice.....	5
4.03	Provisions which Operate Following Termination.....	5

ARTICLE 5 – ARBITRATION

5.01	Arbitration of Disputes	5
5.02	Appointment of Arbitrator and Arbitration Procedures	6

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01	Sections and Headings.....	6
6.02	Extended Meanings.....	6
6.03	Benefit of Agreement.....	6
6.04	Entire Agreement.....	6
6.05	Amendments and Waivers.....	6
6.06	Assignment.....	7
6.07	Severability.....	7
6.08	Notices	7
6.09	Further Assurances	7
6.10	Governing Law	8
6.11	Attornment.....	8

SCHEDULE “A”

SERVICES AGREEMENT

THIS AGREEMENT is made as of September 15, 2005

BETWEEN:

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

- and -

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

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

ARTICLE 1 – GENERAL

1.01 Services

Subject to the terms and conditions hereof, the Corporations shall retain the Service Provider to carry out services and the Service Provider shall render any one or more of the following services to the Corporations:

- a) electric utility operation and management services, including transmission and distribution systems;
- b) repair and maintenance for lines and facilities, including line clearing services;
- c) generating and supplying electricity, maintenance of substations, staff supervision and technical support of monitoring facilities including SCADA;
- d) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;
- e) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;
- f) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;
- g) customer service and customer care services, including meter reading, (including verification, testing, approval, installation and removal systems) billing and collection services and related SAP systems;

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

1.02 Term of Agreement

The provision of services by the Service Provider to the Corporations hereunder shall commence on September 15, 2005 and shall continue until September 15, 2010 or earlier if terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDER

2.01 Fee for Services and Cost Mechanism

In respect of fee for services, the Corporations shall pay to the Service Provider for the services provided under the Agreement a fee reflecting cost plus a reasonable rate of return and shall be reviewed by the parties at the option of either party. For the purpose of this Agreement, reasonable rate of return shall mean a return on invested capital that is the higher of the utility's approved rate of return or the bank prime rate.

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

2.02 Expenses

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

2.03 Invoices

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

2.04 Cost Allocation Methodology

In respect of shared costs, costs shall be allocated based upon an appropriate cost allocation methodology to be determined by the parties. The cost allocation methodology shall be reviewed by the parties at the option of either party, or at least every five years. The allocation factors that comprise the methodology shall be reviewed and updated by the parties annually.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDER

3.01 Services

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

3.02 Time of Services

The Service Provider shall devote such of its time and attention to the business of the Corporations as may be agreed to by the Service Provider and the Corporations. The Time of Services to be provided hereunder by the Service Provider shall be as agreed to

from time to time by the Corporations and the Service Provider. Subject to the obligations of the Service Provider hereunder, the Service Provider shall be free to offer such services to any other person.

3.03 Licences and Permits

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

3.04 Rules and Regulations

The Service Provider shall (subject to applicable exemptions) comply, while on the premises used by the Corporation(s), with all the rules and regulations of the Corporation(s) from time to time in force which are brought to its notice or of which it could reasonably be aware, and the applicable provision of the *Electricity Act, 1998* (Ontario) and the regulations thereunder, the *Ontario Energy Board Act, 1998* (Ontario) and the regulations thereunder, applicable licences from the Ontario Energy Board, IESO market rules, the Affiliate Relationships Code, the Distribution System Code, the Transmission System Code, the Retail Settlement Code, and the Standard Service Supply Code and such other applicable codes, rules and regulations, which from time to time shall come into force.

3.05 Regulatory Compliance

The Service Provider shall ensure that any order or measure made or taken by the Ontario Energy Board:

- (i) that is brought to its attention or of which it becomes aware;
- (ii) that is directed at or affects the Corporation(s); and
- (iii) that, in order to be implemented or complied with, is dependent in whole or in part upon any service or task that the Service Provider is obligated to perform hereunder;

shall be fully implemented or complied with to the extent of obligations hereunder. In connection with this section, the Corporation(s) agrees that it (they) will promptly notify the Service Provider of any order or measure of the Ontario Energy Board directed at or affecting the Corporation(s).

Nothing in this Agreement will prevent the Corporation(s) from taking any steps, including without limitation using the Corporation(s) own resources or those of a third party, that are necessary to implement or comply with the applicable Ontario Energy Board licence, or any other applicable provisions of the applicable legislation, regulations and market rules, or any order or measure made or taken by the Ontario Energy Board.

