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

AND IN THE MATTER OF an application by Bluewater Power Distribution Corporation for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for the final recovery of certain regulatory assets.

RECOVERY OF REGULATORY ASSETS

RP-2005-0020 / EB-2005-0527

Bluewater Power Distribution Corporation
Responses to Interrogatories of

ONTARIO ENERGY BOARD
Board Staff

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RESPONSES TO INTERROGATORIES OF THE ONTARIO ENERGY BOARD (Board Staff)

General Questions

1. *Please provide copies of the Auditor's Engagement letter for the years 2002, 2003 and 2004.*

Response

Please find enclosed the following attachments:

Schedule 1(a) named: "BWP_Sch1A_Auditor_Engage_2002_OEB_Q1"
Schedule 1(b) named: "BWP_Sch1B_Auditor_Engage_2003_OEB_Q1"
Schedule 1(c) named: "BWP_Sch1C_Auditor_Engage_2004_OEB_Q1"

2. *Please provide copies of the Applicant's Management Letter of Representation provided to the Auditors for the same three years.*

<u>Response</u>

The Management Letter of Representation are attached for all years except the year 2002 which could not be located at this time.

Please find enclosed the following attachments:

Schedule 2(a) named: "BWP_Sch2A_Mgmt_LOR_2003_OEB_Q2"
Schedule 2(b) named: "BWP_Sch2B_Mgmt_LOR_2004_OEB_Q2"

3. *Please state whether any adjusting entries involving the transfer of amounts from one regulatory asset account to another have been made. If so, please provide a breakdown of the amounts that were adjusted for each regulatory asset account for 2002, 2003 and 2004.*

Response

A discussion of reconciliations is found at Tab 9 of our Regulatory Asset Review Phase II ("Application"). Reconciliations that involved adjustments to regulatory asset accounts are set out below.

1571 (2001 Balance)

An amount of $724,789 was removed due to the recalculation of account 1571 in accordance with the methodology set out by the OEB in its Decision with Reasons dated December 9, 2004.

1571 (2002 Balance) and 1588

An amount of $402,729.69 was required to be reallocated from account 1588 to account 1571 as at December 31, 2002. The reason for this reallocation is twofold.

First, the adjustment of $402,729.69 being added to the 2002 balance of account 1571 was due to the recalculation of account 1571 in accordance with the methodology set out by the OEB in its Decision with Reasons dated December 9, 2004.

Second, as a result of that recalculation, a reallocation of $402,729.69 was taken from the 2002 balance of account 1588. This reallocation is explained at Tab #9 of the Application under the heading "1588-RSVA-Cost of Power".

1582 and 1580

An amount of $60,929.06 was reallocated from account 1580 to account 1582 as at December 31, 2002. This amount is the total of various one time charges on 2002 IMO invoices that were initially coded incorrectly.

1584 and 1588

An amount of $3,053.69 was reallocated from account 1584 to account 1588 as at December 31, 2002 to adjust an entry previously coded incorrectly.

1570

A total credit amount of $375,329 was removed from account 1570 as at March 31, 2004. This amount represented interim recoveries of regulatory assets that were initially coded to account 1570, but were later required by the OEB to be recorded in account 1590.

1570

An amount of $171,655.81 was removed from account 1570 as at December 31, 2002. This represents the net adjustments by Bluewater Power following its extensive internal review conducted in preparation of the Application. At Tab #9 of the Application (page 43), a breakdown of this amount has been provided.

4. *Please state whether the Applicant's auditors in its audited financial statements required any write-down or provision or allowance for impairment of any amount of the regulatory assets being applied for recovery. If yes, please explain the reasons and why those reasons would not still apply.*

Response

The 2004 Audited Financial Statement for Bluewater Power includes a $500,000 provision that was determined by the corporation and accepted by the auditors. It was not a provision required by the auditors.

Moreover, the provision was determined by management for GAAP purposes only. The decision was made in consideration of transition costs in light of the conclusions found in the OEB's Decisions with Reasons dated December 9, 2004. However, this provision did not reflect the results of a detailed review by Bluewater Power of its transition costs found in its Regulatory Assets, but reflected an allowance for recovery consistent with the "conservatism" principle required by GAAP.

That "conservatism" principle still applies for GAAP purposes. For regulatory purposes, Bluewater Power has completed its thorough review in preparation of the Application and net reductions in transitions costs amounting to $171,656 have been included as part of the Application.

5. *Please verify that the December 31, 2004 balances submitted on Sheet 1 of the regulatory assets worksheet (including carrying charges) are consistent with the audited balances as submitted in the April 2005 filing, requirement 2.1.7 of the Board's Reporting and Record-Keeping Requirements (RRRs). If there is no verification above, please provide a schedule outlining the differences and the reasons for those differences on an account by account basis for the two filings.*

Response

1580, 1582, 1584 and 1586

The principal amounts of these accounts as at December 31, 2004, excluding carrying charges and Hydro One charges, as submitted on Sheet 1 of the Regulatory Asset Model, are consistent with the amounts contained in the April 2005 filing.

Carrying charges and Hydro One charges as outlined in Sheet 1 were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust these amounts upon receipt of final approval of the Application.

1588

$479,457	principal amount per April 2005 filing (excluding carrying charges)
($402,729)	reallocation to account 1571 (see answer to OEB IR#3)
$ 76,728	principal amount per Sheet 1

Carrying charges as outlined in Sheet 1 were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust this amount upon receipt of final approval of the Application.

1571

$2,903,752	principal amount per April 2005 filing (excluding carrying charges)
($ 724,789)	reduction to December 31, 2001 balance (see answer to OEB IR#3)
$ 402,729	addition to December 31, 2002 balance (see answer to OEB IR#3)
$2,581,692	principal amount per Sheet 1

Carrying charges as outlined in Sheet 1 were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust this amount upon receipt of final approval of the Application.

1508

$460,442	principal amount per April 2005 filing (excluding carrying charges)
($426,817)	certain Hydro One charges estimated at December 31, 2004
$ 33,625	principal amount per Sheet 1

Carrying charges and actual Hydro One charges as outlined in Sheet 1 were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust these amounts upon receipt of final approval of the Application.

1525

$58,747	principal amount per April 2005 filing (excluding carrying charges)
($13,725)	certain Hydro One charges estimated at December 31, 2004
$45,022	principal amount per Sheet 1

Carrying charges and actual Hydro One charges as outlined in Sheet 1 were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust these amounts upon receipt of final approval of the Application.

1562

This account in the April 2005 filing was not included in Sheet 1.

1570

$5,604,859	principal amount per April 2005 filing (including carrying charges)
($1,841,067)	cumulative carrying charges to December 31, 2004
$ 375,329	Phase 1 recoveries initially booked to account 1570
($ 38,194)	certain costs for rebate cheques initially booked to account 1570
($ 88)	certain Hydro One charges initially booked to account 1570
($ 171,656)	net costs removed from account 1570 in Application (see OEB IR#3)
$3,929,183	principal amount per Sheet 1

Carrying charges and Hydro One charges as outlined in Sheet 1, and the above adjustments, were not identical to the April 2005 filing for section 2.1.7 of the RRRs because Bluewater Power intended to adjust these amounts upon receipt of final approval of the Application.

6. Please confirm that no amounts that were previously denied by the Board were included in this application.

<u>Response</u>

Confirmed.

7. *Please describe the allocation methodology used to assign common/joint costs to each regulatory asset.*

<u>Response</u>

Bluewater Power's Application does not include costs that were "common/joint costs" that would require allocation between various regulatory asset accounts.

8. *Indirect costs or expenses typically refer to a percentage of cost or expense pools/aggregations that are not directly linked to a specific project or activity; for example, rent and leases, management salaries and bonuses, directors' remuneration, meals, executive travel, etc. These are normally accounted for in general administration. Was there any allocation of indirect costs or expenses to any of the regulatory asset accounts for which recovery has been applied for? If yes, please provide details including the basis of allocation.*

Response

There was no allocation of indirect costs or expenses to any of the regulatory asset accounts for which recovery has been applied for.

9. *Please provide an explanation as to how the kW and kWh numbers used on Sheets 4 and 5 of the Regulatory Asset filing model were derived. Please include an explanation on how the Applicant estimated the KW and KWH numbers for the period June-05 to April-06.*

Response

Sheet 4 of the Regulatory Asset model relied upon statistics for the period April 1, 2004 to December 31, 2004 and January 1, 2005 to March 31, 2005. The statistics used in the model for that period are the kW and kWh numbers taken from the Bluewater Power billing system.

Sheet 5 of the Regulatory Asset model relied upon statistics for the period April 1, 2005 to December 31, 2005 and from January 1, 2006 to April 30, 2006. The statistics for the month of April 2005 are exact billing statistics, and from May to December 2005 the statistics used are the budgeted statistics for 2005. As budgeted statistics were not available for 2006, the final period of Jan 1, 2006 to April 30, 2006 uses the actual billing statistics for Jan 1, 2005 to April 30, 2005 as a proxy for 2006.

RSVAs

Ref: Tab 3, pages 5-10:

10. Please provide the rates charged to customers corresponding to the RSVA accounts and confirm that they are the rates approved by the Board.

Response

Below are the rates charged to customers corresponding to the RSVA accounts. They are the rates approved by the Board in proceedings EB-2001-0246/RP-2001-0553/RP-2000-0210 in December 2001. Please note that the Cost of Power variance account 1588, not shown below, utilized either the fixed rate for designated customers or the applicable market rate for all others.

