

**Ontario Energy
Board**

P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
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**Commission de l'Énergie
de l'Ontario**

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27e étage
2300, rue Yonge
Toronto ON M4P 1E4
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BY E-MAIL

July 25, 2006

To: All Recipients of the Board Decision and Order

**Re: Cat Lake Power Utility Inc. Proceeding
Board File No. EB-2006-0180**

The Board has issued today its erratum sheet in respect of the Decision and Order in the above matter and a copy is attached.

Yours truly,

Original Signed By

Peter H. O'Dell
Assistant Board Secretary

ERRATUM SHEET

Reference: Page 5 / Clause 9 / first line
correction: replace "clause 7" with "clause 8".

Clause 9, would read (after correction):

"In the period leading to the date stated in clause 8. of this Order,...."



EB-2006-0180

IN THE MATTER OF section 84 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B)

AND IN THE MATTER OF the Board issuing to Hydro One Network Inc. an interim distribution licence under subsection 59(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B)

BEFORE: Pamela Nowina
Vice Chair and Presiding Member

DECISION AND ORDER

Cat Lake Power Utility Ltd. ("Cat Lake Power") owns and operates a transmission system as well as operates a distribution system for the Cat Lake community. The distribution system is owned by Ontario Energy Finance Corporation ("OEFC"). Cat Lake Power is licensed by the Board.

By letter to the Board dated March 13, 2006 Cat Lake Power requested that the adjacent transmitter take over the operation of the transmission assets for which Cat Lake Power has been licensed. On the same date, Cat Lake Power sent a separate letter to the Minister of Energy indicating that Cat Lake Power also no longer wishes to operate the distribution system that serves the Cat Lake community. In effect, the two letters requested that the Board and the Minister of Energy take action such that Cat Lake Power will be relieved of responsibility for the ownership and operation of the transmission system as well as operation of the distribution system, which is owned by OEFC.

On March 22, 2006, the Board responded by way of a letter from the Chief Compliance Officer. The letter requested that Cat Lake Power provide a proposal for how the transfer of operation of the distribution assets to OEFC and how transfer of operation of the transmission system to the adjacent transmitter should occur. The proposal should also indicate how Cat Lake Power intends to

pay for the services that will continue to be provided by these assets. The letter also offered to arrange for a meeting with Cat Lake Power to discuss this matter.

On March 31, 2006 the Ministry of Energy sent a letter to Cat Lake Power informing them that the issues raised by Cat Lake Power are matters for the Board to consider, and that while the Board is working to address the concerns raised, Cat Lake Power is expected to continue to operate with no disruption of service to local customers.

Copies of the letters are shown in Appendix A.

Cat Lake Power Report

Cat Lake Power responded to the Board's request by submitting to the Board a report dated July 10, 2006 (the "Report" – see Appendix C) outlining its proposal to deal with its inability to operate the transmission and distribution systems. According to the Report, Cat Lake Power had a management/maintenance agreement with Sioux Lookout Hydro Inc. under which Sioux Lookout Hydro Inc. serviced the transmission and distribution systems. That agreement expired on July 1, 2006. Sioux Lookout Hydro Inc. is now providing these services on a "best efforts" basis. As a consequence, according to Cat Lake Power, future maintenance service for both the transmission and the distribution systems will be very difficult and expensive where complaint calls need to be responded to by air and line maintenance needs to be completed by helicopter.

Cat Lake Power concluded its Report by requesting that the Board direct Hydro One Networks Inc. ("Hydro One") to purchase the transmission and distribution systems serving the Cat Lake community.

On July 19, 2006 Board staff received an urgent message on behalf of Cat Lake Power indicating that recent hot weather and thunderstorm activity have caused a number of power interruptions in the community and indicated the need for the Board to take urgent action.

On July 20, 2005, Board staff contacted Hydro One to determine the earliest date that it could take over possession and control of the Cat Lake Power transmission and distribution systems. Hydro One advised that, in order to have time to familiarize itself with the Cat Lake Power system, it could not take over

possession and control immediately. It estimated that the earliest date for doing so is August 14, 2006.

Electricity Service Risk to Cat Lake Community

The Board has determined that the reliable supply of electricity to consumers in Cat Lake may be compromised. While Sioux Lookout Hydro Inc. continues to operate the system on best efforts basis and until a resolution to the situation is achieved, the Board has determined that, in order to meet its obligation of protecting the reliable supply of electricity to consumers in the Cat Lake community, the Board will take the following steps:

Pursuant to section 84 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) (the "Act"), the Board will deem the transmission assets owned by Cat Lake Power to be distribution assets. These assets are listed in Schedule 1 of electricity transmission and wholesale licence No. ET-2002-0328 issued to Cat Lake Power Utility Ltd. on October 31, 2002.

Pursuant to section 59(2) of the Act, the Board will order Cat Lake Power to transfer possession and control over the transmission and distribution system to Hydro One as soon as Hydro One determines that it is in a position to take over same and, in any event, no later than August 14, 2006. Cat Lake shall continue to be responsible for meeting all requirements under its current licence until the transfer is complete. Cat Lake shall provide full cooperation and assistance to Hydro One to effect the transfer.

Pursuant to section 59(2) of the Act, the Board will issue to Hydro One an interim distribution licence authorizing Hydro One to take possession and control of the deemed distribution assets owned by Cat Lake Power and the distribution assets in the Cat Lake community that are owned by the Ontario Electricity Financial Corporation.

THE BOARD ORDERS THAT:

1. The transmission assets listed in Schedule 1 of the electricity transmission and wholesale licence No. ET-2002-0328 issued to Cat Lake Power Utility Ltd. on October 31, 2002 are deemed to be distribution assets effective as of the date prescribed in clause 8 of this Decision and Order.
2. Hydro One Networks Inc. comply with the interim distribution licence shown in Appendix B, which authorizes Hydro One Networks Inc. to take possession and control of the deemed distribution assets owned by Cat Lake Power and the distribution assets in the Cat Lake community that are owned by the Ontario Electricity Financial Corporation as soon as possible and, in any event, no later than August 14, 2006.
3. Hydro One Networks Inc. to collect revenue from the existing customers in the Cat Lake community based on the rates that are currently applicable.
4. Hydro One Networks Inc. to keep track of revenues from the customers in the Cat Lake community and costs of operation and maintenance of the system in a deferral account (under the Uniform System of Accounts). Such accounts would be reviewed in a future rate proceeding. The Board would determine at that point the cost responsibility in the event of a shortfall and the mechanism for that shortfall recovery.
5. Cat Lake Power Utility Inc. continue retaining ownership of the deemed distribution assets, but surrender possession and control of its business including its deemed distribution assets to the licensee. Cat Lake Power Utility Inc. is not entitled to any compensation from the Crown, the Board or any person for being required to surrender possession and control of its deemed distribution assets and business.
6. Ontario Electricity Financial Corporation continue retaining ownership of the distribution assets serving the community of Cat Lake, but surrender possession and control of its business including the distribution assets to the licensee. The Ontario Electricity Financial Corporation is not entitled to any compensation from the Crown, the Board or any person for being required to surrender possession and control of its distribution assets and business.

7. The protocol for surrendering control of the deemed distribution assets (owned by Cat Lake Power Utility Inc.) and the distribution assets (Owned by Ontario Electricity Financial Corporation) to the licensee by Cat Lake Power Utility Inc. and its contractor Sioux Lookout Hydro Inc. must ensure public, system and employee safety of all parties. Cat Lake shall provide full cooperation and assistance to Hydro One to effect the transfer.
8. Cat Lake Power Utility Inc.'s electricity transmission and wholesale licence No. ET-2002-0328 issued on October 31, 2002, is still valid until the earlier of: the date the licensee actually possesses and control the business of Cat Lake Power Utility Inc. including its deemed distribution assets and the distribution business owned by the Ontario Electricity Financial Corporation in the Cat Lake community; or August 14, 2006, whichever ever occurs first. Cat Lake shall continue to be responsible for meeting all requirements under its current licence until the transfer is complete.
9. In the period leading to the date stated in clause 7. of this Order, Hydro One Networks Inc. shall provide on a best efforts basis any resources necessary to deal with required maintenance as requested by Cat Lake Power Utility Inc. or its contractor Sioux Lookout Hydro Inc.
10. Hydro One Networks Inc. shall inform the Board immediately upon taking possession and control of the said distribution assets.