3.06 Insurance

The Service Provider shall pay for and maintain for the benefit of the Service Provider and the Corporations, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Corporations, appropriate insurance

concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.07 Indemnity

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

3.08 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential affairs of the Corporation or relating to any secrets of the Corporation to any person other than with the consent of the Corporation. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate or any other party to which it may offer a competitive advantage.

3.09 Access to Confidential Information

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

3.10 Monitoring Services

The Service Provider shall provide to the Corporation(s) all information that the Corporation(s) requires so that the Corporation(s) can monitor the provision of its applicable licensed services provided by the Service Provider. The Service Provider will also provide information as requested by the Corporation(s), which is required for the Corporation(s) in fulfillments of its applicable Ontario Energy Board licence.

ARTICLE 4 – TERMINATION

4.01 Termination by Corporations or Service Provider for Cause

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

4.02 Termination by Corporations or Service Provider on Notice

The Corporations or the Service Provider may terminate this Agreement upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, the

Corporations may terminate this Agreement immediately upon paying to the Service Provider 60 days' fee for services in lieu of such notice.

4.03 Provisions which Operate Following Termination

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

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02.

5.02 Appointment of Arbitrator and Arbitration Procedures

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

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

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

6.02 Extended Meanings

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

6.03 Benefit of Agreement

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

6.04 Entire Agreement

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

6.05 Amendments and Waivers

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

6.06 Assignment

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

6.07 Severability

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

6.08 Notices

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

To the Corporations:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2
Attention: R. Scott Hawkes
Fax: (905) 994-2211

To the Service Provider:

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

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

6.09 Further Assurances

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

6.10 Governing Law

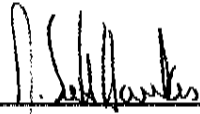
This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

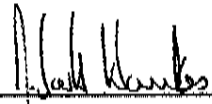
For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Niagara Power Inc.

Per: 

Cornwall Street Railway, Light and Power Company Limited

Per: 

FortisOntario Generation Corporation

Per: 

FortisOntario Inc.

Per: 

SCHEDULE "A"

ARBITRATION

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

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

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

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

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

36. Ref: Exhibit 4 /Tab 5 /Schedule 1 – Shared Services/Corporate Cost Allocation
On page 3, Algoma provides two tables, titled “2010 Shared Services/Corporate Cost Allocation” and “2011 Shared Services/Corporate Cost Allocation”.

- a) Please confirm the total cost for shared services allocated to Algoma Power is \$582,000 for 2010 and \$585,000 for 2011.
- b) Please provide a full picture of the inter-corporate allocations/charges by completing the following table for each of 2009 actual, 2010 test year and 2011 test year.

RESPONSE:

- a) Yes, the total cost for shared services allocated to Algoma Power is \$581,543 for 2010 and \$584,540 for 2011.
- b) See attached tables for 2010 and 2011 Test Years. There were no shared services allocated to Algoma Power in 2009.

Corporate Functions Allocated - Shared Services 2010 and 2011			
Function	TRANSFER FROM	TRANSFER TO	Percentage Allocation
Corporate Services	FortisOntario	CNPI-Distribution (1)	32.0%
		CNPI-Transmission	9.9%
		FortisOntario	17.8%
		Algoma Power	19.4%
		Cornwall Electric	21.0%
	Total		100.0%
Finance	CNPI	CNPI-Distribution	56.5%
		CNPI-Transmission	9.8%
		FortisOntario	1.2%
		Algoma Power	3.3%
		Cornwall Electric	29.1%
	Total		100.0%
Information Technology	CNPI	CNPI-Distribution	44.2%
		CNPI-Transmission	5.8%
		FortisOntario	1.4%
		Algoma Power	1.4%
		Cornwall Electric	47.2%
	Total		100.0%
Health, Safety and Environment	CNPI	CNPI-Distribution	49.8%
		CNPI-Transmission	6.5%
		FortisOntario	1.6%
		Algoma Power	5.0%
		Cornwall Electric	37.1%
	Total		100.0%
Human Resources	CNPI	CNPI-Distribution	43.5%
		CNPI-Transmission	8.0%
		FortisOntario	1.0%
		Algoma Power	20.1%
		Cornwall Electric	27.4%
	Total		100.0%
Regulatory	CNPI	CNPI-Distribution	56.2%
		CNPI-Transmission	12.5%
		FortisOntario	2.5%
		Algoma Power	18.8%
		Cornwall Electric	10.0%
	Total		100.0%
Building rent	CNPI	CNPI-Distribution	71.8%
		CNPI-Transmission	10.9%
		FortisOntario	1.5%
		Algoma Power	3.9%
		Cornwall Electric	11.9%
	Total		100.0%
Corporate Services	Fortis Inc.	CNPI-Distribution	35.4%
		CNPI-Transmission	5.9%
		Algoma Power	28.0%
		Cornwall Electric	30.7%
	Total		100.0%

(1) CNPI-Distribution includes Fort Erie, Port Colborne and Eastern Ontario Power.