	Wholesale Market Service Charge (incl RRA)	Retail Transmission Network Charge	Retail Transmission Connection Charge
Account	1580	1584	1586
Residential	$.0062 per kWh	$.0057 per kWh	$.0050 per kWh
General Service < 50	$.0062 per kWh	$.0052 per kWh	$.0045 per kWh
Unmetered Scattered Load	$.0062 per kWh	$.0052 per kWh	$.0045 per kWh
General Service > 50 kW	$.0062 per kWh	$2.1218 per kW	$1.7882 per kW
General Service Intermediate (Interval)	$.0062 per kWh	$2.2535 per kW	$1.9603 per kW
Large	$.0062 per kWh	$2.4952 per kW	$2.2417 per kW
Street Lighting	$.0062 per kWh	$1.6002 per kW	$1.3824 per kW
Sentinel Lighting	$.0062 per kWh	$1.6083 per kW	$1.4113 per kW

11. *Have all entries to RSVA accounts been prepared in accordance with the approved procedures and methods authorized by the Board? If not, please explain all deviations, exceptions or variations used or where subsequent (to year-end) audit adjustments have modified original entries.*

Response

All entries to RSVA accounts have been prepared in accordance with the approved procedure and methods authorized by the Board from section 2.0.23 of the OEB Decision with Reasons dated December 9, 2004 (see KPMG letter at Tab 10 of the Application, pages 49-53, Procedures 1-6).

12. *To which APH accounts were the following IESO charge codes classified/recorded: 101, 112, 140,141, 170, 183, 650, 753, 900 and 950? Please explain the basis for recording these costs in the particular account. Are there any other IESO charge codes not listed that are classified/recorded in the RSVA accounts? If so, please identify the codes and indicate the account to which they were posted and the basis for recording these codes in the particular account.*

Response

The following IESO charge codes were recorded in the APH account indicated in the following chart.

IESO Chg	Description	APH Account	Description
101	Net Energy Market Settlement for Non-Dispatchable Load	4705	Power Purchased
112	OPGI MPMA Rebate	100509	OPGI MPMA Rebate
140	Fixed Energy Rate Settlement Amount	4705	Power Purchased
141	Fixed Wholesale Charge Rate Settlement Amount	4708	Charges - WMS
170	Local Market Power Rebate	4708	Charges - WMS
183	Generation Cost Guarantee Recovery Debit	4708	Charges - WMS
650	Network Service Charge	4714	Charges - NW
753	Rural Rate Settlement Charge	4730	Rural Rate Assistance Exp
900	GST Credit	2290	Commodity Taxes
950	GST Debit	2290	Commodity Taxes

<u>Basis for Recording</u>

101 - This charge was recorded in account 4705 as it relates to power purchased.

112 - This IESO invoice credit is recorded in Bluewater's G/L account #100509 (not an APH account) as it related to MPMA rebates owing to certain customers. Bluewater's billing system then draws on this account in order to post credits to the applicable customers' accounts/invoices. Rebate amounts from Line 112 will never flow through to a RSVA account.

140 - This charge (or credit) was recorded in account 4705 as it relates to power purchased. It adjusts part of the charge from Line 101 to the fixed rate amount for designated customers.

141 - This charge was recorded in account 4708 as it relates to Wholesale Market Service Charges.

170 - This charge was recorded in account 4708 as it relates to Wholesale Market Service Charges.

183 - This charge was recorded in account 4708 as it relates to Wholesale Market Service Charges.

650 - This charge was recorded in account 4714 as it relates to Network Service Charges.

753 - This charge was recorded in account 4730 as it relates to Rural Rate Assistance.

900 - GST charged/credited on IESO invoice is appropriately recorded in account 2290.

950 - GST charged/credited on IESO invoice is appropriately recorded in account 2290.

Bluewater Power's methodology for recording amounts in RSVA accounts is a two step process completed on a monthly basis. The first step includes the recording of IESO charges as outlined in the above chart. The second step is to compare accounts 4705, 4708, 4714 and 4716 with the related accrual-based revenue for the same month (billed plus unbilled revenue). The difference is then recorded in the applicable RSVA accounts with the offsetting entry recorded to account 4710.

Note that account 4730 is combined with account 4708 for the variance calculation for RSVA in account1580.

Other IESO Charge Codes Not Listed in Question

The following is a list of other IESO charges not listed in the question that would also have flowed into the RSVA accounts based on the methodology described above.

IESO Chg	Description	APH Account	Description
150 -	Net Energy Market Settlement Uplift	4708	Charges - WMS
155 -	Congestion Management Settlement Uplift	4708	Charges - WMS
163 -	Market Suspension Additional Compensation Settlement Debit	4708	Charges - WMS
164 -	Outage Cancellation/Deferral Debit	4708	Charges - WMS
167 -	Emergency Energy and EDRP Debit	4708	Charges - WMS
169 -	Station Service Reimbursement Debit	4708	Charges - WMS
182 -	Hour Ahead Dispatchable Load Offer Guarantee Debit	4708	Charges - WMS
250 -	10-Minute Spinning Market Reserve Hourly Uplift	4708	Charges - WMS
252 -	10-Minute Non-Spinning Market Reserve Hourly Uplift	4708	Charges - WMS
254 -	30-Minute Operating Reserve Market Hourly Uplift	4708	Charges - WMS
450 -	Black Start Capability Settlement Debit	4708	Charges - WMS
452 -	Reactive Support and Voltage Control Settlement Debit	4708	Charges - WMS
454 -	Regulation Service Settlement Debit	4708	Charges – WMS

651 -	Line Connection Service Charge	4716	Charges – Connection
652 -	Transformation Connection Service Charge	4716	Charges – Connection
9990-	IMO Administration Charge	4708	Charges - WMS

Basis for Recording

150 to 454 and 9990	- These charges were recorded in account 4708 as they relate to Wholesale Market Service Charges.
651 and 652	- These charges were recorded in account 4714 as they relate to Connection Service Charges.

13. Were any customer bad debt write-offs or provisions recorded in the RSVA accounts? If yes, please provide complete details.

Response

No, there were no bad debt write-offs or provisions recorded in the RSVA accounts. Bad debt is only recorded in the "bad debt expense" account.

14. *If there are amounts to be recovered from another regulated distributor for duplicate IESO charges, transformer services, etc., are any such amounts recorded in the RSVA amounts?*

Response

Bluewater Power does not recover costs from other regulated distributors that could be recorded in its RSVA accounts.

Account 1571

15. ***Ref: Tab 4, page 1:****. With respect to account 1571, please provide a schedule showing calculations according to the Board approved methodology outlined in s.3.0.24 of the Board's December 9, 2004 Decision with Reasons for the pre-market opening energy variance. The calculations should include information relating to the monthly Cost of Power and billing and unbilled revenues for both TOU and non-TOU customers.*

Response

Attached as Schedule 3 is the file named "BWP_Sch3_2001 2002 COP Variance_OEB_Q15"

The detailed calculations are prepared in compliance with the approved methodology outlined in s.3.0.24 of the Board's Decision with Reasons dated December 9, 2004 (see KPMG letter at Tab 10 of the Application, pages 49-53, Procedures 7 & 8).

Bluewater Power has carried out the analysis using the accrual method, which was consistently applied through the Application. The revenue figures taken from the 2001 and 2002 audited financial statements were not broken down into COP and distribution revenue because Bluewater Power's billing system was replaced in March of 2002 and the prior billing system did not separately allocate revenue derived from COP versus distribution. Therefore, the analysis attached calculates COP revenue based on revenue figures taken from 2001 and 2002 audited financial statements, with TOU COP and distribution revenue removed.

Pre-Market Variance = Non-TOU COP Billed Revenue(1) – Non-TOU COP Expense
where **NON-TOU COP Expense = Total COP Expense(2) – TOU COP Revenue(3)**

The inputs for this formula were determined as follows:

1. **Non-TOU COP Billed Revenue**: Taken from total accrual revenue as presented in 2001 and 2002 audited financial statements, with adjustments to remove TOU COP and total distribution revenue.

2. **Total COP Expense**: Taken directly from OPG invoices and the expense was recorded corresponding to the month of consumption.

3. **Total TOU COP Revenue**: Taken from statistics for TOU customers multiplied by COP rates taken from OPG invoices.

16. ***Ref: Schedule 10-A, page 51****: Please confirm that the "PPVA account 1571" referred to in the Appendix to the auditor's review under procedures #7 and #8, is actually the pre-market opening energy variance account and not the power purchase variance account (account 1520).*

Response

Confirmed.

Account 1525

17. ***Ref: Tab 6, page 13.*** *With respect to account 1525, please provide a schedule identifying and explaining the costs recorded in 2002 and 2003. Please clarify whether the "certain associated bank fees" referred to in s.6.2 and recorded in January 2003 totalled $38,194.16. If yes, please explain why these bank fees accounted for most of the Applicant's costs for this initiative and why they were incurred in 2003. Please include an explanation for what costs make up the 2002 amount of $6,827.60 and whether any other type of cost is included in the amounts claimed, i.e. labour and programming costs.*

Response

The two amounts recorded under 'Net Accruals', being $6,827.60 and $38,194.16, solely represent bank fees relating to rebate cheques. No other costs are included. The Royal Bank produced all rebate cheques for Bluewater Power.

These amounts are further broken down and explained as follows:

$ 6,827.60	fee charged on a per cheque basis charged on the December 2002 bank statement and recorded in the G/L in that month – re: bank fees for issuing approximately 17,000 rebate cheques in December 2002
$ 5,173.80	fee charged on a per cheque basis charged on the January 2003 bank statement and recorded in the G/L in that month – re: bank fees for issuing approximately 12,800 rebate cheques in December 2002
$ 387.20	fee charged on a per cheque basis charged on the February 2003 bank statement and recorded in the G/L in that month – re: bank fees for issuing approximately 900 rebate cheques in February 2003
$32,468.76	one-time processing fee charged on the February 2003 bank statement and recorded in the G/L in that month – per description on bank statement: "Invoice Fees – Rebate Cheques" – this is a separate charge by the bank for processing our rebate cheques which is in addition to the 'per cheque' charges
$ 164.40	fee charged on a per cheque basis charged on the March 2003 bank statement and recorded in the G/L in that month – re: bank fees for issuing approximately 350 rebate cheques in March 2003
$38,194.16	(5,173.80 + 387.20 + 32,468.76 + 164.40)

Therefore, the costs were incurred with respect to services provided in 2002, however, the majority of costs were not recorded until 2003 because that is when the charges were presented by the bank. A minority of these charges ($387.20 and $164.40) was assessed with respect to cheques issued in 2003 to customers who had moved and required extra effort and time in order to locate.