DATED at Toronto, July 21, 2006.

Application for licence
ONTARIO ENERGY BOARD

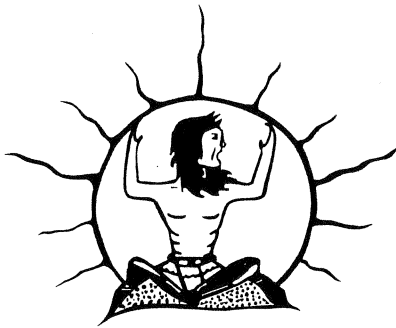
Original signed by

Peter H. O'Dell
Acting Board Secretary

Appendix “A”

July 21, 2006

ONTARIO ENERGY BOARD



Windigo First Nations Council

MAIN OFFICE
P.O. Box 299
Sioux Lookout, ON
P8T – 1A3
Ph: (807) 737-1585
Fax: (807) 737-3133

TECH UNIT
P.O. Box 1407
Sioux Lookout, Ontario
P8T – 1B3
Ph: (807) 737-1059
Fax: (807) 737-4075

March 15 2006

Honourable Howard I. Wetston, Q.C. Chairman
Ontario Energy board
Box 2319, 2300 Yonge Street
Toronto ON
M4P 1E4

RECEIVED

MAR 17 2006

**CHAIR
ONTARIO ENERGY BOARD**

Dear Sir:

On behalf of Cat Lake First Nation, the following letter and attachments are being forwarded to you for your review and action.

If you have any questions, please direct them to Chief and Council of Cat Lake First Nation or myself at Windigo Technical Unit

Sincerely,

Richard Habinski, WTU Manager

CAT LAKE FIRST NATION
GORDON OOMBASH MEMORIAL BUILDING
2 BACK ROAD WEST
CAT LAKE, ONTARIO
P0V 1J0



**PESHEWESAHEKNIK
NETUM ANESHENAPEK**
(807) 347-2100
FAX (807) 347-2116

March 13 2006

Honourable Howard I. Wetston, Q.C.
Chairman
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, Ontario, Canada
M4P 1E4

Dear Mr. Wetston

In 1999 Cat Lake First Nation, through its ownership of Cat Lake Power, constructed a 125 km transmission line from the community to the Hydro One Networks system to provide reliable electricity to the First Nation. At that time Cat Lake applied for and received a transmission license from the Ontario Energy Board. Cat Lake Power now holds one of five transmission licenses in the Province of Ontario.

Cat Lake Power is the only customer on the end of the transmission line connecting to the Hydro One Network and as such does not receive any additional revenue from the transmission line. The operation and maintenance costs are borne by the ratepayers of Cat Lake Power which is contrary to operations of other transmission licensees. In addition, in 2001 the provincial government failed to protect the line from a forest fire and a significant number of poles were burned causing \$500,000.00 in damage. Cat Lake First Nation had to absorb these costs which they are continuing to pay down.

It is clear that Cat Lake First Nation cannot continue to accrue the costs and the risks of the transmission line to the detriment of their ratepayers. Cat Lake First Nation would like to advise the Ontario Energy Board that Cat Lake Power will turn in their transmission license as of April 1, 2006. We request that in your capacity as Chair of the Ontario Energy Board you direct the adjacent transmitter to take over operation of this line and to contact Cat Lake Power to affect this transition. We have attached a Band Council Resolution from our First Nation supporting this decision.

We would also like to advise the Chair that Cat Lake Power will no longer operate as a Local Distribution Company and have indicated their intention to the Ontario Ministry of Energy to turn over operations to the owner of the assets, the Ontario Financial Services Corporation. (letter attached)

Sincerely

Cat Lake First Nation

Chief Elsie Gray

Councilor Abigail Wesley

Cc: Stan Beardy-Grand Chief-NAN-Thunder Bay
Frank McKay-WFNC Chair-Sioux Lookout
Kai Koivukoski-INAC
Roger Saltel-INAC-Sioux Lookout
Charles Wesley-Cat Lake Power Authority
Doug Hannah-BDO Dunwoody-Dryden
Richard Habinski-WTU Mgr-Sioux Lookout
Geoff Ogram-Senior Vice President Asset Management-Hydro One Networks-Toronto
Gord Maki-Sioux Hydro-Sioux Lookout



BAND COUNCIL RESOLUTION RESOLUTION DE CONSEIL DE BANDE

Cash free balance – Solde disponible
BCR -46-2006
Site Reference No. – N° de référence du dossier

NOTE:

The words "from our Band Funds" "capital" or "revenue", whichever is the case, must appear in all resolutions requesting expenditures from Band Funds.

NOTA:

Les mots "des fonds de notre bande" "capital" ou "revenu" selon le cas doivent paraître dans toutes les résolutions portant sur des dépenses à même les fonds des bande.

The council of the Le conseil de				CAT LAKE FIRST NATION		Capital Amount Montant capital	\$ _____
Date of duly convened meeting Date de l'assemblée dûment convoquée	D-J	M	Y-A	Province ONTARIO		Revenue Amount Montant revenu	\$ _____
	3	0	0 1	0	6		

**DO HEREBY RESOLVE:
DECIDE, PAR LES PRESENTES:**

- WHEREAS:** Cat Lake First nation is the sole member of Cat Lake Power,
- WHEREAS:** the Federal Government will no longer pay the Standard A rate for electricity in Cat Lake First Nation, and;
- WHEREAS:** Cat Lake Power can no longer afford to pay expenses on the transmission line including the prohibitive cost of insurance, and;
- WHEREAS:** another catastrophe such as the forest fire that burned the transmission line would not be paid by Indian Affairs, and;
- WHEREAS:** Sioux Hydro no longer participate in the operational partnership with Cat Lake Power, and;
- WHEREAS:** Cat Lake First Nation residents should not have to pay more for electricity than other grid connected communities, and;
- WHEREAS:** Cat Lake First Nation Chief and Council constituted with the residents of the community and gained their support,

THEREFORE BE IT RESOLVED THAT; Cat Lake First Nation will send a letter to the Ontario Energy Board, stating they wish to give up their transmission license as they are unable to operate the transmission line under the regulations of the Electricity Act and undertake the risk involved in owning an asset they cannot insure against liability risk and;

BE IT FURTHER RESOLVED THAT; Cat Lake First Nation will write the Ministry of Energy to request a qualified operator be appointed to operate the distribution system owned by Ontario Electricity Finance Corporation in Cat Lake First Nation and;

THEREFORE BE IT RESOLVED THAT; Cat Lake First Nation will no longer support the operation of Cat Lake Power and demand the Ontario Government and the Ministry of Energy take appropriate action as soon as possible to ensure the residents of Cat Lake receive electricity rates equivalent to other resident of Ontario connected to the transmission grid.