The tables below show the amounts allocated to Algoma Power based on the above percentage allocation. All the allocations are cost-based except for building rent which is market based.

Corporate Functions Allocated - Shared Services 2010			
Function	TRANSFER FROM	TRANSFER TO	Cost for Service (\$)
Corporate Services	FortisOntario	Algoma Power	372,603
Finance	CNPI	Algoma Power	27,967
Information Technology	CNPI	Algoma Power	13,326
Health, Safety and Environment	CNPI	Algoma Power	17,462
Human Resources	CNPI	Algoma Power	43,807
Regulatory	CNPI	Algoma Power	31,323
Building rent	CNPI	Algoma Power	19,120
Corporate Services	Fortis Inc.	Algoma Power	55,935
	Total		581,543

Corporate Functions Allocated - Shared Services 2011			
Function	TRANSFER FROM	TRANSFER TO	Cost for Service (\$)
Corporate Services	FortisOntario	Algoma Power	372,603
Finance	CNPI	Algoma Power	27,967
Information Technology	CNPI	Algoma Power	13,326
Health, Safety and Environment	CNPI	Algoma Power	17,462
Human Resources	CNPI	Algoma Power	43,807
Regulatory	CNPI	Algoma Power	31,323
Building rent	CNPI	Algoma Power	19,120
Corporate Services	Fortis Inc.	Algoma Power	58,932
	Total		584,540

37. Ref: Exhibit 4/ Tab 5/ Schedule 1/ Appendix A and EB-2005-0001, page 88

The Board in its Decision on rates for 2006 for Enbridge Gas listed 5 principles that should be addressed when an independent reviewer assesses corporate cost allocations:

“10.9.28 The Board further finds that in evaluating each service, the independent review should consider whether:

- the service is specifically required by the utility;
- the level of service provided is required by the utility;
- the costs are allocated based on cost causality and cost drivers;
- the cost to provide the service internally would be higher and the cost to acquire the service externally on a standalone basis would be higher; and,
- there are scale economies.”

With respect to the BDR Review:

- a) Please clarify whether BDR considered these principles when completing its review. If so, please provide a copy of BDR’s views on the matter.
- b) If BDR did not report on these principles, please explain whether the costs allocated to Algoma Power are justified by these principles. Please provide an explanation for each of the principles in turn.

RESPONSE:

The BDR report is provided as Exhibit 4 Tab 5 Schedule 1 Appendix A.

The focus of both of this report is the third of the five principles above, that is, “the costs are allocated based on cost causality and cost drivers”. The BDR report documents the nature of each type of cost, identifies the basis of cost causality and cost drivers, and on that basis has provided an opinion that the allocation approach is reasonable and consistent with principles of cost allocation. Algoma’s comments on the other four principles are as follows:

1. “the service is specifically required by the utility”

FortisOntario’s operations are comprised entirely of its four Ontario electricity distribution business units and a transmission business unit, which are regulated by the Board. To maximize available efficiencies of scale, certain general plant and administrative, general and customer service functions are shared by the business units. All of the functions and activities which are shared costs are the required core functions of electricity distribution and transmission businesses, namely:

- ❖ Administrative and general costs, including:
 - executive
 - property and procurement
 - regulatory

- finance (accounts payable and receivable, payroll, financial analysis and reporting, and supervision of these functions)
 - information technology
 - health, safety and environment
 - human resources management,
 - service centre building expenses (rental and maintenance)
- ❖ Engineering and operations.

The purpose of the allocation process and the filing of its results with the Board is to support the share of the costs of these core functions that should be recovered from each distribution service territory and from transmission through its separate revenue requirement and rates.

2. “the level of service provided is required by the utility”

The level of each service is the level required to meet the requirements of Algoma’s distribution customers and regulation by the Board. There is no duplication through shared services of services or functions that are also provided on a fully dedicated basis within the service territories.

3. “the cost to provide the service internally would be higher”

Because of the Port Colborne lease arrangement, FortisOntario continues to maintain separation of the API, Port Colborne and combined Fort Erie and Gananoque distribution service territories for rate and regulatory purposes, but has integrated operations and management for all other purposes. Therefore in API’s case, the shared services are being provided “internally”, in the sense they are provided to all the service territories by an integrated function within the distribution operations. Only executive management is in FortisOntario. The executive group consists of only five staff, including administrative support. It is API’s view that ceasing to share the services of this executive team with the other business units of FortisOntario would not enable a reduction in its total size or cost.