Transition Costs (1570)

General Questions

18. *The Applicant's transition costs per customer of $148 are significantly higher than other distributors. Please provide a rationale for the higher costs recorded in this account.*

Response

No two distributors had the same starting point or ending point with respect to their journey to become market ready or to meet the challenges of the restructured electricity sector. Bluewater Power can not comment on the challenges faced by other distributors, but we have sought to explain the decisions that we made in our Application and these responses to Interrogatories.

The primary drivers to Bluewater Power's transition costs are found in three cost types:

(1) *Wholesale Settlement*:

It is a fact that many distributors chose a service bureau to provide wholesale settlement. Bluewater Power implemented its own wholesale settlement system at a capital cost of approximately $500,000. That system was determined to be a lower cost solution over a five-year time horizon (see answer to OEB Interrogatory #36). Those distributors that chose to contract with a service bureau therefore incurred comparable costs, in the form of ongoing fees that will be treated as distribution expenses that are recoverable in rates rather than recovered as transition costs. To the extent that Bluewater Power's choice leads to lower costs over time, our ratepayers will benefit.

(2) *Staff Adjustments*:

Bluewater Power incurred up-front costs to become compliant with the restructured electricity sector. Other distributors either did not face this challenge because of decisions they made prior to electricity restructuring, or they responded to this challenge by redeploying staff. Bluewater Power did not have meaningful positions to which personnel could be redeployed and, therefore, the staff reductions included in transition costs lead to lower costs over time which benefits our ratepayers.

(3) *CIS System*:

The majority of Bluewater Power's transition costs relate to the implementation of its CIS System. At a cost of $83 per customer, Bluewater Power recognizes that its costs per customer attributable to its CIS system are higher than the costs of other distributors. The efforts of every distributor in Ontario were challenged by ongoing change and tremendous time pressure (as noted by the Board at s.7.0.10 of the Board's December 9, 2004 Decision with Reasons), but each distributor faced those challenges from a different starting point and each distributor arrived at a different ending point.

Starting point:

Bluewater Power, through its predecessor The Hydro Electric Commission of the City of Sarnia ("Sarnia Hydro"), was one of the initial users of the Daffron software. Sarnia Hydro's Daffron system provided billing, finance and materials management**.** Sarnia Hydro had always employed staff, or contract personnel, capable of programming Daffron and relied primarily on those internal people to maintain its systems as current. In the year 2000, Bluewater Power determined its customized version of Daffron 4.4 could not be adapted (see discussion at OEB Interrogatory #25).

The Daffron product became market ready for many other distributors in Ontario, but Bluewater Power's level of customization meant it would be starting over with the Daffron 5.0 system once that product became market ready. Since Bluewater Power was starting over and since Bluewater Power had lost confidence in Daffron (see discussion at OEB Interrogatory #25), Bluewater Power chose to engage the competitive market place and Daffron chose not to respond to the RFP.

As such, Bluewater Power's starting point differed significantly from the majority of other distributors in Ontario. That starting point was brought about by decisions made by the predecessor Sarnia Hydro; those decisions were prudent at the time, but Sarnia Hydro could not have anticipated the level of change brought about by the Province's decision to restructure the electricity industry.

Ending point:

Looking at only the cost of becoming market ready ignores long-term benefits that are bestowed upon ratepayers as a result of a decision that may have been more costly than responses of other distributors, but that led to the installation of a more robust billing system. For example, another distributor may have had lower transition costs than Bluewater Power, but they have since replaced their billing system, or will have to consider replacing their billing system in order to respond to Smart Metering. SAP is, in fact, the #1 billing system for utilities worldwide. That market position benefits Bluewater Power's ratepayers today.

That is why, ultimately, the issue before the Board is whether the decisions made and the actions taken were prudent. At s.8.0.16 of the Board's December 9, 2004 Decision with Reasons, the Board concluded that "benchmarking in its strictest sense was not generally an appropriate tool to assess prudence of one applicant's transition costs relative to another's". Each application must be assessed on its own merits.

Bluewater Power's circumstances were such that it required a new billing system. Facing a significant investment, Bluewater Power went to the competitive market in a transparent and open RFP process. The RFP was issued to every supplier Bluewater Power could identify that was active in the Ontario Market, a total of eight. The result of that RFP was the selection by Bluewater Power of an integrated system utilizing the SAP Solution.

In support of the prudence of that decision, Bluewater Power submits:

(1) It would not have been prudent to attempt to further customize Bluewater Power's Daffron system. Bluewater's CIS required replacement with either a new Daffron system or another product.
(2) Issuing an RFP was the most prudent approach to replace that system because it engaged the competitive marketplace.
(3) In assessing the responses, the integrated SAP Solution was the best choice. Hindsight proves that to be true as none of the other proponents who submitted a bid are still active in the Ontario market.
(4) The Integrated SAP Solution was preferable over the integration of an SAP billing system with a customized Daffron finance system (See discussion at OEB Interrogatory #30).

The product, once selected, was managed by a professional project manager, overseen closely by three levels of management at Bluewater Power. Despite those efforts, circumstances beyond the control of both Bluewater Power and our service providers contributed to cost overruns as discussed thoroughly at OEB Interrogatory #33.

19. Pursuant to the January 15, 2003 Transition Costs filing guidelines, please provide:

A. The Applicant's purchasing and tendering policies.
B. All interest calculations to December 31, 2004.
C. All amortization calculations.
D. The Applicant's materiality calculation.

Response

A. The Applicant's purchasing and tendering policies.

See Schedule 4 named:

"BWP_Sch4_Purchasing Policy_OEB Q19a"

B. All interest calculations to December 31, 2004

See Schedule 5 named:

"BWP_Sch5_Interest Calculations_OEB Q19b"

C. All amortization calculations.

Bluewater Power did not amortize transition costs.

D. The Applicant's materiality calculation.

Materiality = Net Assets x .25%

Bluewater Power had Net Assets at December 31, 2002 per the Audited Financial Statements of $21,012,043.

Therefore, materiality used = $21,012,043 x 0.25% = $52,530.

20. *Please state whether there were any costs that were recorded in this account between May 1, 2002 and December 31, 2002. For any such costs, please provide an explanation of these items and amounts.*

Response

Yes, there were costs incurred between May 1, 2002 and December 31, 2002 that can be explained as set out below.

Description	**Amount**	**Explanation**
CIS Costs	$404,858.29	A portion of Invoices were submitted in May/June for services rendered prior to May 1st; remainder related to stabilization period, separation from CNP and post go-live issues
Wholesale Settlement Costs	$218.055.49	Invoices submitted in May/June for services rendered prior to May 1st
IMO Prudential	$84,510.00	Requirement effective post Market Opening
Temporary Staff	$23,032.80	Data processing
Miscellaneous	$23,116.79	

21. *Please state whether there were any costs that were recorded in this account after December 31, 2002. For any such costs, please provide an explanation of these items and amounts.*

Response

There were no costs recorded in account 1570 after December 31, 2002.

22. Please confirm whether a portion of existing staff salaries and benefits, legal, advertising and consulting expenses were allocated to account 1570. If so, please list the expense items, amounts and the categories in which they were reported. Were these expenses removed from the original expense accounts to which they were booked?

Response

Bluewater Power did not apportion existing costs that would have otherwise been recorded in non-1570 accounts.

23. ***Ref: Tab 9 and Tab 10 of Regulatory Assets application and Schedule 2-3 of 2006 EDR application:*** *It appears that the Applicant has used the same external auditors for the audit of its 2002, 2003 and 2004 financial statements. It also appears that these same external auditors provided the letter dated July 15, 2005 on page 49 of Tab 10 of the subject application stating the basis for their review of the Applicant's regulatory assets. However, unlike the financial statements, the July 15 letter clearly states that this review does not constitute an audit of the Applicant's regulatory asset accounts.*

In addition, pursuant to the Board's July 12, 2005 filing guidelines, all applicants applying for a comprehensive review should have their supplemental disclosure certified by an external auditor. However, the Applicant's supplemental disclosure provided in Tab 10 of its application is certified only by the Applicant's CEO. Please provide an external audit certification of the supplemental disclosure.

Response

In the Board's filing guidelines, issued on July 12, 2005, the requirements for supplementary disclosure are set out at p. 4 and they include:

> *"a) a statement by the distributor's Chief Executive Officer or external auditor (as applicable) certifying that the information filed in the regulatory assets claim is consistent with the Board's accounting requirements and procedures in the Accounting Procedures Handbook, as modified by the Board's findings in the Decision and that the filing provided is consistent with the requirements of the Board's transition cost filing guidelines issued January 15, 2003, and the regulatory asset filing guidelines issued September 15, 2003."*

This requirement arose out of the Phase 2 decision. KPMG had already carried out financial audits, as noted in the question. Based on the Phase 2 decision and the subsequent filing guidelines, KPMG was retained to carry out an additional external review of the regulatory asset accounts. This review consisted of a set of procedures, as set out in the KPMG report, at Tab 10 of the Application. These procedures covered all of the Board's additional requirements for regulatory assets. The terms of reference for this external review can found in the answer to Energy Probe Interrogatory #8. Based on the financial audits, the additional external review and the advice of Bluewater Power staff, the CEO was able to make the statements required for the purpose of supplemental disclosure, as set out at Tab 10 of the Application.

24. ***Ref: Tab 9 and Tab 10 of Regulatory Assets application and Schedule 2-3 of 2006 EDR application:*** *Inconsistencies have been detected between the amounts reported in the Reconciliation Schedule on page 45 of Tab 9, and the amounts reported in the notes to the 2002 and 2004 financial statements relating to regulatory assets. Please provide a continuity schedule reconciling all amounts reported on the Reconciliation Schedule to the relevant amounts reported in the Applicant's audited financial statements outlining the differences and causes. Please ensure that carrying charges are shown separately.*

Response

Reconciliation to 2002 Audited Financial Statements

$ 8,048,305	Gross Total at December 31, 2002 as per Note 4 of Financial Statements
$ 2,073,756	2001 Pre-Market Opening Energy Variance as per Page 45 in Tab 9
$10,122,061	Total Principal Amount at December 31, 2002 per Page 45 in Tab 9

This initial estimate of the 2001 Pre-Market Opening Energy Variance was not included in the 2002 Audited Financial Statements as the amount did not meet the Recognition Criteria under GAAP at the time:

- Unreliable basis of measurement due to estimation method used at the time
- Uncertainty of future recovery in rates was concluded at the time

The decision for non-inclusion was made in consultation with our auditors KPMG.