Quorum: Three

(Chief – Chef)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

(Councillor – Conseiller)

FOR DEPARTMENTAL USE ONLY – RESERVE AU MINISTÈRE

Expenditure – Dépenses	Authority (Indian Act Section) Autorité (Article de la Loi sur les Indiens)	Source of funds Source des fonds Capital _____ Revenue _____	Expenditures – Dépenses	Authority (Indian Act Section) Autorité (Article de la Loi sur les Indiens)	Source of funds Source des fonds Capital _____ Revenue _____
Recommending officer – Recommandé par			Recommending officer – Recommandé par		
Signature _____ Date _____			Signature _____ Date _____		
Recommending officer – Recommandé par			Recommending officer – Recommandé par		
Signature _____ Date _____			Signature _____ Date _____		

CAT LAKE FIRST NATION
GORDON OOMBASH MEMORIAL BUILDING
2 BACK ROAD WEST
CAT LAKE, ONTARIO
P0V 1J0



PESHEWESAHEKNIK
NETUM ANESHENAPEK
(807) 347-2100
FAX (807) 347-2116

March 13 2006

Honourable Donna Cansfield
Minister of Energy
Ministry of Energy
900 Bay Street, 4th Floor
Hearst Block
Toronto, Ontario
M7A 2E1

COPY

Dear Minister Cansfield:

Cat Lake First Nation has owned and operated Cat Lake Power our local distribution company for the past five years. Since that time the regulatory requirements of the energy environment and changes in our revenue stream have made it impossible to operate a small local utility. While Municipal distribution companies have the option to sell their distribution systems we are not in this position. The distribution plant in Cat Lake, including the decommissioned generator plant is still owned by the Ontario Electrical Finance Corporation.

At this time Cat Lake First Nation would like to advise the Minister that Cat Lake Power is no longer able to fulfill the regulatory and fiscal requirements to operate the distribution network in Cat Lake First Nation. We request you direct the OEFC to operate or have them designate an operator by April 1, 2006. We have attached a Band Council Resolution from our First Nation supporting this decision.

We would also like to advise the Minister that Cat Lake Power can no longer operate as a transmitter and have indicated their intention to the Ontario Energy Board to turn back their transmission license. (Letter attached)

Thank You for your prompt consideration in this matter.

Sincerely

Cat Lake First Nation

Chief Elsie Gray

Councilor Abigail Wesley

Cc: Stan Beardy-Grand Chief-NAN-Thunder Bay
Frank McKay-WFNC Chair-Sioux Lookout
Kai Koivukoski-INAC
Roger Saltel-INAC-Sioux Lookout
Charles Wesley-Cat Lake Power Authority
Doug Hannah-BDO Dunwoody-Dryden
Richard Habinski-WTU Mgr-Sioux Lookout
Geoff Ogram-Senior Vice President Asset Management-Hydro One Networks-Toronto
Gord Maki-Sioux Hydro-Sioux Lookout

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Compliance Office

March 22, 2006

Chief Elsie Gray
Cat Lake First Nation
Gordon Oomash Memorial Building
2 Back Road West
Cat Lake, Ontario
P0V 1J0

Dear Chief Elsie Gray:

I am writing in relation to your letter and enclosures of March 13, 2006 addressed to Mr. Wetston, Chair of the Ontario Energy Board. Your correspondence was received on March 17, 2006 under cover of a letter from Mr. Richard Habinski, Manager of the Windigo Technical Unit of the Windigo First Nations Council and has been forwarded to me for response.

I understand from your letter that Cat Lake Power no longer wishes to operate the transmission assets for which it has been licensed, and that it also no longer wishes to operate the distribution system that serves the Cat Lake community. You have requested that the Board and the Minister of Energy take action such that Cat Lake Power will be relieved of responsibility for the operation of the transmission and distribution assets as of April 1, 2006.

While I appreciate that Cat Lake Power is facing certain pressures in relation to the continued operation of the transmission and distribution assets, as a licensed transmitter and a distributor Cat Lake Power has certain legal and regulatory responsibilities that it is required to fulfill. If Cat Lake Power wishes to be relieved of those obligations, it must do so in an orderly manner and in compliance with any applicable requirements under the *Ontario Energy Board Act, 1998*. Until that time, I expect that Cat Lake Power will continue to operate its transmission and distribution assets in compliance with its legal and regulatory obligations. I am advised by Mr. Neil McKay of our office, that after speaking to a representative of Cat Lake, it is not your intention to stop operating the distribution and transmission systems.

In your letter you have requested that the adjacent transmitter take over operation of the asset. As well your letter to the Ministry suggests the operation of the distribution assets be taken over by the Ontario Electricity Financial Corporation. We request that you provide your proposal for how these transfers should occur and how Cat Lake intends to pay for the services that will continue to be provided by these assets. I or a member of my staff will contact you to arrange a

mutually convenient time at which we can further discuss this matter. In the interim, please do not hesitate to contact me at 416-440-7628 should you have any questions.

Sincerely,

Brian Hewson
Chief Compliance Officer

CC:

Honourable Donna Cansfield, Minister of Energy
900 Bay Street, 4th Floor
Hearst Block
Toronto, Ontario
M7A 2E1

Mr. Richard Habinski
Windigo First Nations Council
P.O. Box 299
Sioux Lookout, ON
P8T 1A3

~~Stan Beardy-Grand Chief-NAN-Thunder Bay~~
Frank McKay-WFNC Chair – Sioux Lookout
Kai Koivukoski-INAC
Roger Saltel-INAC-Sioux Lookout
Charles Wesley-Cat Lake Power Authority
Doug Hannah-BDO Dunwoody-Dryden
Geof Ogram-Senior Vice President Asset Management-Hydro One Networks
Gord Maki-Sioux Hydro- Sioux Lookout

Grand Chief Stan Beardy
Nishnawbe Aski Nation
100 Backstreet, Unit 200
Thunder Bay, ON P7J 1L2

Frank McKay
Windigo First Nations Council Chair
P.O. Box 299
Sioux Lookout, ON P8T 1A3

Kai Koivukoski
Policy Analyst, Resource Development - North
Indian and Northern Affairs
Strategic Direction and Policy - North
100 Anemki Drive, Suite 101
Thunder Bay, ON P7J 1A5

Roger Saltel
Sr Funding Services Officer
Indian and Northern Affairs
Funding Services - North
100 Anemki Drive, Suite 101
Thunder Bay, ON P7J 1A5

Charles Wesley

Cat Lake Power Authority
Cat Lake General Delivery
Cat Lake, ON P0V 1J0

Doug Hannah
Partner
BDO Dunwoody
37 King Street
P.O. Box 3010
Dryden, ON P8N 3G3

Geoff Ogram
Senior Vice President, Asset Management
Hydro One Networks Inc.
483 Bay Street
North tower, 14 floor
Toronto, ON M5G 2P5

Gord Maki
President/CEO
Sioux Lookout Hydro Inc.
25 Fifth Avenue
PO Box 908
Sioux Lookout ON P8T 1B3



Ministry of Energy

4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Ministère de l'Énergie

Édifice Hearst, 4^e étage
900 rue Bay
Toronto, Ontario
M7A 2E1

March 31, 2006

Chief Elsie Gray
Councillor Abigail Wesley
Cat Lake First Nation
Gordon Oomash Memorial Building
2 Back Road West
Cat Lake, Ontario
P0V 1J0

Dear Chief Gray and Councillor Wesley:

Thank you for your letter dated March 13, 2006 to the Honourable Donna Cansfield, Minister of Energy, regarding Cat Lake First Nation's transmission and distribution systems. The Minister also received a copy of your related letter to the Chair of the Ontario Energy Board (OEB). The Minister has asked me to respond on her behalf.

The Government fully appreciates your concerns about the ability of Cat Lake Power to continue to operate its transmission and distribution systems. However, the safe and reliable supply of electricity with no disruption of service to local customers is a clear priority.

The issues raised in your letters are matters for the OEB to consider and I understand that Board staff have already been in touch with you. I have been advised that while the OEB works towards addressing your concerns, you have agreed that Cat Lake Power will continue to operate and ensure that there is no disruption of service to local customers.

Thank you for bringing this matter to the Minister's attention.