API has not specifically studied the cost of duplicating each administrative and general, operations and customer service function for each of the FortisOntario distribution service territories and the transmission business unit, but would anticipate the result of any such duplication to be cost increases, rather than cost reductions.

4. “and the cost to acquire the service externally on a standalone basis would be higher”

The services shared by the distribution service territories are all core business functions that are not normally contracted out by Ontario LDCs. With respect to the administrative services such as executive management, information technology, human resources, etc., the Board took this into account in defining the “shared corporate services” that would be excluded from the test for market-based transfer pricing in the Affiliate

Relationships Code for Electricity Distributors and Transmitters as revised March 15, 2010. The only cost element which would have a specific market comparator would be the allocated cost of space in the Fort Erie head office and service center building, which has been priced to each business unit based on the market price for comparable space available for lease.

38. Ref: Exhibit 5/ Tab 1/ Schedule 1 p.2

Algoma Power, while indicating that it has used a return on equity (ROE) of 9.85% in the 2010 and 2011 Test Years as established by the Board for cost of service applications with a May 1, 2010 implementation, notes that the ROE will be updated in accordance with Board guidelines.

Please confirm that the Board mentioned guidelines are to be found in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* [EB-2009-0084] dated December 11, 2009.

RESPONSE:

API confirms that the Board mentioned guidelines are to be found in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* [EB-2009-0084] dated December 11, 2009.

39. Ref: Exhibit 5 /Tab 1 /Schedule 1 p.2

Algoma Power indicates that it has engaged CIBC World Markets to assist with the private placement of approximately \$45-\$50 million in senior unsecured third party debt (to replace the existing affiliated debt) which it expects to be completed by the end of 2010.

What is Algoma Power's best estimate as to when this arrangement will be completed?

RESPONSE:

API does not expect this private placement to be completed until late 2010 or 2011.

40. Ref: Exhibit 5 Tab 1 Schedule 1 p.2-3

Algoma Power indicates that management is contemplating a strategy to issue future debt for regulated utilities at the parent company level, i.e., FortisOntario which should result in less costly debt.

Does Algoma Power expect this arrangement to be completed before the end of 2011?

RESPONSE:

Algoma Power does not expect that this arrangement will be completed before the end of 2011.

The purpose of disclosing this longer term financing strategy was that the substance of the arrangement resulted in lower financing costs for API. However, the OEB's cost of capital policy proposes that affiliated debt would be charged at the deemed affiliated debt rate. The FortisOntario borrowing would likely be higher than the deemed debt rate but lower than the standalone debt rate for API. FortisOntario would have expected that the borrowing costs would be transferred to API, since it was lower than the standalone rate even though it was higher than the deemed debt rate.

41. Ref: Exhibit 9/Tab 1/Schedule 5 – Regulatory Asset Accounts (Pension Expense)
Algoma Power is requesting a new variance account for Pension expense.

- a) Please provide the justification for this request.
- b) Has Algoma Power received the actuarial assessment of costs from Mercer?
- c) Has Algoma Power filed the actuarial assessment with FSCO?
- d) If the actuarial assessment was received prior to filing this application, why has Algoma Power not used actual pension expense costs in this filing, instead of estimated assessment pension costs?
- e) What is the proposed methodology for recording pension costs into this account (cash or accrual)?
- f) Is Algoma Power aware of any regulatory precedent in support of its proposal?
- g) Please provide an estimate of the variance to be recorded in this account.
- h) What account number does Algoma Power propose to use in the USoA?
- i) What are the journal entries to be recorded?
- j) When does Algoma Power plan to ask for its disposition?
- k) How does Algoma Power plan to allocate this amount by rate class?
- l) What new or additional information is available since the June 7, 2010 filing of this application that would assist the Board in making a decision on this request?

RESPONSE:

- a) The pension expense variance account is intended to recognize the difference between the annual pension expense and the amount of pension expense that is included in rates. Should there be a material variance, either positive or negative; the amount would be recognized in the pension expense variance account.

API sponsors a defined benefit pension plan. The annual pension expense amount is determined annually by Mercer's Human Resource Consulting. API management does not and cannot control the market forces or fluctuations in the pension expense. The estimated pension expense cost for 2010 is \$654,000 which exceeds the materiality threshold for API.

- b) Mercer's has provided an estimate of the pension expense for 2010 which has been used in the 2010 Test Year. The final pension expense will not be determined until year end.
- c) An actuarial valuation for funding purposes has been provided to FSCO.
- d) See response to b.