Carrying charges are not included in either amount above.

Reconciliation to 2004 Audited Financial Statements

$ 8,369,140	Gross Total at December 31, 2004 per Note 3 of Financial Statements
$ (440,093)	Low Voltage charges recorded in financial statements but not included in the Reconciliation Schedule
$ 62,373	Deferred Payments in Lieu of Taxes recorded in financial statements (account 1562) but not included in the Reconciliation Schedule
$ (10,907)	C&DM expenditures recorded in financial statements (account 1565) but not included in the Reconciliation Schedule
$(1,281,945)	Carrying Charges included in financial statements but not included in the Reconciliation Schedule
$ 330,328	Interim Recoveries from 2002 and 2003 included in Gross Total of Regulatory Assets in the financial statements but not included in the Reconciliation Schedule (that portion recorded in account 1570 up to December 31, 2002, being $150,131.30, is specifically removed in the Reconciliation Schedule)
$(171,656)	Total of net adjustments made to Bluewater Power's 1570 claim reflected in the Reconciliation Schedule but not the financial statements.
$ (38,194)	The starting point of the Reconciliation was the December 31, 2002 balance which includes a reduction to account 1570 to allow for the recognition of $38,194 in account 1525. The reduction to account 1570 has been compensated for in the $(171,656) adjustment above, and therefore must be removed.
$1,348,967	Pre-Market Opening Energy Variance for 2001 not recorded in financial statements but included in the Reconciliation Schedule
$ 500,000	Allowance for Recovery of Regulatory Assets recorded in financial statements but not included in the Reconciliation Schedule
$ 8,668,013	Total Principal Amount at December 31, 2004 per Page 45 in Tab 9 (exclusive of carrying charges)

Ref: Tab 7, APH Category 1, Summary of Billing Activities, page 17:

25. Please clarify why the Daffron product could not be modified to meet market opening requirements.

<u>Response</u>

Bluewater Power's billing system was a heavily customized version of Daffron 4.4. Bluewater Power's options to make that product market ready were:

1. Install Daffron 5.0, once that product was market ready, and reprogram all customization included in Bluewater Power's customized version of Daffron 4.4.
2. Upgrade the already customized Daffron 4.4 to make it market ready.

At page 17 of our Application, we stated Bluewater Power's customized Daffron system "could not be adapted". That would refer to option #2 listed above. That conclusion was reached as Bluewater Power came to understand the December, 1999 Daffron announcement that it would not develop a deregulation module for the Ontario Market but would be developing a deregulation module for the North American market. It would have been an unreasonable undertaking for a utility the size of Bluewater Power to first incorporate that module, customize it for the Ontario market, and then reprogram the customization developed over the prior ten years. Moreover, Bluewater Power would have been on its own in running that customized version of Daffron 4.4, which would not have been in the long term interests of our ratepayers.

Therefore, the primary efforts of Bluewater Power were on the exploration of Option #1 in cooperation with the Daffron Ontario Users Group ("DOUG"). That process would not have been a modification of its existing system, but a wholesale installation of a new version of Daffron and customization to Bluewater Power's needs.

The upgrade to Daffron 5.0 was possible, but Bluewater Power had serious concerns with Daffron's ability to meet market ready requirements in Ontario. By May 11, 2001, Bluewater Power also lost confidence that Daffron was responding to its needs as an existing user and determined its better alternative was to engage the competitive market place to include all other available options. Daffron was provided with the opportunity to respond to that RFP, but they chose not to submit a proposal.

26. *Please provide a breakdown of the costs associated with the attempted modification of the host/existing billing system between 1999 and 2001. Please clarify if these costs are included in the Applicant's total transition cost claim.*

Response

No costs related to attempted modification of the existing Daffron system have been included for recovery in transition costs.

27. Please provide details of the project to retain the Daffron product including a description of all the initiatives undertaken, the timelines of the project and the associated milestones. Please include an explanation as to why and how the key deadlines referred to in the third paragraph were missed.

Response

As set out in the answer to OEB Interrogatory #25, it was not reasonable to customize our existing heavily customized Daffron product. Therefore, the primary effort was through the DOUG group to monitor the progress of the market ready Daffron 5.0 product. The DOUG meetings were monthly meetings, but only certain meetings are highlighted below.

Date	**Activity**
January 20, 2000	Letter sent to Daffron requesting a clear and precise timeline for how Daffron intends to deal with Sarnia Hydro's retail settlement and deregulation needs.
February 4, 2000	Daffron responds indicating the uncertainty and complexity of developing a market ready solution and provided an estimated delivery of market readiness milestones for each of 1st, 2nd and 3rd quarters of 2000. None of those milestones were met.
February 7, 2000	Letter sent to Daffron explaining Sarnia Hydro's intent to issue an RFP.
June 29, 2000	Province delays market opening from original date of November 1, 2000
August 2, 2000	Sarnia Hydro attends a DOUG meeting to discuss the status of Daffron deregulation.
March 20, 2001	Concerns raised in e-mail to DOUG members about the lack of information on the status of the Daffron deregulation package.
March 27, 2001	Email to DOUG chair questioning the ability of Daffron to be market ready.
March 28, 2001	Email response from DOUG chair acknowledging the same concerns.
March 29, 2001	DOUG meeting attended by Bluewater Power to discuss deregulation.
April 2, 2001	Daffron releases a General Implementation Timeline
April 5, 2001	BWP emails Daffron to express concern about the timeline.
April 6, 2001	Daffron responds to BWP and is non-committal.
April 24, 2001	BWP attended DOUG meeting in Brantford.

April 30, 2001	OEB releases letter indicating they will maintain the July 6, 2001 and August 10, 2001 self-certification dates. Daffron's General Implementation Timeline will not meet these dates.
May 8, 2001	DOUG members consider a proposal to hire an independent consultant to project manage Daffron.
May 11, 2001	BWP Declined participation in DOUG group plans to hire an independent consultant.
May 23, 2001	Board advised of BWP concern around Daffron being incapable of supporting the requirements of market readiness and that an RFP would be issued.
May 30, 2001	RFP issued

28. *Please explain why the Applicant's host billing system could not be adapted in order to implement an upgraded version of the Daffron product. Did the Applicant perform a cost analysis of upgrading its existing billing system rather than investing in a new system? If yes, please provide this analysis. If no, please explain why and how the Applicant concluded that the acquisition of a market-ready solution was the most prudent course of action to take.*

<u>Response</u>

Bluewater Power fully explored its options with the Daffron product and a complete discussion is found in answer to OEB Interrogatory #25.

The applicant did not perform a cost analysis because a market ready Daffron product was not available at the time and no costs were available. Bluewater Power instead chose to issue an RFP and engage the competitive marketplace in an open and transparent process. Daffron did not respond to the RFP.

29. *Once the RFP for a market-ready solution was issued, the Applicant continued discussions with Daffron. Please provide details of those discussions as they relate to the Applicant's CIS system.*

Response

Bluewater Power did not continue discussions with Daffron after issuing its RFP. The discussions referred to at page 17, refer to discussions leading up to the issuance of the RFP and those discussions are explained thoroughly in the answer to OEB Interrogatory #27.

During the period of May 8-11th, 2001, Bluewater Power was actively involved in discussions with the DOUG group regarding serious concerns of group members regarding Daffron's ability to be market ready. It was following those discussions that Bluewater Power decided with certainty that it would issue the RFP. The RFP was issued on May 30, 2001.

Ref: Tab 7, APH Category 1, Summary of Billing activities, pages 20-23:

30. Please identify the cost associated with implementing the finance module of the SAP solution and compare this to the cost of developing an interface to the existing Daffron financial system.

<u>Response</u>

The incremental cost associated with implementing the finance module of the SAP Solution would be as follows:

Incremental Cost of SAP Finance Module		
Cost type	**Cost**	**Explanation**
License Fee	$0	No additional license fee required for finance module
User Fees	$23,625	Based on 3 paid user fees
Maintenance Fee	$0	No additional maintenance fee required for finance module
Consulting	$20,000	Template modifications for USofA compliance
Consulting	$50,000	Integration issues related to Template modifications
Hardware	$0	No additional requirements
TOTAL	$93,625.00	

The cost of integrating the SAP billing system with the Daffron finance module would be estimated as follows:

Incremental Cost if SAP Billing integrated with Daffron finance		
Cost type	**Cost**	**Explanation**
License Fee	$0	Already paid
User Fees	$0	Not applicable
Maintenance Fee	$14,550	One year of maintenance fee included, although it is important to note that this cost would be ongoing
Consulting	$100,000	SAP customization (see p.21 of the Application for a discussion of the differences between the two systems)
Consulting	$0	Daffron customization would likely be required, but no estimate has been included
Hardware	$97,000	One year of leasing cost included, although it is important to note that this cost would be ongoing
TOTAL	$211,550.00	

31. *The Applicant states that "the RFP process produced very few options, likely because the marketplace was crowded by the large number of utilities seeking the same solutions to meet the same deadline for market readiness." Please describe, in the Applicant's opinion, the effect that the lack of competitive bidders had on the price paid and quality of service received for the implementation of the SAP solution.*

Response

There is no reason to believe that the price paid or the quality of service received for the implementation of the SAP Solution was impacted by the lack of other competitive bidders responding to our RFP. Under the RFP, bidders would not have been aware of how many other bidders would respond.

32. Please provide a breakdown of the costs associated with the implementation of non-billing activities, including a description of each activity and its purpose. On page 21, the Applicant states that these costs are immaterial to the overall project cost. Please provide the Applicant's definition of the term "immaterial" as used in this instance and please clarify whether these costs are included in the total costs claimed for recovery.

<u>Response</u>

It is critical to remember that Bluewater Power implemented the SAP Solution based on a Template developed by Canadian Niagara Power for the Ontario market. That Template already included full integration in the context of a utility operating in Ontario. Nevertheless, some modifications to that Template were required by Bluewater Power and those are the Consulting Fees included in the table below.