.../cont'd

-2-

Sincerely,



Rosalyn Lawrence
Director
Consumer and Regulatory Affairs

c: The Honourable Donna Cansfield
Minister of Energy

James Gillis
Deputy Minister of Energy

Howard I Wetston
Chair, Ontario Energy Board

Grand Chief Stan Beardy
Nishnawbe Aski Nation

Frank McKay
Chair, Windigo First Nations Council

Richard Habinski
WTU Manager, Windigo First Nations Council

Charles Wesley
Cat Lake Power Authority

Gord Maki
President/CEO

Geoff Ogram
Senior Vice President, Asset Management

Kai Koivukoski
Policy Analyst, Resource Development - North

Roger Saltel
Sr Funding Services Officer

Doug Hannah
Partner

Appendix “B”

Interim Electricity Distribution Licence

July 21, 2006

ONTARIO ENERGY BOARD



Interim Electricity Distribution Licence

ED-2006-0181

Hydro One Networks Inc.

**Valid Until
October 21, 2006**

Original signed by

**Peter H. O'Dell
Assistant Board Secretary
Ontario Energy Board
Date of Issuance: July 21, 2006**

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

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
2300, rue Yonge
26e étage
Toronto ON M4P 1E4

Interim Electricity Distribution Licence

1. Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

“Act” means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

“Electricity Act” means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

“good utility practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good practices, reliability, safety and expedition. Good utility practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in North America;

“Licensee” means Name of Licensee;

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Performance Standards” means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

“Rate Order” means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

“regulation” means a regulation made under the Act or the Electricity Act;

“Retail Settlement Code” means the code approved by the Board which, among other things, establishes a distributor’s obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

“service area” with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

“Standard Supply Service Code” means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

“wholesaler” means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2. Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3. Authorization

The Board, in the exercise of its powers conferred by Part V and particularly subsection 59(2) of the *Ontario Energy Board Act, 1998* (the “Act”) licenses the Licensee, subject to the terms and conditions set out in this Licence, to possess and control the business of the distributor. This interim licence authorizes Hydro One to take possession and control of the business of Cat Lake Power Utility Inc. including its deemed distribution assets which are listed in Schedule 1 of

electricity transmission and wholesale licence No. ET-2002-0328 issued to Cat Lake Power Utility Ltd. on October 31, 2002, and the distribution business owned by the Ontario Electricity Financial Corporation in the Cat Lake community.

4. Term of Licence

4.1 This Licence is issued on July 21, 2006 and will terminate on October 21, 2006, unless advised otherwise by the Board. The term of this Licence may be extended by the Board.

4.2 This Licence shall take effect on the earlier of:

- the date the licensee actually possesses and controls the business of Cat Lake Power Utility Inc. including its deemed distribution assets and the distribution business owned by the Ontario Electricity Financial Corporation in the Cat Lake community; or
- August 14, 2006,

which ever occurs first.

5. Obligations under this Licence

5.1 The Licensee shall operate its electricity distribution system in accordance with good utility practice.

5.2 The Licensee shall comply with all applicable Market Rules.

5.3 The Licensee shall comply with all applicable provisions of the *Act* and the *Electricity Act, 1998*, regulations made under these statutes and all applicable orders or directives of the Board or the Managing Director of Market Operations (the "Managing Director") on licensing matters.

5.4 The Licensee shall provide, in the manner and form determined by the Board or the Managing Director, such information as the Board or the Managing Director may require from time to time to monitor the Licensee's compliance with the conditions of this licence.

5.5 Subject to the conditions of this interim licence, the licensee is required to carry on, manage and conduct the operations of the business in the name of the owners of the deemed distribution assets(owned by Cat Lake Power), and the owner of the distribution assets (owned by the Ontario Electricity Financial Corporation) including:

- (a) preserving, maintaining and adding to the property of the businesses;

- (b) (b)receiving the income and revenue of the businesses;
- (c) (c)issuing cheques from, withdrawing money from and otherwise dealing with the accounts of the business;
- (d) (d)retaining or dismissing employees, consultants, counsel and other assistance for the businesses;
- (e) (e)directing the employees of the businesses; and
- (f) (f)conducting, settling and commencing litigation relating to the businesses.
- (g) the Licensee may dispose of the deemed distribution assets(owned by Cat Lake Power Utility Inc.) or the distribution assets (owned by Ontario Electricity Financial Corporation) as are ordinarily disposed of in the normal course of carrying on the business of a distributor.

6. Obligation to Comply with Codes

6.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

- (a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
- (b) the Distribution System Code;
- (c) the Retail Settlement Code; and
- (d) the Standard Supply Service Code.

6.2 The Licensee shall:

- (a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
- (b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

7. Obligation to Sell Electricity

- 7.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

8. Obligation to Maintain System Integrity

- 8.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

9. Liability of the Licensee

The licensee is not liable for anything that results from taking possession and control of the two businesses (the deemed distribution assets owned by Cat Lake Power and the distribution assets owned by OEFC) or otherwise exercising or performing the licensee's powers and duties under this Act, the interim licence or any order of the Board, unless liability arises from the licensee's negligence or wilful misconduct.

10. Provision of Information to the Board

- 10.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 10.2 Without limiting the generality of paragraph 10.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.
- 10.3 The Licensee shall:
- (a) immediately notify the Board in writing of the notice; and
 - (b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this licence.

11. Customer Complaint and Dispute Resolution

11.1 The Licensee shall:

- (a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
- (b) publish information which will make its customers aware of and help them to use its dispute resolution process;
- (c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
- (d) give or send free of charge a copy of the process to any person who reasonably requests it; and
- (e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

12. Market Power Mitigation Rebates

- 12.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

13. Communication

- 13.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 13.2 All communication relating to this Licence shall be in writing
- 13.3 All communication is to be regarded as having been given by the sender and received by the addressee
- (a) when delivered in person to the addressee by hand or by courier;
 - (b) ten (10) business days after the date of posting if the communication is sent by registered mail; and,
 - (c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

14. Copies of the Licence

14.1 The Licensee shall:

- (a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- (b) provide a copy of this Licence to any person who requests it. The licensee may impose a fair and reasonable charge for the cost of providing copies.

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded

distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

Appendix “C”

Cat Lake Power Proposal
To Ontario Energy Board
To Discontinue Distribution and Transmission
Operations in Cat Lake First Nation

July 21, 2006

Cat Lake Power
Proposal
To
Ontario Energy Board
To
Discontinue
Distribution and Transmission
Operations in
Cat Lake First Nation

July 2006



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1.0 Purpose

Cat Lake Power has operated the distribution system and transmission line connecting it to the grid for five years. As a very small community and with the present energy structure in the Province of Ontario and a federal subsidy ending it was clear the community could no longer operate the system. In order to ensure an orderly transition the community sent letters to the Ontario Energy Board and the Ministry of Energy informing of their decision to and asking to be relieved of the operational responsibility as of March 15 2006.

On March 22nd the Ontario Energy Board responded and indicated that Cat Lake Power had legal responsibilities as a licensed transmitter and distributor. While Cat Lake Power has a transmission license it has an exemption as a distributor. A meeting was scheduled with Cat Lake First Nation and the Ontario Energy Board officials on April 28th 2006 in Thunder Bay. After lengthy discussions Cat Lake Power agreed to prepare a document outline the historical process to establishing Cat Lake Power, the present operations and pressures, and a proposal to transfer operations and how Cat Lake would pay for the continuing service. This document is the response to those discussions.

However it needs to be clear that Cat Lake First Nation understands their responsibilities but cannot increase the burden on their residents where overall living costs are already so high. Cat Lake is not asking to be treated any differently than any other Ontario residents connected to the provincial grid.

2.0 Community Background

The Cat Lake First Nation is located in Northwestern Ontario approximately 350 km NW of the community of Sioux Lookout. The community has a population of approximately 500 permanent residents. Cat Lake is only accessible by air with scheduled and charter flights provided by operators from Sioux Lookout. Cat Lake First Nation serviced by a winter road from Pickle Lake, Ontario. This road is opened from approximately January to March each year depending on the weather conditions and is used to bring in bulk freight, fuel, and construction materials. While this road is not primarily for personal travel, it is utilized by the residents to travel to and from the community.

