July 16, 2004

Peter H. O'Dell
Acting Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor - 2300 Yonge Street
Toronto, ON M4P 1E4

RE: PROCESS FOR ESTABLISHING 2006 ELECTRICITY DISTRIBUTION RATES

Dear Mr. O'Dell:

Please accept this letter from Canadian Niagara Power Inc. ("CNPI") as a submission of its preliminary comments on selected issues identified during our attendance at the informal consultation with the Ontario Energy Board staff on July 6 & 7, 2004. The intent of this submission is to offer constructive comment on the following issues:

Use of "Comparators" to assist prudency review of LDC's costs:

CNPI supports the use of comparators to assist the Board in review of the prudence of LDC costs but must echo many of the concerns raised at the consultation. Any comparators identified or cohorts established must reflect legitimate commonality and be based upon a clearly defined set of parameters and relevant characteristics.

Test Year for establishing Rate Base / Revenue Requirement:

CNPI supports the use of a historical test year (i.e., 2004) with an option to project selected accounts into the actual rate year to reflect forecasted capital, customer growth and anticipated regulatory or legislative changes. A review of any such projections would be within the purview of the Board.

Weather Normalization:

CNPI suggests that the risk associated with the allowable rate of return would not be reduced if forecasting were based on weather normalized data. Unless current year energy transactions are reported on normalized basis with variances maintained to ensure rate stabilization, then the risk associated with weather volatility still exists.

Debt/Equity Structure

CNPI submits that the existing deemed debt/equity structure should remain unchanged. It is concerned that any change to the ratios, may have a material adverse effect on compliance with the loan covenants of existing credit facilities with banks and investment institutions. Any change may be perceived by lenders as additional risk to the LDC which could result in higher costs of debt being borne by the end consumer.

Transfer Pricing and Shared Corporate Services:

CNPI supports creating a policy that protects the interests of the consumer through the establishment of parameters for the sharing of services and resources, while allowing the achievement of economies of scale and operating efficiencies through transactions with affiliated companies. Provided an "up front" positive benefit to consumers can be documented for the regulator, shared corporate services should be exempt from market-based pricing. The determination of market price based upon a competitive tendering process is a costly process, which provides little value added to the end consumer. CNPI agrees that the fully loaded costs of these services should be properly allocated to the affiliates and would invite the Board to provide guidelines in this regard.

Capital Projects:

CNPI accepts that it is within the purview of the Board to review the prudency of capital expenditures. CNPI suggests that a base level of capital expenditures be approved based on formulated treatment of such matters as depreciation, customer and load growth. Projects outside the scope of the formulated approval process would be subject to a light-handed regulatory approval process based on prescribed justification methodologies.

Insurance Expense:

CNPI suggests that there are three main advantages to LDC's participating in a group insurance program. These are pooling of risks, access to markets specializing in utility risks, and reduced insurance costs.

Employee Compensation and Staffing:

CNPI suggests that employee compensation requires a system of job evaluation and salary determination. It must ensure market competitiveness so as to attract and retain qualified employees. Executive compensation should include, *inter alia*, a variable pay component which is dependent upon both corporate and individual performance based upon a percentage of salary. The weightings and types of performance indicators/corporate targets should be determined by the board of directors of the LDC. The corporate targets can include the following components: financial, customer service, safety and reliability. Targets for senior management should normally include a significant financial component to ensure that the corporation is financially sound over the longer term. In addition to ensuring a reasonable return to its shareholders, meeting these financial corporate targets directly benefits the consumer. The consumer benefits from a financially sound corporation that is able to raise capital at lower costs to continue its operations and to finance improvements to the distribution system resulting in increased reliability.

CNPI thanks the Board for the opportunity to submit its initial comments on the potential issues list for a generic methodology review. While the above comments reflect certain of CNPI's views on this matter, CNPI has not commented at this time on other issues raised under the issues list. CNPI and its affiliated companies reserve the right to make further comments on these and other issues raised during the process for establishing 2006 Electricity Distribution Rates. Should you have any questions or comment please contact me at (905) 994 – 3634.

Yours truly,

Douglas Bradbury, P.Eng.
Director of Regulatory Affairs

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