Cost type	**Cost**	**Explanation**
Finance	$ 95,625	See answer to Interrogatory #30
Materials Management	$ 40,750	Consulting Fees of $25,000 Licence fee of $0 (no incremental cost) User licenses of $16,000
TOTAL	$136,375	

The term immaterial was intended to mean the costs were minor. With an overall cost of $2.9 Million, these costs were approximately 4.7% of the total cost. This allows us to conclude that more than 95% of the cost of the SAP Solution was related to achieving market readiness. This falls well within what we believe to be the applicable criteria found at page 5-6 of the Rate Handbook which states "To qualify as a transition cost, 75% of the costs should be directly and demonstrably linked to restructuring requirements".

33. *On page 23, the Applicant provided three figures representing additional costs or cost over-runs. Please clarify what each of these amounts represents including a breakdown identifying the cost components for each amount and an explanation of how the circumstances underlying these costs differ from one another. Please confirm whether, when added together, these costs represent a total cost over-run of the CIS project in the amount of $843,000 or approximately 30% of the total costs claimed for Categories 1 and 5.l*

Response

Three cost types are identified on page 23 of the application totalling $843,000, which amount does indeed represent approximately 30% of the total amount claimed in APH Categories 1 and 5. Those costs can be further described as follows:

1. Regulatory flux ($210,000):
   When the SAP Solution was proposed to Bluewater Power, many market rules were unknown at the time. Accordingly, the bids was qualified such that the Template to be provided did not include regulatory changes not in place, or reasonably anticipated at the time the proposal was submitted.

   The Board is very aware of the level of change as the market rules were being finalized. The estimate of $210,000 is an estimate developed in 2002 to quantify the cost of responding to changes such as:

Retailer Consolidated billing	$20,000
EBT Standards	$30,000
Statistical reporting	$30,000
Flow-through of Rebates to customers	$50,000
Print Workbench for billing	$60,000
Miscellaneous	$20,000

2. Two-phased implementation ($320,000):

   This cost-type could be included in the Regulatory Uncertainty cost category above, however it is a distinct and readily identifiable product of regulatory uncertainty that is of a sufficient magnitude that it warrants a separate cost category. The explanation of this additional cost is discussed in detail at page 23 of the Application. Briefly, this cost reflects the fact that the delay in finalization of market rules, primarily EBT Standards, made it impossible for Bluewater Power to implement a market-ready solution based on the solution being developed by Canadian Niagara Power ("CNP") as originally proposed by CNP. In the fall of 2001, Bluewater Power commenced its preparation to implement SAP without the market-ready component and went-live on March 11, 2002. That installed SAP Solution should have been market ready, and would have been market ready but for the regulatory uncertainty at the time. Since the SAP Solution initially installed was not market ready, Bluewater Power incurred an additional $320,000 to immediately modify its recently installed SAP Solution to make it market ready. The $320,000 cost of that market ready effort was a fraction of what that cost would have been had Bluewater Power attempted to make the SAP product market ready on its own but it was a cost that Bluewater Power should never have incurred at all except for regulatory uncertainty.

3. Cost over-runs ($313,000):
   The costs included in this category are the additional costs that can not readily be explained. Since these costs have not been separately explained, they have not been included in any of the above classifications. These costs would primarily be made-up of increased consulting costs caused by a number of factors:
   i) At that time, consultants trained in SAP Industry Solutions Utilities were not as great in number as they are today and that was exaggerated at the time because several major SAP Solution projects were underway in utilities throughout North America, which did lead to higher costs from two perspectives:
      a. It was a competitive market and obtaining a desired consulting occasionally cost more than would have been anticipated;
      b. Some consultants were only available for defined time periods, which meant that, on occasion, tasks initiated by one consultant were completed by another, which did lead to higher costs.
   ii) Occasionally, modifications led to dead ends and costs were expended without benefiting the overall project.

34. Please explain the mandate of the Project Team. Please identify the Project Team members by their positions within the utility and their responsibilities in relation to the project. Please clarify who or what body had the responsibility of reviewing progress on the project and providing oversight and direction to the project team.

Response

Working under the direction of the Tridium Technologies external project manager, in conjunction with the project sponsors and the internal project manager, it was the mandate of the "Flight 2002" project team to implement SAP at Bluewater Power in conjunction with the parameters of the project charter in order to meet the requirements of a deregulated Ontario Electricity Market.

Project Team ("Flight 2002")		
	External Team:	
	Project Manager	Tridium Consulting
	Internal Team:	
	Executive Sponsor	VP Corporate Service & CFO
	Project Manager	Manager, Information Technology
	Project Administrator	Project Coordinator
	Change Management Coordinator	Director, Human Resources
	IT Abap and RPG Developer	Senior IT Programmer Analyst
	IT Basis / Security / Infrastructure Coordinator	Senior Technical Architect
	CCS-Cashier and CSR	Customer Service Representative
	CCS-Billing	Senior Customer Service Representative
	Device Management	Metering Supervisor
	Finance Lead	Manager, Finance
	Finance	AR Financial Analyst
	Materials Management Lead	Manager of Materials Management
	Materials Management & Regulatory	Acting Purchasing Manager
	Materials Management	Lead Hand Stock Keeper
	Plant Maintenance and Sales & Distribution Lead	Operations Administrator
	Plant Maintenance	Line Technician Service Coordinator

Progress of the project was reviewed by the President & CEO on a weekly basis, as well as the Board of Directors at each meeting (approximately bi-monthly). The oversight and direction was provided by the President and CEO, although the all such directions were required to be confirmed by the Board of Directors.

35. Please provide a breakdown/description of the "non-essential implementations" referred to on page 24. Please clarify whether these activities were ever implemented and whether the costs associated with these implementations are included in the total claimed amount.

Response

Bluewater Power's goal in replacing its Customer Information System was to place itself into the same position it was prior to the restructuring of the electricity market. That goal translated into a desired to replace its customized Daffron CIS with a system providing the same functionality. In order to minimize costs, certain functionalities were not achieved as follows:

1. **Water Billing**: Bluewater Power provided water billing services for its minority shareholders through it Daffron system and that functionality was not brought into SAP due to cost concerns and those clients were required to obtain another service provider.
2. **Human Resources**: Bluewater Power had a customized HR module prepared in RPG development language based on the same AS/400 system on which Daffron resided. This functionality was not brought into SAP due to cost concerns and, instead, was outsourced.
3. **Retailer Consolidated Billing**: At implementation, it was apparent there would be no retailer-consolidated bill customers, so that functionality was not initially included in the SAP Solution at implementation.

Ref: Tab 7, APH Category 3, Summary of Wholesale Market Requirements, page 28:

36. Please identify the cost savings to the Applicant resulting from its decision to choose the ABB system and whether, to the Applicant's knowledge, there was another system able to provide Wholesale Settlement services that was more widely used among Ontario LDCs.

Response

Bluewater Power is aware that Wholesale Settlement was provided very widely among LDCs in Ontario by a service bureau by the name EnerConnect.

Bluewater Power issued a Request for Proposals for Wholesale Settlement, and received four responses including a response from EnerConnect in partnership with Enron. The four proposals received included proposals from two service bureaus and two software suppliers.

In order to facilitate the comparison, the proposals were evaluated over a five-year time horizon. It was determined that the ABB System selected by Bluewater Power resulted in savings over the other three proposals (including EnerConnect/Enron) of between $278,515 and $294,570 in total over the five year time period.

Ref: Tab 7, APH Category 6, Summary of Staff Adjustment Activities, page 32:

37. Please provide the utility's costs savings related to the elimination of the positions referred to on page 32. Please provide a breakdown of the total claimed for this category by the three groupings identified on page 32 (i.e. severance packages, legal advice and job retraining).

Response

Costs associated with staff adjustments classified accordingly are as follows:

Position	**Severance**	**Legal**	**Retraining**	**TOTAL**
Supervisor Customer & Energy Services	$ 34,911	$ 650	$ 3,216	$ 38,777
Contract Administrator	$ 76,095	$ 650	$ 3,000	$ 79,745
Director of Finance & HR	$ 76,133	$ 8,265	$ 2,000	$ 86,398
Manager of Information Systems	$ 28,852	$ 6,765	$ 0	$ 35,617
TOTAL	$215,991	$16,330	$ 8,216	$240,537

The cost savings to the utility achieved by eliminating these positions was a total savings of $265,000 annually.

Ref: Tab 7, APH Category 7, Summary of Regulatory Costs, page 35 and 36:

38. Please confirm that the costs reported for Category 7A were incurred in 2001 and 2002.

<u>Response</u>

The costs reported for Category 7A were not incurred in “2001 and 2002”, but were incurred in “2000 and 2001”.

39. *Please provide additional clarification on how the Applicant's participation in its initial rate unbundling application and the application relating to its exemption from the ARC contributed to the Applicant's meeting of market opening requirements.*

Response

In order to bill in an open market, Bluewater Power was required to unbundle its rates, and that was one of the fundamental purposes of the initial rate application.

In order to comply with OEB requirements, Bluewater Power was required to comply with the Affiliate Relationship Code ("ARC"). In order to qualify for inclusion in Account 1570, a cost must meet the four-part test established in the Rate Handbook and not otherwise be excluded as an ineligible transition cost set out in APH-Article 480. In order to meet those obligations in the most effective manner, Bluewater Power joined a coalition to seek exemption from the requirements of the ARC. These are qualifying transition costs because they were:

(1) outside of the base upon which rates were derived;
(2) material as part of the total APH Category 7 costs;
(3) imposed upon Bluewater Power by events outside of its control; and
(4) prudently managed to keep costs to a minimum.

40. Please confirm that the costs reported in category 7B relate only to consulting fees. If not, please explain what activity they relate to.

Response

All costs included in APH category 7B relate to legal fees.

41. *Please explain why the costs reported in category 7B, which have been described by the Applicant as akin to training costs, were not reported in category 9 where all other training costs were reported.*

<u>Response</u>

According to Article 480 of the Account Procedures Handbook, Cost Category 7 is intended to include “OEB license fee and proceeding costs”. The costs described as being “akin to training costs” are included in category 7B because they are very clearly proceeding costs. Our suggestion at page 36 that these costs were “akin to training costs” was submitted in support of our position that these costs were one-time in nature.