Cat Lake First Nation was previously serviced by Hydro One Remotes utilizing a diesel unit to generate power in the community. This required hauling diesel fuel into the community over the winter road. Hydro One Remote Communities Inc.

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operated the distribution network in the community and serviced the community on an as needed basis. In 1998 the community started the planning and design of a transmission line to the community. After funding, licensing and construction the transmission line was commissioned in January of 2001. Cat Lake Power is a non profit corporation wholly owned by Cat Lake First Nation, Cat Lake Power operates the transmission line connected to the Hydro One network, and they also operate the distribution network in the community in cooperation with Sioux Lookout Hydro.

3.0 Project Development

In March of 1997, mining operations ceased at Barrick Gold Golden Patricia mine site southwest of Cat Lake First Nation. The community felt this was an opportunity to connect to the Ontario Hydro operated grid to get replace the diesel generated power that required the hauling of fuel oil to the community over the winter road. This was not only costly, but an environmental risk as well. An extension to the private hydro line already in place to the Golden Patricia mine site was thought to be a practical alternative. Ontario Hydro indicated they were not interested in taking over this line and extending it to Cat Lake First Nation.

Ontario Hydro operated the distribution and generating plants in Cat Lake First Nation, at that point in time through their remote community's electrical system.

A feasibility and business plan was commissioned to determine the costs and requirements to construct a line from the mine to Cat Lake and acquire the existing line from Barrick Gold. At this time the provincial government was reorganizing the electricity industry and in 1998 introduced the Electricity Act that started the electricity sector on a path to a deregulated environment. This legislation split the existing government owned Ontario Hydro into five separate crown corporations to ready the province for competition.

Cat Lake First Nation approached Ontario Hydro to determine if they would be interested in constructing the transmission line to Cat Lake. Ontario Hydro or Hydro One Networks, created in 1999, indicated they had no interest in extending their network to the community.

The feasibility study recommended that under the new regulations Cat Lake would only get connected to the electrical grid by forming their own electrical utility and constructing a transmission line from the old mine to the community. To finance the project Indian and Northern Affairs Canada agreed to advance a

portion of their capital funds to finance the project as well as commit additional funding in the upcoming years. They also agreed to continue paying the Standard A rate for five years to assure the utility would be financially viable. Additional capital financing would be provided by Northern Ontario Heritage Fund and commercial financing.

Cat Lake Power was registered as a federal non profit business with the First Nation of Cat Lake being the single shareholder. In 2000, an operating agreement with Sioux Hydro allowed the company to receive approval from Independent Market Operator (IMO) to connect to the provincial grid and purchase power on the wholesale market. Sioux Hydro, based out of Sioux Lookout, was contracted by Cat Lake Power to operate the billing, maintenance, and connection services as well as provide some administrative support to the community.

Cat Lake Power applied and received an exemption from requiring a distribution licence and from a number of other requirements of the Electricity Act. However Cat Lake Power is licensed by the OEB as a transmission owner/operator and must comply with the associated licensing requirements. Cat Lake Power is also subject to the market rules that are established by the Independent Electricity System Operator (IESO formerly the IMO).

3.1 Project Capital Costs

Total estimated capital costs for the project were 7.133 million dollars. Indian and Northern Affairs agreed to fund the project with funds that would be utilized in upgrading the generator sets in the community. This would translate into:

- \$0.400 Million in 1998/1999
- \$1.624 Million in 1999/2000
- \$4.009 Million in 2005/2006

The remaining funds were negotiated at a commercial credit facility. Northern Ontario Heritage Fund would provide \$3.375 million in the form of an interest free loan to bridge the final payment from Indian and Northern Affairs Canada.

Cat Lake Power connected their community to the Hydro One Networks with construction of 70 km of 25kV line to the mine site. In the same year they approached Hydro One Remotes to purchase all local electricity distribution assets. The disposition of these assets is still being negotiated.

3.2 Operational Assumptions

The operating assumptions for Cat Lake Power were made utilizing the best available information and should be reviewed with the understanding that they were undertaken as significant changes in the Ontario electricity environment were taking place. At that point in time it was the intent of the government to have an open and competitive energy environment in Ontario. It also was encouraging utilities to amalgamate to achieve economies of scale. The pro formas and projections were based on identified revenue streams for a five year period and would leave Cat Lake Power with no long term debt and a positive balance sheet. While there was an assumption that there would be an opportunity for a partnership with a regional player such as Northwest Energy Association for bulk power purchasing, maintenance agreements and regulatory and administration support, the industry did not develop in the manner originally proposed. This would be the strategy to reduce costs in the long term when the Standard A rate was no longer available.

3.3 Forecast

The following table compares the income forecast under the business planning process and the actual income in the fiscal year 2003.

Cat Lake Power
Proposal to Discontinue
Distribution and Transmission Operations

Revenue (Sale of Energy)	Actual (2003)	Forecast
Residential	125824	122282
General	328211	185000
Street Lighting	282	451
Unbilled Revenue Adjustment	-6571	
Total	447746	307733

Cost of Bulk Power Purchased	121036	159062
Gross Margin on Energy Sold	326710	148671
Other Operating Revenue	10021	17637
Total	336731	166308

Expenses

Administration	75242	79549
Amortization	4090	4090
Debt Guarantee	104718	0
Interest and Bank Charges	4570	999
Line Repairs and Generator Start Up	521139	0
Operation Maintenance	149418	75000
Professional Fees	Included	
Total	859177	159638

Income (loss) Before Other Income	-522446	6670
Other Income Contribution Assistance	500000	0
Net Income (loss) for the Year	-22446	6670
Retained Earnings, Beginning of Year	203372	93076
Retained Earnings, End of Year	180926	99746

Notes to Income Statement

Revenues

Residential - \$0.0802/ Whir
 General (schools, businesses, band offices, etc...) - \$0.8253/ Whir
 Streetlights - \$0.36/kwhr
 Other Operating Revenue - Includes late payment charges, interest income, chargeable work and rental

Expenses

Cost of Bulk Power Purchased - The actual costs of purchasing energy from Ontario Power Generation through Sioux Hydro

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Administration - All staffing costs related directly to the operation of Cat Lake Power. This takes into account wages, benefits and insurance.

- Utility Manager - \$44,000
- Bookkeeper/Billing Clerk -\$25000
- Meter Reader - \$6242

Amortization - expenses are based on the interest charges related to a long term loan.

Debt Guarantee (2003) - A one time payment on a loan guarantee for a fuel service

Line Repairs and Generator Start Up (2003) - A \$500,000 cost to replace hydro lines that were destroyed in a fire.

Operation/Maintenance Costs (2002-2003) - Includes \$18,000 for line clearing and brush control maintenance, as well as a trouble call allowance \$19,000 and a biannual line patrol allowance of \$6,500.

Other Income Contribution Assistance (2003) - This is a \$500,000 advance on Band Minor Capital from INAC for the cost of line repair due to the Forest Fire.

4.0 Current Operations

4.1 Cat Lake Power Utility

Presently Cat Lake Power is responsible for both the transmission and distribution operations in conjunction with Sioux Hydro as per their existing operating agreement. This includes the repair and maintenance of the poles, wires, transformers and all other components of the electrical distribution system. In addition, the inspection and required maintenance of the transmission line that connects Cat Lake First nation and the Hydro One Network. This includes the billing of customers and the payment for power by Cat Lake residents and the wholesale purchase of power from Ontario Power Generation.

4.2 Human Resources

Cat Lake Power has two full time employees and one part time employee as well as the service contract with Sioux Hydro. The employees include a Manager, administrative assistant and a part time meter reader.

4.3 Governance

The Cat Lake Power Utility has a four person Board of Directors with youth and community elder representatives. There is an elected chair and they have established the policies and procedures under which the utility operates. The Manager reports directly to the Board, while the Board is accountable to the shareholders (Cat Lake First Nation as represented by Chief and Council).

While the technical operation of the utility is the responsibility of the Manager and Sioux Hydro, board members need to be conversant with industry-related language and terms.