- e) The cost of retirement benefits for API's defined benefit employees is recognized as the benefits are earned by employees (i.e. accrual basis) in accordance with GAAP.
- f) Hydro One who also sponsors a defined benefit pension has a pension expense variance account.
- g) The variance, if any, is unknown at this time.
- h) Account 1508, Other Regulatory Assets, Pension Expense Sub-account
- i) The entries would be to increase/decrease the pension expense and increase/decrease the regulatory asset/liability account.
- j) The account would be disposed of consistent with other regulatory asset/liability accounts.
- k) API has not yet determined the allocation to rate class but would do so before requesting disposal.
- l) There is no new information since the filing of the application on June 7, 2010.

42. Ref: Exhibit 9/Tab 1/Schedule 5 – Regulatory Asset Accounts (IFRS)

Algoma Power is seeking approval for IFRS deferral account to capture the aggregate impact on the 2011 revenue requirement resulting from any changes to the existing IFRS standards and changes in the interpretation and implementation of such standards.

The Board report EB-2008-0408 dated July 28, 2009 “*Transition to International Financial Reporting Standards*” (Appendix 2, article 8.2) states :“The Board will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS. This account.....is not to include..... impacts on revenue requirements arising from changes in the timing of the recognition of expenses.” In its October 2009 FAQ’s, the Board established account 1508, Other Regulatory Assets, “sub-account Deferred IFRS Transition Costs” for those distributors that do not have a Board-approved amount designated for one-time administrative incremental IFRS transition costs already included for recovery in its distribution rates. For distributors that do have a Board-approved amount designated for one-time administrative incremental IFRS transition costs already included for recovery in distribution rates, the Board established, account 1508, Other Regulatory Assets, “Sub-account IFRS Transition Costs Variance”.

- a) Does the Revenue Requirement for each of 2010 and 2011 include one-time or ongoing costs related to the implementation of IFRS? If so, please identify the amount, its purpose and whether it is ongoing or one-time.
- b) Are Algoma Power’s current rates recovering any IFRS related costs? If so, please describe the amount and their purpose.
- c) Is the proposed account expected to record any costs specifically excluded in the Board report EB-2008-0408 (i.e. ongoing compliance costs or impacts on revenue requirement arising from changes in timing of the recognition of expenses)?
- d) Does Algoma Power anticipate the net balance in this account to be a debit or credit and what would the net balance total?
- e) When does Algoma Power plan to ask for its disposition?
- f) Has Algoma Power considered the determinants that would be used to allocate the balance to rate classes?

RESPONSE:

- a) The revenue requirement for 2010 and 2011 does not include any one-time or ongoing costs for the implementation of IFRS. OEB deferral account 1508 includes \$6,620 in overtime IFRS transition costs. See Exhibit 9, Tab 1, Schedule 1, page 3.
- b) The current rates are not recovering any IFRS related costs.

- c) The requested variance account is similar to what was approved by the OEB in Hydro One's recent distribution rate application (EB-2009-0096). The account proposed is intended to capture the aggregate impact on the post 2010 revenue requirement, any changes to existing IFRS standards and changes in the interpretation of such standards.
- d) API has not anticipated the net balance of this account, if any.
- e) API has not yet considered the disposal of such account.
- f) API has not yet considered the determinant to allocate the balance, if any, to rate classes.

43. Ref: Exhibit 9 /Tab 2 /Schedules 1&2

The amount requested for disposition includes Account 1525 (Miscl. Deferred Debits). The balance in this account is \$.412 million plus interest and the costs recorded are those incurred by Great Lakes Power Distribution when it acquired the distribution assets from Great Lakes Power Limited. The acquisition was required under Section 71 of the OEB Act.

- a) To what extent was this regulatory asset a consideration in the valuation underpinning the purchase price paid by FortisOntario when it acquired Algoma Power?
- b) Does Algoma Power expect any additional section 71 related costs to be recorded in this account?
- c) Please provide a breakdown for each type of cost in account 1525 requested for disposition (e.g. transfers and land registration costs \$x; statutory filing costs \$y etc.).
- d) Please explain why Algoma Power choose “number of customers” rather than kWh as the allocator re: account 1525 (section 71 re-organization)

RESPONSE:

- a) During the acquisition this amount was considered a regulatory asset or receivable.
- b) No, Algoma does not anticipate any additional section 71 related costs to be recorded in this account.
- c) Costs for this claim were incurred between November 2008 and December 2009, and breakdown as follows:

Legal (\$284,200)

- Representation in connection with discussions/applications made with the Ministry of Energy, Ontario Energy Board, IESO

Consultants (\$66,390)

- Outside consultants used primarily in the separation of engineering records

Internal Costs (\$56,440)

- Internal staff used primarily to assist in the separation of engineering records

Administrative (\$3,665)

- Registration fees with Ministry of Finance, IESO

- d) API is of the opinion, from a cost allocation perspective, that this relates to a bulk asset. That is to say that the entire distribution system and distribution operation exists to service all customers and therefore causality is more related to customers than consumption.