The January 15, 2003 Guidelines for Reporting LDC Transition Costs express the Board’s general view that transition costs not be ongoing costs. Therefore, it should be expected that costs “akin to training costs” could be found in multiple cost categories. In the case of the costs included in category 7B, they were incurred as a result of proceedings before the OEB and, therefore, they are “proceeding costs” falling under cost category 7.

Mr. Dave Simmons
President & Chief Executive Officer
Bluewater Power Distribution Corporation
855 Confederation Street
Sarnia, ON N7T 7L6

October 29, 2002

Dear Mr. Simmons:

The purpose of this letter is to confirm and update our mutual understanding of the terms of our appointment to report upon our audit of the financial statements of Bluewater Power Distribution Corporation. (the "Company") as of and for the year ending December 31, 2002 and the nature of the services we will perform for the Company in this year and in the future.

Our statutory function as auditors of the Company is to report to the shareholder by expressing an opinion on the Company's annual financial statements. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Our audit is not planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a specific third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

OUR RESPONSIBILITY

We will conduct our audit in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether the Company's financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in accordance with Canadian generally accepted accounting principles. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Audit Committee.

Canadian generally accepted auditing standards require us to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements taken as a whole are not materially misstated whether caused by fraud or error. Absolute assurance in auditing is not attainable because of such factors as: the nature of audit evidence which is based on the use of testing and where much of the evidence available to auditors is persuasive, rather than conclusive; the inherent limitations of internal control; and the characteristics of fraud. Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit planned and performed in accordance with Canadian generally accepted auditing standards may not detect fraud. Further, while effective internal control reduces the likelihood that errors, fraud, or illegal acts will occur and remain undetected, it does not eliminate that possibility. Accordingly, there is a risk that material errors, fraud and other illegal acts may exist and not be detected by an audit performed in accordance with Canadian generally accepted auditing standards. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

In planning and performing our audit, we will consider the Company's internal control in order to determine the nature, extent and timing of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurances on internal control. We will communicate to the Company any significant weaknesses in the Company's internal control structure that we note during the audit. A weakness in internal control is a deficiency in the design or effective operation of internal control. Weaknesses in the design or operations of internal control are significant when the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited. The definition of significant weaknesses does not include potential future internal control problems (i.e. control problems coming to our attention that do not affect the preparation of the financial statements for the period under audit). Under Canadian generally accepted auditing standards we have no statutory obligation or responsibility to make an examination of internal controls beyond that which we make in determining the nature, extent and timing of our other audit procedures.

In conducting our audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We also will assess the accounting principles used and their application and significant estimates made by management, as well as evaluate the overall financial statement presentation. As required by Canadian generally accepted auditing standards, we will make specific enquiries of management and obtain a supporting representation letter concerning the effectiveness of internal control and the representations embodied in the financial statements, including the notes thereto. The results of audit tests, the responses to our enquiries, and the written representations from management, among other things, comprise the audit evidence we will rely upon in forming an opinion on the financial statements.

To the extent that they come to our attention during the audit, we will inform management about any non-trivial errors and any instances of fraud or illegal acts as well as suspected fraud and possibly illegal acts. The nature, magnitude, and frequency of these matters will determine the level of management to which these matters are communicated. Further, to the extent that these matters come to our attention during the audit, we will inform the Audit Committee about any material errors, whether or not corrected, any instances of fraud or suspected fraud, any instances of illegal acts or possibly illegal acts, unless clearly inconsequential, and any related party transaction which is not in the normal course of operations and involves significant judgments made by management concerning measurement or disclosure.

One of the underlying principles of our profession is a duty of confidentiality with respect to client affairs. Accordingly, we will not provide any third party with information related to the Company without the Company's permission, unless required to do so by legal authority or our Rules of Professional Conduct/Code of Ethics or information that is in or enters the public domain.

COMMUNICATIONS TO THE AUDIT COMMITTEE

In addition to the matters that come to our attention, which we will communicate to management and the audit committee (see Our Responsibility above), we will communicate during this engagement, in a mutually agreeable format and timetable, certain additional matters to the audit committee. Such matters include:

- a summary of our audit approach; we welcome discussion with and input from the audit committee regarding matters of particular interest or importance to it that we should consider in conducting our audit and that are within our professional competencies and the scope of the audit;
- a description of the audit, audit-related and non-audit services KPMG is providing to the Company;
- our professional judgment on the qualitative aspects of the accounting principles used in the Company's financial statement reporting including but not limited to: a discussion of the selection and application of significant accounting policies; the processes used, the issues involved and the related judgments made by management in formulating particularly sensitive accounting estimates and disclosures; and our conclusions regarding the reasonableness of management's estimates in the context of the Company's financial statements taken as a whole;
- other matters that may arise during the audit that are important and relevant to the audit committee such as:
    - any disagreements with management about matters that individually or in the aggregate could be significant to the Company's financial statements or the audit report, whether or not subsequently resolved;
    - our views about any matters that were the subject of management's consultation with other accountants about accounting and auditing matters;

  - any serious difficulties that we encountered in dealing with management while we performed the audit.
- in a written letter to the Audit Committee, disclosure of all relationships between KPMG and the Company (including related entities) which in our professional judgment may reasonably be thought to bear on our independence, and disclosure of fees charged for audit, audit-related and non-audit services provided by KPMG to the Company and its related entities in the past year, and confirmation of KPMG's independence of the Company.

THE ENGAGEMENT TEAM

The audit engagement will be led by:

Kathy Davies, the engagement partner, who will be responsible for assuring the overall quality and value of our services to the Company.

Ian Jeffreys, the senior manager, who will be responsible for managing the delivery of our audit services to the Company.

Tom Clark, who will be the concurring reviewer of the audited financial statements and who will be available to the Company in the absence of the engagement partner.

This team will have access to a full range of KPMG specialists to assist as necessary.

MANAGEMENT'S RESPONSIBILITY

We intend to issue our audit report on the financial statements of the Company on a mutually agreed upon date. Management agrees that: all records and documentation of the Company will be made available to us; all material information will be disclosed to us; and we will have the full cooperation of the Company's personnel. Management's cooperation in providing us with records, documentation and information and agreed upon assistance on a timely basis is an important factor in being able to issue our audit report, and issue it by the mutually agreed upon date.

Management has responsibility for the financial statements including the accompanying notes and all representations contained therein. Management is responsible for: identifying and ensuring that the Company complies with laws and regulations applicable to its activities; safeguarding assets; adopting and applying sound accounting principles; applying sound judgment in preparing accounting estimates and disclosures contained in the financial statements; and designing, implementing and maintaining effective internal control over financial reporting to maintain the reliability of the financial statements, to provide reasonable assurance against the possibility of

misstatements that are material to the financial statements, and to prevent and detect fraud and error. The audit of the financial statements does not relieve management of this responsibility.

Management is responsible for disclosing to us all significant facts relating to: any fraud or suspected fraud that may have an effect on the Company; the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud; any known violations or possible violations of laws or regulations that may have an effect on the Company; and any illegal acts or possibly illegal acts attributable to the Company or its management or employees acting on its behalf.

The transactions and estimates reflected in the accounts and in the financial statements are within the direct control of management. Accordingly, the fairness of the representations made through the financial statements is an implicit and integral part of management's responsibility. Management is responsible for disclosing to us all known related parties and related party transactions, and making specific representations that these transactions have been measured and disclosed in the financial statements in accordance with Canadian generally accepted accounting principles.

Management is responsible for informing us on a timely basis of any communications from or investigations by regulatory, police or governmental authorities concerning known or possible non-compliance with, or deficiencies in, or questions about, financial reporting or other business practices that may have an effect on the Company's financial statements. Management is also responsible for disclosing to us allegations, if any, whether written or oral, of misstatements or other misapplication of accounting principles that could have a material impact on the Company's financial statements.

Management is responsible for adjusting the financial statements to correct all material misstatements. Management is also responsible for affirming to us in the representation letter that the impact of any uncorrected financial statement misstatements identified by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Management understands that materiality is assessed giving consideration to both qualitative and quantitative factors that are likely to change or influence the decisions of persons relying on the financial statements.

Management acknowledges the importance of its representations to the effective performance of our services. Accordingly, the Company agrees that KPMG and its personnel are not liable for any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations by management.

ELECTRONIC DISTRIBUTION AND COMMUNICATIONS

It is agreed that for any electronic distribution of the Company's financial statements and our audit report thereon, for example on the Company's web site, management is solely responsible for the accurate and complete reproduction of the financial statements and our audit report thereon. We accept no responsibility for any claim or damages resulting from any inaccurate or incomplete reproduction of such financial statements or our audit opinion thereon.

While the audit report may be sent to the Company electronically by the KPMG engagement partner for the Company's convenience, only the signed (electronically or manually) audit report constitutes the Company's record copy.

The Company recognizes and accepts the risks associated with communicating by Internet (e-mail) including the lack of security, unreliability of delivery and possible loss of confidentiality and legal privilege. Unless the Company requests in writing that KPMG not communicate with it by Internet (e-mail), KPMG accepts no responsibility or liability in respect of any loss or damage associated with the use of Internet communications.

ANNUAL REPORT

Management agrees to provide us with copies of the Company's Annual Report prior to its release. Canadian generally accepted auditing standards require us to determine whether the financial statements and our audit report have been accurately reproduced therein.

Should the Company post the Annual Report on the Company's website, as discussed under Electronic Distribution and Communications, management is solely responsible for the accurate and complete reproduction of the financial statements and our audit report thereon. However, we will read the financial statements and our audit report that are to be posted on the Internet and compare the information therein to the version(s) ultimately posted to determine whether this information has been accurately reproduced from the original.

Management acknowledges that we have no obligation to monitor subsequent amendments to the information on the Company's website or information posted on other electronic sites unless we are separately engaged to do so. We accept no responsibility for any claim or damages resulting from any subsequent amendments that result in inaccurate or incomplete reproduction of such financial statements or our audit opinion thereon.