4.4 Relationship with Sioux Lookout Hydro

Sioux Hydro and Cat Lake Power had a Management Agreement that was signed in November of 2000 and has been in place since that time. This agreement has since expired and needs to be reviewed and renewed as it does not reflect the present responsibilities between the two parties. In discussions with both parties it was clear Sioux Hydro has gone beyond the written agreement and performed any additional services as needed including ensuring a transmission licence was in place, settlement was made with the IESO and emergency repairs were made to the transmission line when a portion was lost in a forest fire.

Sioux Hydro was required to provide routine office support to Cat Lake Power including duties typical of the Secretary, the General Manager, and the Treasurer, among others. Sioux Hydro is responsible to calculate, mail, and distribute all Cat Lake Power invoices and perform all other services required as part of the billing process. This includes not only the billing process, but also the keeping records of the billing, and also to provide monthly statements providing income and expenses to the board of directors.

The contract included a biannual aerial inspection of the transmission line and any annual maintenance and emergency repairs to the transmission line and distribution plant.

Cat Lake Power has since taken over the responsibility for billing customers as well as settling with the IESO for the purchase of wholesale power. This is a result of the Sioux Hydro indicating that they will not renew their contractual agreement with Cat Lake Power.

4.5 Licensing

Cat Lake Power has a transmission license issued from the Ontario Energy Board for the transmission line. This license does not allow access to pooled rates with other transmitters.

Cat Lake Power has an exemption from requiring a distribution license. This means they are not bound by the Ontario Energy Board to set the rates to residential and commercial customers. They and their customers are also not afforded rate protection under the Rural and Remote Rate Protection offered under the regulatory regime.

5.0 Financial Statements

5.1.1 Income Statement 2002 - 2004

Revenue (Sale of Energy)	2004	2003	2002
Residential	135,521	125,824	122,282
General	289,923	328,211	325,986
Street Lighting	1,212	282	451
Other Operating Revenue	56,175	10,021	17,637
Unbilled Revenue Adjustment	-9,890	-6,571	18,110
Total	472,941	457,767	484,466

Cost of Bulk Power Purchased	144,089	121,036	159,062
Gross Margin	328,852	336,731	325,404

Expenses

Administration	112,620	75,242	79,549
Amortization	6,503	4,090	4,090
Debt Guarantee		104,718	
Interest and	10,455	4,570	999
Line Repairs and Generator Start Up		521,139	
Operation Maintenance	234,727	149,418	130,470
Total	364,305	859,177	215,108

Income (loss) Before Other Income	-35,453	-522,446	110,296
Other Income			
Contribution Assistance	29,000	500,000	
Net Income (Loss) for the Year	-6,453	-22,446	110,296
Retained Earnings, Beginning of Year	180,926	203,372	93,076
Retained Earnings, End of Year	174,473	180,926	203,372

5.2 Statement of Cash Flow

In 2001 the corporation generated \$1,638 in cash flow. In 2002 the corporation developed \$124,913 of free cash flow for the year. In 2003, the forest fire and

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paying out of past debt guarantees resulted in a negative cash flow of \$70,684. Without these extraordinary items the corporation would have generated free cash flow of approximately \$50,000. In 2004 cash flow was negative -35,453.

5.3 Balance Sheet

As of fiscal year 2003 Cat Lake Power had capital assets of \$837,152. These assets however included a \$500,000 accounts receivable to Indian and Affairs Canada for the capital loss of the transmission line due to the forest fire. Capital Assets, cash and investments totalled \$115,819 as of December 31, 2003.

Current liabilities included \$400,000 to the bank with regard to the fire and a \$113, 532 in accounts payable.

Distribution assets are still held by Ontario Hydro successor companies and Transmission Assets are owned by Cat Lake First Nation.

5.4 Long and Short Term Debt

In 2003 there was no significant long term debt for Cat Lake Power. Cat Lake First Nation had a Northern Ontario Heritage Fund interest free loan for \$3,375,000 that was due in 2005. It is our understanding that this loan was paid off with a capital contribution from Indian and Northern Affairs Canada as was agreed to in the original business plan. Short term debt is account over draft and operating loan with a credit facility billed at 2.25% above prime.

5.5 Rate Analysis

Standard "A" Rate is a rate originally agreed upon with Ontario Hydro and Indian and Northern Affairs Canada to subsidize the diesel operations in remote First Nations communities to electrify those communities. This rate, which is approximately ten times the residential rate, was charged to federal and government funded operations in the community such as Health Canada, schools and Ministry of Transportation. Hydro One Remote Communities Inc. has used the Standard A designation in their rate application to the Ontario Energy Board. When a community is connected to the provincial grid they are no longer eligible for the Standard A rate and have their rates approved by the OEB unless as in Cat Lake Power situation they are exempt from the Act.

While Cat Lake Power can continue to charge the Standard A rate to these customers the subsidy that these organizations receive from the federal funding agencies will no longer be available and the increased costs are borne by the community organizations which do not have the resources to pay out of their present operating budget.

5.6 *Loss of Standard A Rate*

In the case of Cat Lake Power, Indian and Northern Affairs Canada agreed to continue paying the Standard A rate for five years after the transmission line was connected. This term has now expired. As a matter of policy Indian and Northern Affairs Canada does not subsidize any First Nation that is connected to the provincial grid.

As the Standard A rate in Cat Lake accounts for almost 80% of revenues, a decrease to general service rates similar to other grid connected communities will result in a loss of \$300,000 in revenue, this drop from \$450,000 to \$150,000 will wipe out any operating surplus and make the distribution operations unprofitable.

Table One illustrates the revenue breakdown for Cat Lake Power with the Standard A Rate while Table 2 illustrates the impact when it is no longer collected. This will result in a loss of approximately 60% of their total revenue.

Table 1- Revenue with Standard A Rate

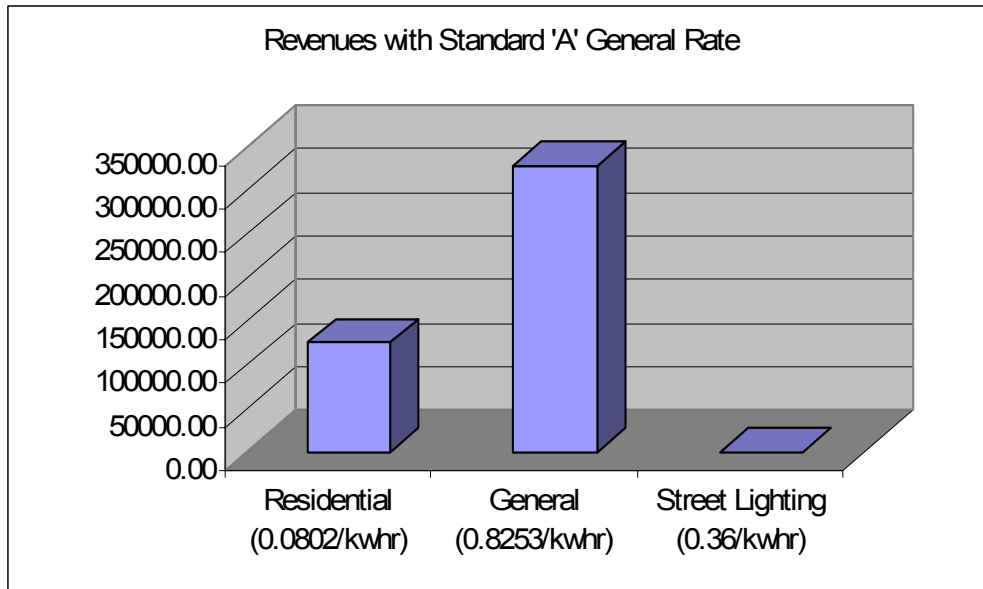
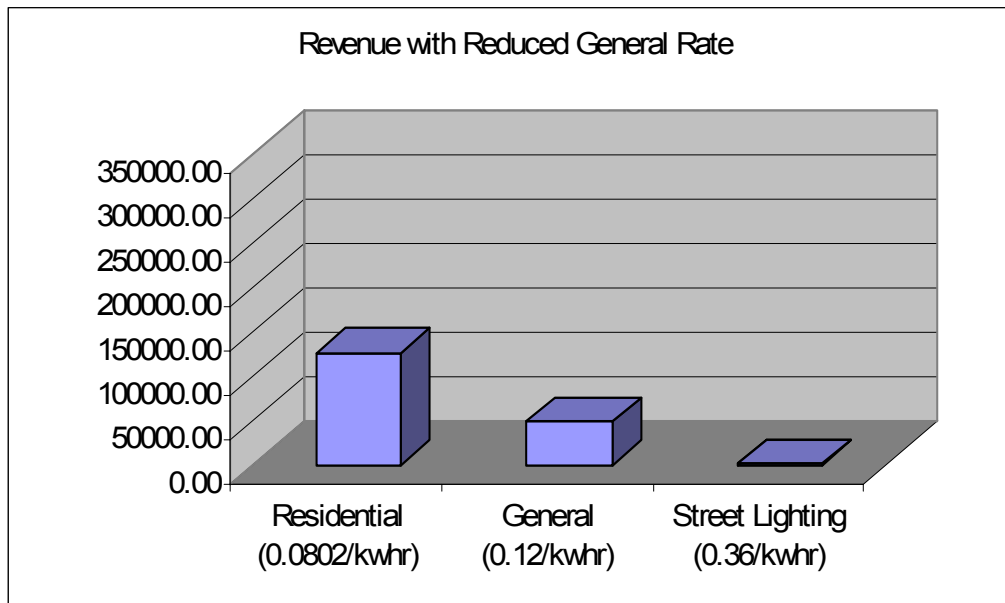