44. Ref: Exhibit 9/Tab 1/Schedule 1

Algoma Power is seeking the disposition and recovery in rates of the amount of \$2,478,950 as set out in Exhibit 9 Tab 2 Schedule 1 p.1. The included accounts are 1580, 1584, 1586, 1588, 1508, 1525.

- a) Please confirm that Algoma Power has complied with and correctly applied the Board's accounting policy and procedures for the calculation of the final disposition balance.
- b) If Algoma Power used other practices in the calculation, please describe them, including an explanation of why they were used.
- c) Has Algoma Power reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?
- d) Has Algoma Power considered recovering account 1588 sub account global adjustment only from non Regulated Price Plan customers? If not, please explain why it hasn't.

RESPONSE:

- a) API has complied with and correctly applied the Board's accounting policy and procedures for the calculation of the final disposition balance.
- b) N/A
- c) API reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009. API consistently uses the accrual basis of accounting.

API has not historically applied carrying charges to its deferral and variance accounts. Carrying charges will be applied beginning in 2010. On the basis of API's understanding of the Board's direction, account 1588 RSVA Power and account 1588 RSVA Power sub-account Global Adjustment are both accounted for correctly.

- d) Disposition of account 1588 – Global Adjustment through a separate rate rider to Non-RPP customers pre-supposes that the entirety of this account is attributable solely to the Non-RPP customers. This may not be a totally accurate assumption. Conceptually, it is a valid assumption but a number of factors come into play. The determination of the Global Adjustment variant is subject to estimation processes involving IESO billing to the LDC and LDC billing to the customer classes and subclasses, all of which is interrelated. All customers, either RPP or Non-RPP have contributed, in some manner, to the total 1588

Power Variant Account including the Global Adjustment sub-account. It may be more appropriate at this time to clear the variance over all customers.

45. Ref: Exhibit 7/ Tab 1/ Schedule 1/ Page 4 – Cost Allocation Model

Algoma provided Sheet O1 of the cost allocation model.

- a) Please confirm whether the results of Sheet O1 reflect the revenue to cost ratio for the 2010 Test year.
- b) Please explain how the Distribution Revenue is calculated.
- c) In Sheet O1 the Total Revenue Requirement is \$17,689,706; however the total 2010 Service Revenue Requirement listed on Exhibit 6 Tab 1 Schedule 2 Page 1 is \$18,928,065. Please explain the difference.

RESPONSE:

Parts a), b) & c)

The results of Sheet O1 did not reflect the revenue to cost ratio for the 2010 Test year. As discussed in the response to VECC Interrogatory No. 26, API is, concurrently with these interrogatory responses, submitting an updated Cost Allocation Model, in live Excel Format, API 2010 CA Model_20100816. The total Revenue Requirement on Sheet O1 of this Model is consistent with Exhibit 6 Tab 1 Schedule 2 page 1, \$18,928,065.

The discrepancy that appeared in the API 2010 CA Model_201000601 was the result in an omission related to the data used to populate the model.

46. Ref: Exhibit 7/ Tab 1/ Schedule 2 – Cost Allocation Study

On page 11 of the study, it states: “The API-2010 ratios reflect the 2010 forecast throughput by class, allocated costs and revenues at proposed rates. Table 8 represents the revenue responsibility (i.e. allocation of the total revenue requirement to the rate classes). This revenue responsibility is presented in both dollar and percentage terms.” ITable 8 shows a total revenue of \$17,810,531; however the total 2010 Service Revenue Requirement listed on Exhibit 6/ Tab 1/ Schedule 2/ Page 1 is \$18,928,065.

Please explain the reason(s) for the difference.

RESPONSE:

As discussed in the response to Board Staff Interrogatory No. 45 and VECC Interrogatory No. 26, API is, concurrently with these interrogatory responses, submitting an updated Cost Allocation Model, in live Excel Format, API 2010 CA Model_20100816. The total Revenue Requirement in the updated Cost Allocation Model is consistent with Exhibit 6 Tab 1 Schedule 2 page 1, \$18,928,065.