We also are required to read the other information contained in the Annual Report and consider whether such information, or the manner of its presentation, is materially inconsistent with information appearing in the financial statements upon which we have reported. However, our audit does not include the performance of procedures to corroborate such other information (including forward-looking statements).

When reading the Annual Report we may become aware of other information that, although not inconsistent with the financial statements, appears to be a material misstatement of fact. Should such a circumstance arise, we will discuss our concerns with management.

If we are unable to resolve satisfactorily the treatment in the Annual Report of any error in the reproduction of the financial statements and our audit report thereon, any inconsistency between the other information and the financial statements when the other information and/or the financial statements require revision or an apparent material misstatement of fact, we will inform the Audit Committee and board of directors of the unresolved matter and notify the board of directors that we do not consent to the use of KPMG's name in the Annual Report.

Management acknowledges and confirms its understanding that we are not responsible for reading any other public document issued by the Company unless agreement is reached in advance as to the procedures we will perform and the form our report will take.

Management acknowledges and confirms that where our audit reports are reproduced in any medium, the complete financial statements, including notes, must also be presented.

WORK PAPERS

All work papers, files and other internal materials created or produced by KPMG during the audit engagement and all copyright and intellectual property rights in our work papers are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Company in judicial or administrative proceedings to which KPMG is not a party, the Company shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with such requests.

SECURITIES OFFERING DOCUMENTS

Should the Company wish to include or incorporate by reference these financial statements and our audit report thereon in a securities offering document, such as a prospectus, we would consider our consent to the inclusion of our audit report and the terms thereof at that time. Management agrees, in such circumstances, to provide us with adequate notice of the preparation of such documents.

Prior to consenting to include or incorporate by reference our audit report on such financial statements in the securities offering document, we will be required to perform procedures as required by Canadian generally accepted auditing standards, including but not limited to: carrying out certain limited review and enquiring procedures to identify subsequent events which may require adjustment to, or disclosure in, the above financial statements; reading the entire securities offering document and performing such procedures as we consider necessary on information in the securities offering document; and obtaining appropriate written representation from management. The specific terms of our future services with respect to future filings will be negotiated and agreed at the time the services are to be performed.

FEES

Our fee estimate considers the quality of the Company's accounting records and the agreed upon level of preparation and assistance from the Company's personnel. KPMG will inform the Company on a timely basis should these factors not be in place or should other circumstances arise which might cause the actual time we incur to exceed that estimate.

As a result of our planning process, the Company and KPMG agree to a base fee of $ 10,200 for financial statement audit services, including our audit report on the financial statements, our procedures on the Annual Report, our letter to management on significant internal control weaknesses, and communications to the Audit Committee. The amount of this base fee is based on the level of expertise of the individuals who will perform the services and is subject to the following conditions:

- the Company's financial records are in good order and prepared in accordance with Canadian generally accepted accounting principles;
- the Company's financial records are appropriately adjusted as of the start of the audit;
- any agreed upon assistance as specified in the Prepared By Client Listing (e.g. preparation of account analyses, supporting schedules) is provided to us in a timely manner in a form that is mutually agreed upon.

Additional time may be incurred for such matters as significant issues, significant, unusual and/or complex transactions, related accounting assistance, informing management about new professional standards and assisting with their application, and assisting with financial statements and notes preparation. Where these matters arise and require research, consultation and audit work beyond that included in the base fee, the Company and KPMG agree to revise the base fee.

Circumstances, such as the identification of significant internal control weaknesses, encountered during the performance of our audit that warrant additional time or expense could cause us to be unable to deliver our audit report within the above estimates. We will endeavor to notify the

Company of any such circumstances as they are assessed. No significant additional work will proceed without management's concurrence.

Routine administration expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of our professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on our actual disbursements. These costs will not exceed $1,200.

Our fees are exclusive of GST. Accordingly, the appropriate amount of tax will be computed and shown separately on our invoices together with our firm's GST registration number, so that the Company will have the information required to claim an input tax credit, if applicable.

Upon completion of the audit engagement, we will review with you any additional fees and expenses incurred in excess of the base fee and expenses, following which we will render our final billing.

Our invoices are due and payable upon receipt.

LLP STATUS

KPMG is a registered Limited Liability Partnership ("LLP") established under the laws of the Province of Ontario. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation does not, however, reduce or limit the liability of KPMG. KPMG's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. In addition, all partners of the LLP remain personally liable for their own actions and/or the actions of those who they directly supervise or control.

QUALITY ASSURANCE

As part of our process of assessing the quality of our services, you may receive questionnaires from us. We appreciate the attention that you give to these and value your feedback. If you have questions or concerns about our services, you may contact Kathy Davies or John Thompson, the engagement partners responsible for the engagement team serving you.

OTHER MATTERS

We are available to assist the Company upon request with a wide range of services beyond those outlined above regarding financial, accounting, tax and other matters. Additional services would be subject to separate terms and arrangements.

The arrangements outlined in this letter will continue in effect from year to year unless amended by the mutual consent of KPMG and the Company.

We are proud to serve as the Company's auditors and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with the Company's requirements and if the above terms are acceptable to the Company, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

kld:kp
Enclosure

The arrangements and terms set out are as agreed:

BLUEWATER POWER DISTRIBUTION CORPORATION

Dave Simmons ______________________________
(President & Chief Executive Officer)

Date ______________________________

cc: Chief Financial Officer
Audit Committee Chair
Audit Committee
Board of Directors

KPMG LLP
Standard Terms and Conditions for Corporate Tax Engagements

1. **Termination.** Unless terminated sooner, this engagement will end on the date our services are completed. You have the right to terminate this engagement by providing 30 days notice to KPMG. KPMG has the right to receive compensation for our time and expenses incurred up to the termination date, as well as for reasonable time and expenses incurred to bring our services to a close in a prompt and orderly manner. KPMG has the right to terminate this engagement if you do not fulfill your obligations. Before exercising this right, KPMG will provide you with 20 days notice to remedy such breach. If KPMG exercises its right of termination, we will not be responsible for any loss, cost or expense resulting from such termination. Without limiting our rights or remedies, KPMG has the right to suspend or terminate our services until payment is received on late invoices.

2. **Working Papers.** KPMG retains ownership of the copyright and all other intellectual property rights in our advice and working papers. We are entitled to use or develop the knowledge, experience and skills of general application gained through performing this engagement.

3. **Internet Communication.** You recognize and accept the risks associated with communicating by Internet e-mail, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless you request in writing that KPMG does not communicate by Internet e-mail, we accept no responsibility or liability in respect of risk associated with its use.

4. **Basis of Advice.** We will base our conclusions on the facts and assumptions that you provide to us and will not independently verify this information. In rendering our advice, we will consider the applicable provisions of the *Income Tax Act* (Canada) (the "Act") and other relevant taxing statutes, the regulations thereunder, applicable tax treaties and judicial and administrative interpretations thereof. Our conclusions will also take into account all specific proposals to amend the Act or any other relevant statutes and treaties publicly announced prior to the date of our advice, based on the assumption that these amendments will be enacted substantially as proposed. These authorities are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of our advice. Our conclusions will not otherwise take into account or anticipate any changes in law or practice, by way of judicial, governmental or legislative action or interpretation. Unless you specifically request otherwise, KPMG will not update our advice to take any such changes into account.

5. **Management Responsibility.** You are responsible for providing us with reasonable facilities and timely access to all relevant data and information, and for the accuracy and completeness of all data and information provided to us. In the event of a claim by a third party relating to our services under this engagement that arises out of a deliberate or negligent misstatement or omission in any data, information or representation supplied or approved by any officer or member of the board of directors of your company, you will indemnify KPMG and its personnel from all such claims, liabilities, costs and expenses (including legal fees and disbursements). This right to indemnity will not apply to matters finally determined to have resulted from the fraudulent or intentional misconduct of KPMG personnel in performing our services.

6. **Legal Counsel**. You should consult with and/or engage legal counsel for the purpose of advising on non-tax legal aspects of matters on which we provide our tax advice and drafting any legal documents and/or agreements that may be required. To the extent legal counsel or other professional service providers are required, you are exclusively responsible for engaging and paying such service providers.

7. **Restriction on Use**. Written advice provided by KPMG is for your internal use and information only and may not be distributed, published, made available or relied upon by any other person without our express written permission. In the event of a claim by a third party relating to our services under this engagement that arises out of a breach by you or any of your personnel of this restriction, you agree to indemnify and hold harmless KPMG and our personnel from all such claims, liabilities, costs and expenses (including legal fees and disbursements).

8. **Confidentiality and Privacy**. KPMG will treat as such all confidential information obtained from you in the course of performing our services and, except as described in this paragraph, will not use such information except in connection with the performance of our services. This restriction will not apply to any confidential information that KPMG is required by law or professional standards to disclose, that is in or subsequently enters the public domain, that is now or subsequently becomes known to KPMG without breach of any confidentiality obligation, or that is independently developed by KPMG. KPMG may retain, subject to the terms of this paragraph, copies of confidential information required for compliance with applicable professional standards or internal policies. You hereby consent to KPMG sharing within KPMG, including its associated entities and any other member firm of KPMG International providing services to you, information that it obtains on you during the course of providing services. The sharing of information will allow KPMG to better serve your needs and from time to time offer other services or strategies which may be of interest to you.

   Professional standards also require KPMG personnel performing any audit or attest services for clients to discuss or have available to them all information and materials that may affect the audit or attest engagement. You authorize, if you are or become an audit or attest client, KPMG personnel performing services under this engagement to make available to the KPMG audit or attest engagement team and other KPMG personnel, the findings, observations and recommendations from this engagement and agree that KPMG may use all such findings, observations and recommendations in KPMG's audit or attest engagement.

9 **Limitation on Liability**. KPMG's maximum liability to you for any aspect of our services under this engagement will be limited to the amount of fees paid to KPMG for such services or $1 million, whichever is less. This limitation does not apply to matters finally determined to have resulted from the fraudulent or intentional misconduct of KPMG personnel in performing our services. In any action, claim, loss or damage arising out of this engagement, you agree that KPMG's liability will be several and not joint and several. You may only claim payment from KPMG of our proportionate share of the total liability based on degree of fault. In no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs). KPMG will not be liable in respect of any decisions made by you as a result of our services. For

purposes of this paragraph, the term KPMG shall include its associated entities and their respective partners, directors, officers and employees. This paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

10. **Limitation Period**. No action, regardless of form, arising out of or relating to this engagement may be brought by either party more than one year after all of the necessary elements for the cause of action have occurred, except that an action for non-payment may be brought by a party not later than one year following the date of the last payment due to such party hereunder.