Table 2 - Revenue without Standard A Rate



6.0 Operational Issues

6.1 Distribution

The distribution of power in communities and First Nations are carried out by either a locally owned municipality or Hydro One Networks. This takes the electrical power from the high voltage provincial grid and distributes it to individual homes and businesses in the community. In Cat Lake this is the responsibility of Cat Lake Power.

Previous to the competition act there were 306 municipal electric utilities that has changed to 92 local distribution companies (LDC) through consolidation and municipal amalgamations. Under the new legislative framework, Hydro One made deals for the acquisition of 88 municipal utilities, increasing its customer base by 25% to 1.2 million. This allows municipal distribution companies to achieve economies of scale in billing, operations and maintenance and administration. Against this background is Cat Lake Power which has approximately 100 customers, two full time employees and an outside maintenance contractor.

Local Distribution companies are licensed by the Ontario Energy Board and rates are set based on a rate application prepared by the distribution company. Cat Lake Power is unlicensed and are able to set their own rates for distribution.

Cat Lake Power was established to connect to the Ontario electrical grid when the only other option would be to continue to depend on diesel fuel to generate electricity. Cat Lake Power was set up to operate in the electricity environment of the period and the anticipated future competitive market. Cat Lake Power has operated the distribution network for five years, why are they now unable to do so?

Loss of Standard A Rate

The loss of the Standard A Rate will reduce total revenues by approximately 60%. This decreased revenue base will not cover the operational costs of the distribution network. The community has high unemployment rates and residents cannot afford higher rates. There are

already high levels of accounts receivable including from Cat Lake First Nation.

Termination of Maintenance Agreement with Sioux Hydro

Sioux Hydro is no longer willing to provide maintenance service. This is a response to the uncertain environment in Cat Lake as well as a need to determine the long term future of Sioux Hydro. Contracting out is very difficult and expensive as all calls need to be responded to by air and line maintenance needs to be completed by helicopter. As well there are very few qualified electrical contractors in the neighbouring communities to provide the service.

Cat Lake Does Not Own the Distribution Network

Prior to the assumption of responsibilities by Cat Lake Power in the community the electricity act transferred the distribution assets of Ontario Hydro in Cat Lake to the Ontario Electricity Financial Corporation (OEFC). OEFC is an agency of the Province of Ontario a statutory, non-share capital corporation and the legal continuation of Ontario Hydro. The responsibilities include managing the outstanding debt and derivatives portfolios, financial risks and other liabilities of the former Ontario Hydro and receive payments and administer assets, liabilities, rights and obligations of the Corporation that have not been transferred to other Ontario Hydro successor corporations and dispose of these as it deems appropriate or as directed by the Minister of Finance.

All assets and liabilities of the former Ontario Hydro on First Nations were transferred to OEFC which is why they need to negotiate the sale or transfer of distribution assets in Cat Lake. This has not been done to date

Cat Lake First Power believed they had negotiated a purchase price with Ontario Hydro for the distribution assets at the time of operational transfer but at the last moment Ontario Hydro refused to sell at the agreed upon price. Future attempts at negotiation have been attempted but Hydro One Remote Communities Inc. has wanted to tie the purchase into the generator site and the environmental clean up which is a separate issue. Since then no substantive talks have taken place.

No Regional Distributor

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When Cat Lake was formed it was felt that there would be additional support mechanisms when the market was fully competitive. This would allow those small distribution companies that weren't purchased by a Hydro One to be able to partner and share services, including maintenance, administrations and bulk purchasing. This has not happened as there is not an open and competitive market and this option is not open to Cat Lake.

Unable to Access Industry Subsidies

In approving electricity rates for a distributor which delivers electricity to rural or remote consumers, the OEB is required to provide rate protection for prescribed classes of consumers, including those who received rural rate assistance prior to April 1, 1999, by reducing the rates that would otherwise apply.

From April 1, 1999 until the present, the amount of rate reduction for rural consumers who occupy rural residential premises is \$127 million per year. Within this total are specific amounts established for certain specified municipalities and licensed distributors in three former off grid remote communities of Attawapiskat, Kashechewan and Fort Albany. Cat Lake Power as an unlicensed distributor is not eligible for rural rate assistance.

6.2 Transmission

Cat Lake Power connects to the provincial high voltage grid by 70 km of 25kV line to the mine site and 115kv line to the provincial electrical grid. This part of the provincial grid is owned and operated by Hydro One Networks. Hydro One Networks Inc. owns and operates Ontario's 28,600km high-voltage transmission system. The system transports electricity to 67 large industrial customers, 55 local distribution companies, and its own low-voltage distribution business. There are four other licensed transmitters in Ontario that own and operate electrical systems but these amount to only a fraction of Hydro One's network.

Transmitters are required to get a license from the Ontario Energy Board and apply to the OEB to get their rates set. Cat Lake Power applied and was granted a transmission license but has not been required to submit a rate application as they are their only customer. Cat Lake Power is also not required to separate distribution and transmission operations as was envisioned in the original competitive environment.

At the time of the deregulation process, additions to grid could only take place where the proponent was or applied to become a transmission company if no other transmitters were interested in the project. This is the environment Cat Lake First Nation was forced to operate under to get connected to the grid. At the time it was envisioned that over the long term there would be a number of transmitters competing in the market and there would be additional opportunities. This has not happened and there remain only six transmitters in the province with Hydro One Networks having over 90% of the network and an capital interest in Five Nations Energy. considerations include the following:

Force Majeure

In 2003 a forest fire burned a number of poles along the transmission line to the community. This cut power to the community and required the start up of the generators left behind in Cat Lake and the replacement of the poles. The total cost of this repair was \$500,000 which the Cat Lake First Nation was required to pay. Hydro One Networks is able to self insure based on the size of their network and recover the cost through subsequent rate applications, insurance costs for Cat Lake Power are too high to consider.

No Transmission Revenue

As stated before there is no transmission revenue to offset the costs of maintenance on the line. All Costs for transmission line borne by Cat Lake Ratepayers.