47. Ref: Exhibit 7/ Tab 1/ Schedule 1/ Page 4 – Cost Allocation Model

Please provide an alternative calculation which uses the most recent approved distribution rates and the forecast of billing quantities in the test year, prorated upwards or downwards (as applicable) to match the 2010 proposed revenue requirement and file the model in excel format.

RESPONSE:

API is has filed an updated Cost Allocation Model, in live Excel Format, API 2010 CA Model_20100816 along with its interrogatory responses.

48. Ref: Exhibit 8/ Tab 2/ Schedule 1/ Page 1 – Fixed and Variable Proportion

Please compare the proposed Monthly Fixed Charge for all the classes to the Cost Allocation Model, API 2010 CA Model_20100601, and identify the class that exceeds the maximum level of the Monthly Fixed charge as stated in Sheet O2 of the model.

RESPONSE:

The particular section of Sheet O2 of to the Cost Allocation Model, API 2010 CA Model_20100601 is reproduced and shown below.



2006 Cost Allocation Information Filing

Algoma Power Inc.

EB-2010-0278

Tuesday, June 01, 2010

Sheet O2 Monthly Fixed Charge Min. & Max. Worksheet - First Run

Output sheet showing minimum and maximum level for Monthly Fixed Charge

Summary

Customer Unit Cost per month - Avoided Cost
 Customer Unit Cost per month - Directly Related
 Customer Unit Cost per month - Minimum System with PLCC Adjustment
 Fixed Charge per approved 2006 EDR

	1	2	7	12
	R1	R2	Street Light	Seasonal
Customer Unit Cost per month - Avoided Cost	\$12.98	\$147.50	\$0.96	\$4.98
Customer Unit Cost per month - Directly Related	\$18.19	\$208.46	\$1.38	\$6.79
Customer Unit Cost per month - Minimum System with PLCC Adjustment	\$39.09	\$303.50	\$26.76	\$21.43
Fixed Charge per approved 2006 EDR	\$20.41	\$596.12	\$0.00	\$24.00

As indicated on the sheet there are two customer classes whose proposed Monthly Fixed Charge exceeds the maximum level of the Monthly Fixed Charge as stated in Sheet O2 of the model. These are:

Customer Class	Proposed Monthly Fixed Charge	Monthly Fixed Charge as stated in Sheet O2
Residential – R2	\$628.91	\$303.50
Seasonal	\$24.00	\$21.43

49. Ref: Exhibit 8/Tab 3/ Schedule 1 p. 4-5

With respect to Retail Transmission Service Rates, Algoma Power provided an analysis in the evidence and on this basis proposes "...to leave its existing Retail Transmission – Network Service Rate unchanged and proposes to reduce its Retail Transmission – Connection Service Rate by 6.98% uniformly across all classes to compensate for the accrual of over-collection." The rates presented in Table 3 (Exhibit 8 Tab 3 Schedule 1 p.5) show the Network Service Rate decreasing and the Connection Service Rate unchanged for 2010.

Please explain this discrepancy.

RESPONSE:

In Exhibit 8 Tab 3 Schedule 1, the description of the analysis is correct and the intent in this Application was to leave the existing Retail Transmission – Network Service Rate unchanged and to reduce the Retail Transmission – Connection Service Rate by 6.98% uniformly across all classes to compensate for the accrual of over-collection. However, in the determination of the Retail Transmission Service Rates the correction factor was inadvertently applied to the Retail Transmission – Network Service Rate rather than the Retail Transmission – Connection Service Rate. This has been corrected and the proposed Retail Transmission Service Rates are shown below.

Amended as Per Board Staff Interrogatory No. 49
Proposed Schedule of Retail Transmission Service Rates

	Metric	Existing	2010 Proposed
Residential – R1			
Retail Transmission Rate - Network Service Rate	\$/kWh	0.0057	0.0057
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.0050	0.0047
Residential – R2			
Regular			
Retail Transmission Rate - Network Service Rate	\$/kW	2.1218	2.1218
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.7882	1.6634
Interval Metered greater than 1,000 kW			
Retail Transmission Rate - Network Service Rate	\$/kW	2.2508	2.2508
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.9763	1.8384
Seasonal			
Retail Transmission Rate - Network Service Rate	\$/kWh	0.0057	0.0057
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.0050	0.0047
Street Lighting			
Retail Transmission Rate - Network Service Rate	\$/kW	1.6002	1.6002
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.3824	1.2859

50. Ref: Exhibit 8 /Tab 5 /Schedule 1 p.2-3

The evidence at Exhibit 8 Tab 5 Schedule 1 p.2 provides a calculation of historic Distribution Loss Factors (DLF) and Total Loss Factors (TLF). The historic values for the Supply Facility Loss Factor (SFLF) are obtained by dividing the kWh values provided in Lines A₁ and A₂ (i.e. calculation A₁/A₂), compute to 1.0045, 1.0099, 1.0095, 1.0059 and 1.0097 respectively for the years 2005 to 2009.

Algoma Power explains the reason its factors are greater than the Board's 5% threshold is because it serves a very large geographic area of approximately 14,200 square kilometers with 1845 kilometers of line servicing 11,720 customers. Algoma Power concludes that, as such with its very low customer density, its loss factor will exceed 5%.

- a) Does Algoma Power know of any other material reasons in addition to the aforementioned?
- b) Does Algoma Power have a plan to reduce its losses? If so, please provide the plan. If not, please explain why not.

RESPONSE:

- a) API's very low customer density and vast geographic service area result in longer than average distribution lines serving customers located at a greater than average distance from transmission supply points as compared to other LDC's. This inherently results in higher than average line losses. API is not aware of any other material reasons for its higher loss factor.
- b) API anticipates that its ongoing High Risk Conductor Replacement program as well as voltage conversions and substation rationalizations will continue to reduce line losses. However, as discussed in part (a), Algoma's geographical attributes of long distribution lines and low customer density will inherently result in higher technical distribution losses than those experienced in more compact high customer density locales.

51. Ref: Exhibit 8 /Tab 5/ Schedule 1 p.2-3

The evidence at Exhibit 8 Tab 5 Schedule 1 p.3 provides a calculation of the proposed TLF and underlying DLF.

Given the enduring line losses and the lowering impact of both the ongoing conductor replacement program and the voltage conversions, please explain the reason for proposing the average of 2007 to 2009 actual values for DLF and TLF rather than the lower actual value for 2009.

RESPONSE:

As referenced in the OEB paper, Ontario Electricity Distributor Practices Relating to Management of System Losses – Regulatory Audit Office, dated June 23, 2008 there are several factors that may influence the determination of the annual loss factor. Since not all metering and billing data is available in interval form, estimations are made to determine annual sale of energy. A major estimation is the determination of unbilled revenue and this determination is subject to error.

Further, at present there is no practical means of separating technical and non-technical losses. While it may be possible to predict with some certainty that technical losses may decrease as a result of ongoing conductor replacement program and the voltage conversions, it is not a predictor of non-technical losses.

This suggests that a single year's result may not be an accurate indicator of actual losses and for this reason API chose to use an average of recent years.

52. Ref: Exhibit 10/ Tab 1/ Schedule 1

Algoma Power is seeking approval for a Smart Meter funding adder of \$1.00 per metered customer, effective July 1, 2010. There is no funding adder currently in place. Per the *Smart Meter Funding and Cost Recovery G-2008-0002* (dated October 22, 2008) guideline pages 9-10, utilities seeking a funding adder are to provide certain information in their application. Particulars include:

- Evidence that distributor is authorized to conduct smart meter activities in accordance with applicable law
- the estimated number of meters to be installed in the rate test year
- the actual or estimated costs per installed meter and in total
- statement as to whether the distributor has purchased, or expects to purchase, smart meters or advanced metering infrastructure (AMI) whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06, and an estimate of those costs
- a statement as to whether the distributor has incurred, or expects to incur, costs associated with functions for which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07, and an estimate of those costs

Please confirm that Algoma Power's evidence includes the aforementioned information.

RESPONSE:

- API's evidence, Exhibit 10, Tab 1, Schedule 1, refers to procurement of its Smart Meters and AMI infrastructure in accordance with the London Hydro RFP. Please find attached to this interrogatory a copy of API's Letter of Attestation from The Fairness Commissioner.
- As described in the evidence, Exhibit 10, Tab 1, Schedule 1, API expects to install all of its Residential – R1 meters by the end of 2010. This amounts to approximately 11,580 meters.
- API's actual to date and forecasted smart meter costs for each year of the 5-year period 2007-2011 are provided in the table located in Exhibit 10/ Tab 1/ Schedule 1. The table below illustrates these costs on a total cost and cost per meter basis for the 5-year period.
- The meters purchased are compliant with the minimum functionality adopted in O. Reg. 425/06.
- API is not incurring SME costs associated with functions for which the IESO has exclusive authority in O. Reg. 393/07.

Cost Category	Forecast Total 2007-2011	Average Cost per Meter
Capital	\$4,537,384	\$391.83
O&M	\$920,301	\$79.47