Maintenance Agreement Terminated

Sioux Hydro has maintained the transmission line by completing inspections and doing any required maintenance. They are no longer able to continue this operating agreement. It will be very difficult to get a qualified contractor to fill this role.

Power Purchase Agreement IESO

Sioux Lookout Hydro purchased power on behalf of Cat Lake Power through the IESO. Cat Lake Power is now dealing directly with the IESO. Once Standard A rate is no longer in force, there is the danger of default and there is no backstop.

6.3 Regulatory

The *Energy Competition Act, 1998*, established the legislative framework for the current electricity market in Ontario. Under the Act, Ontario Hydro was restructured into five new corporations: Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), the Independent Electricity Market Operator (IMO), the Electrical Safety Authority (ESA) and The Financial Corporation. (OEFEC). Initially the intent was to privatize Ontario Power Generation and Hydro One Networks. As this initiative did not go through these operations remain Crown Corporations

In addition, the energy market itself was deregulated and opened to competition, shortly after however the retail electricity rate was capped to protect residential customers. At present we have a partially regulated industry. Recently a new bill (Bill 100) was enacted to make changes to the industry. This instability has had an impact on the long term future of industry players including Cat Lake Power.

Cat Lake Power has been able to operate with a subsidized rate but will no longer be sustainable without that rate. Cat lake Power does not wish to default on its operations but wishes to follow an orderly process outlined in the Ontario Energy Board Act Section 57-59 and the powers of the board.

Requirement to hold licence

57. Neither the OPA nor the Smart Metering Entity shall exercise their powers or perform their duties under the *Electricity Act, 1998* unless licensed to do so under this Part and no other person shall, unless licensed to do so under this Part,

- (a) own or operate a distribution system;
- (b) own or operate a transmission system;
- (c) generate electricity or provide ancillary services for sale through the IESO-administered markets or directly to another person;
- (d) retail electricity;

- (e) purchase electricity or ancillary services in the IESO-administered markets or directly from a generator;
- (f) sell electricity or ancillary services through the IESO-administered markets or directly to another person, other than a consumer;
- (g) direct the operation of transmission systems in Ontario;
- (h) operate the market established by the market rules; or
- (i) engage in an activity prescribed by the regulations that relates to electricity. 1998, c. 15, Sched. B, s. 57; 2002, c. 1, Sched. B, s. 6; 2004, c. 23, Sched. B, s. 10; 2006, c. 3, Sched. C, s. 4.

58. Repealed: 2003, c. 3, s. 41.

Interim licences

Emergency

59. (1) Despite this Act, the Board may issue an interim licence authorizing a person to undertake any of the activities described in section 57 if the Board considers it necessary to do so to ensure the reliable supply of electricity to consumers. 1998, c. 15, Sched. B, s. 59 (1).

Powers of Board

(2) If the Board has determined that a distributor has failed or is likely to fail to meet its obligations under section 29 of the *Electricity Act*, 1998, it may,

- (a) require the licensee, as a condition of an interim licence, to take possession and control of the business of the distributor;
- (b) order the distributor to surrender possession and control of its business to the person licensed under subsection (1); and
- (c) without a hearing, amend or suspend the licence of a distributor. 1998, c. 15, Sched. B, s. 59 (2); 2003, c. 3, s. 42 (1).

Conduct under cl. (2) (a)

(3) A person who is required under clause (2) (a) to take possession and control of the business of a distributor may, subject to the conditions of the interim licence, carry on, manage and conduct the operations of the business in the name of the distributor, including,

- (a) preserving, maintaining and adding to the property of the business;
- (b) receiving the income and revenue of the business;
- (c) issuing cheques from, withdrawing money from and otherwise dealing with the accounts of the business;
- (d) retaining or dismissing employees, consultants, counsel and other assistance for the business;
- (e) directing the employees of the business; and
- (f) conducting, settling and commencing litigation relating to the business. 2003, c. 3, s. 42 (2).

Liability

(3.1) A person who is required under clause (2) (a) to take possession and control of the business of a distributor is not liable for anything that results from taking possession and control of the business or otherwise exercising or performing the person's powers and duties under this Act, the interim licence or any order of the Board, unless liability arises from the person's negligence or wilful misconduct. 2003, c. 3, s. 42 (2).

Disposal of assets

(4) A person described in subsection (3) may dispose of such assets as are ordinarily disposed of in the normal course of carrying on the business of a distributor. 1998, c. 15, Sched. B, s. 59 (4).

No notice

(5) The Board may act under this section without notice and without a hearing. 1998, c. 15, Sched. B, s. 59 (5).

Review

(6) The Board shall, upon the request of a distributor against whom an order is made under clause (2) (b), hold a hearing to review the order. 1998, c. 15, Sched. B, s. 59 (6).

Order not stayed

(7) A request for a hearing does not stay the order made under clause (2) (b). 1998, c. 15, Sched. B, s. 59 (7).

Action on review

(8) After the hearing, the Board may confirm or amend its order and may extend the order. 1998, c. 15, Sched. B, s. 59 (8).

Term of licence

(9) An order made or licence issued under this section expires three months after it is made or issued unless the Board orders that it be extended. 1998, c. 15, Sched. B, s. 59 (9).

Retain ownership

(10) Despite subsection (2) or (3), and subject to subsection (4) a distributor to whom an order is issued under clause (2) (b) retains ownership of any assets of the business that the distributor owned before the order was issued, subject to any encumbrances. 1998, c. 15, Sched. B, s. 59 (10).

No compensation

(11) A distributor to whom an order is issued under clause (2) (b) is not entitled to any compensation from the Crown, the Board or any person for being required to surrender possession and control of its business. 1998, c. 15, Sched. B, s. 59 (11).

7.0 Moving Forward

It has become evident that a community the size of Cat Lake First Nation cannot operate a distribution and transmission company in the existing regulatory environment. The demands of the business require a level of expertise and training that cannot be supported by the small number of ratepayers. Raising the rates in the community is not reasonable as ratepayers will not be able to support the operation that has been created by the provincial government and it is recommended they exit both businesses.

Their decision was based on the realization that they would be unable to fulfill the obligations of the new regulatory requirements in the deregulated market. Add to the fact that Cat Lake has just one hundred residential customers and has no road access and the costs are substantially higher. There is no business model where a community of this size can operate a distribution company and provide affordable rates to their customers.

Hydro One Networks is responsible for 97 per cent of Ontario's electricity transmission system and about one-third of the province's distribution system. The 28,600 kilometre high voltage system transmits electricity from generating facilities across the province to the local distribution utilities and large industrial

consumers. Hydro One Networks' low voltage distribution system brings electricity to approximately 1.3 million homes or businesses across rural Ontario. Hydro One Networks has purchased Dryden Hydro and Rainy River Hydro in Northwestern Ontario and is considering other purchases. It is clear they are the only alternative as a buyer for Cat Lake Power.

In Northwestern Ontario there are no active transmission or distribution companies that have indicated an interest in Cat Lake Power. Hydro One Networks is the only distributor/transmitter that has been a buyer in this market. They are also the operator in the adjacent or nearby communities of Slate Falls First Nation, Mishkeegogamang First Nation, and Pickle Lake. These communities along with Cat Lake First Nation are all served off the radial line Hydro One Networks has from its Ear Falls transformer station. This is also where the Ontario Power Generation Ear Falls Hydro plant is also located.

Cat Lake First Nation is prepared to sell the operation on a willing seller/willing buyer basis and they presently own the transmission line which has a book value of over 8 million dollars. They do not own the distribution network as that is owned by the Ontario Electrical Financial Corporation and is negotiated by Hydro One Remote Communities Inc. As Hydro One Networks has not shown a willingness to purchase or develop the operation in the past we believe they need to be directed to do so as a corporation of the Crown in Ontario.

Cat Lake First Nation is willing to continue to work with the Ontario Energy Board to find a solution to this issue, but does not have the financial capacity to support the operation if Cat Lake Power cannot meet its financial responsibilities, so we need to reiterate time is of the essence.