11. **Contractor**. It is understood and agreed that each party is an independent contractor and that neither party is, nor shall be considered to be, an agent, distributor or representative of the other. Neither of us shall act or represent ourselves, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other party.

12. **Force Majeure**. Neither party shall be liable for any delays resulting from circumstances or causes beyond our reasonable control, including, without limitation, fire or other casualty, act of God, strike or labour dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

13. **Survival**. Paragraphs 1, 5, 7, 8, 9, 10 and 14 to 18 shall survive the expiration or termination of this engagement.

14. **Successors and Assigns**. These Terms and Conditions and the attached engagement letter shall be binding upon both parties and our respective affiliates, successors and permitted assigns. In the case of multi-firm engagements, all member firms of KPMG International performing services hereunder shall be bound by and entitled to the benefit of these Terms and Conditions. Except as provided below, neither party may assign, transfer or delegate any of its rights or obligations under this engagement without the prior written consent of the other party. KPMG may assign its rights and obligations to any affiliate or successor in interest to all or substantially all of the assets or business of the relevant KPMG practice, without your consent.

15. **Severability**. In the event that any provision of these Terms and Conditions or the attached engagement letter shall be held to be invalid, void or unenforceable, then the remainder of the Terms and Conditions and/or the attached engagement letter shall not be affected, impaired or invalidated, and each such provision shall be valid and enforceable to the fullest extent permitted by law.

16. **Entire Agreement**. These Terms and Conditions and the attached engagement letter constitute the entire agreement between ourselves concerning this engagement and supersede all other oral and written representation, understandings or agreements relating to the subject matter hereof. In the event of a conflict or inconsistency between these Terms and Conditions and the attached engagement letter, these terms and conditions shall prevail.

17. **Governing Law**. These Terms and Conditions and the attached engagement letter are governed by the laws of the Province where KPMG's principal office performing this engagement is located.

18. **LLP Status**. KPMG LLP is a registered Limited Liability Partnership ("LLP") established under the laws of the Province of Ontario. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institute/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those who they directly supervise or control.

Schedule 1B

“BWP_Sch1B_Auditor_Engage_2003_OEB_Q1”

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London ON N6A 5P2
Canada

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PRIVATE AND CONFIDENTIAL

Mr. Richard Grogan
Audit Committee Chairman
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Ms. Janice McMichael
Chief Financial Officer
Bluewater Power
855 Confederation Street
PO Box 2140
Sarnia, Ontario N7T 7L6

November 26, 2003

Dear Mr. Grogan and Ms. McMichael:

Thank you for re-appointing KPMG LLP ("KPMG") as the auditors of Bluewater Power Distribution Corporation for the year ending December 31, 2003. The purpose of this letter is to confirm and update our mutual understanding of the terms of our appointment to report upon our audit of the financial statements of Bluewater Power Distribution Corporation (“BPDC”) as of and for the year ending December31, 2003 and the nature of the services we will perform for BPDC in this year and in the future. This letter supersedes our previous letter to BPDC dated November 20, 2002 on this matter.

Our statutory function as auditors of BPDC is to report to the stakeholders by expressing an opinion on BPDC's annual financial statements. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Our audit is not planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a specific third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

OUR RESPONSIBILITY

We will conduct our audit in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether BPDC's financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of BPDC in accordance with Canadian generally accepted accounting principles. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Audit Committee.

Canadian generally accepted auditing standards require us to plan and perform an audit to obtain reasonable, but not absolute, assurance that the financial statements taken as a whole are not materially misstated whether caused by fraud or error. Absolute assurance in auditing is not attainable because of such factors as: the nature of audit evidence which is based on the use of testing and where much of the evidence available to the auditor is persuasive, rather than conclusive; the inherent limitations of internal control; and the characteristics of fraud. Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit planned and performed in accordance with Canadian generally accepted auditing standards may not detect fraud. Further, while effective internal control reduces the likelihood that errors, fraud, or illegal acts will occur and remain undetected, it does not eliminate that possibility. Accordingly, there is a risk that material errors, fraud, and other illegal acts may exist and not be detected by an audit performed in accordance with Canadian generally accepted auditing standards. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

In planning and performing our audit, we will consider BPDC's internal control in order to determine the nature, extent and timing of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Under Canadian generally accepted auditing standards, we have no statutory obligation or responsibility to make an examination of internal controls beyond that which we make in determining the nature, extent and timing of our other audit procedures.

While we are not being engaged to report on BPDC's internal control and are not obligated to search for significant weaknesses, we will communicate to BPDC, to the extent that they come to our attention, any significant weaknesses in BPDC's internal control structure that we note during the audit. A weakness in internal control is a deficiency in the design or operations of internal control. Weaknesses in the design or operations of internal control are significant when the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited. The definition of significant weaknesses does not include potential future internal control problems.

In conducting our audit, we will perform tests of the accounting records and such other procedures we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We will also assess the accounting principles used and their application and significant estimates made by management, as well as evaluate the overall financial statement presentation. As required by Canadian generally accepted auditing standards, we will make specific enquiries of management and obtain a supporting representation letter concerning the effectiveness of internal control and the representations embodied in the financial statements, including the notes thereto. The results of audit tests, the responses to our enquiries, and the written representations from management, among other things, comprise the audit evidence we will rely upon in forming an opinion on the financial statements.

To the extent that they come to our attention during our audit, we will inform management and the Audit Committee about any non-trivial errors and any instances of fraud or illegal acts as well as suspected fraud and possibly illegal acts. The nature, magnitude, and frequency of these matters will determine the level of management to which these matters are communicated. Further, to the extent that these matters come to our attention during the audit, we will inform the Audit Committee about any: instances of fraud or suspected fraud; instances of illegal acts or possibly illegal acts, unless clearly inconsequential; related party transactions which are not in the normal course of operations and involve significant judgments made by management concerning measurement or disclosure; and uncorrected errors aggregated by us and represented by management to be immaterial, both individually and in the aggregate to the financial statements being reported on.

One of the underlying principles of our profession is a duty of confidentiality with respect to client affairs. Accordingly, we will not provide any third party with information related to BPDC without BPDC's permission, unless required to do so by legal authority or our Rules of Professional Conduct/Code of Ethics or information that is in or enters the public domain.

COMMUNICATIONS TO THE AUDIT COMMITTEE

In addition to the matters that come to our attention, which we will communicate to management and the Audit Committee (see Our Responsibility above), we will communicate during this engagement, in a mutually agreeable format and timetable, certain additional matters to the Audit Committee. Such matters include:

- a summary of our audit approach; we welcome discussion with and input from the Audit Committee regarding matters of particular interest or importance to it that we should consider in conducting our audit and that are within our professional competencies and the scope of the audit;
- a description of the audit, audit-related and non-audit services KPMG is providing to BPDC;
- our professional judgment on the qualitative aspects of the accounting principles used in BPDC's financial statement reporting including, but not limited to: a discussion of the selection and application of significant accounting policies; the processes used; the issues involved and the related judgments made by management in formulating particularly sensitive accounting estimates and disclosures; and our conclusions regarding the reasonableness of management's estimates in the context of BPDC's financial statements taken as a whole;

- other matters that may arise during the audit that are important and relevant to the Audit Committee, such as:
  - any disagreements with management about matters that individually or in the aggregate could be significant to BPDC's financial statements or the audit report, whether or not subsequently resolved;
  - our views about any matters that were the subject of management's consultation with other accountants about accounting and auditing matters;
  - any serious difficulties that we encountered in dealing with management while we performed the audit.
- in a written letter to the Audit Committee, disclosure of all relationships between KPMG and BPDC (including related entities) which in our professional judgment may reasonably be thought to bear on our independence, and disclosure of our fees charged for audit, audit-related and non-audit services provided by KPMG to BPDC and its related entities in the past year, and confirmation of KPMG's independence from BPDC.

THE ENGAGEMENT TEAM

The audit engagement will be led by:

- Kathy Davies, the engagement partner, who will be responsible for assuring the overall quality and value of our services to BPDC;
- Ian Jeffreys, the senior manager, who will be responsible for managing the delivery of our audit services to BPDC;
- Tom Clark, who will be the concurring partner on the audited financial statements and who will be available to BPDC in the absence of the engagement partner.

This team will have access to a full range of KPMG specialists to assist as necessary.

MANAGEMENT'S RESPONSIBILITY

We intend to issue our audit report on the financial statements of BPDC on a mutually agreed-upon date. Management agrees that: all records and documentation of BPDC will be made available to us; all material information will be disclosed to us; and we will have the full cooperation of BPDC's personnel. Management's cooperation in providing us with records, documentation and information and agreed-upon assistance on a timely basis is an important factor in being able to issue our audit report, and issue it by the mutually agreed-upon date.

Management has responsibility for the financial statements, including the accompanying notes and all representations contained therein. Management is responsible for: identifying and ensuring that BPDC complies with laws and regulations applicable to its activities; safeguarding assets; adopting and applying sound accounting principles; applying sound judgment in preparing accounting estimates and disclosures contained in the financial statements; and designing, implementing and maintaining effective internal control over financial reporting to maintain the reliability of the financial statements, to provide reasonable assurance against the possibility of

misstatements that are material to the financial statements, and to prevent and detect fraud and error. The audit of the financial statements does not relieve management of this responsibility.

Management is responsible for disclosing to us all significant facts relating to: any fraud or suspected fraud that may have an effect on BPDC; management's awareness of any allegations of fraud or suspected fraud affecting BPDC; the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud; any known violations or possible violations of laws or regulations that may have an effect on BPDC; and any illegal acts or possibly illegal acts attributable to BPDC or its management or employees acting on its behalf.

The transactions and estimates reflected in the accounts and in the financial statements are within the direct control of management. Accordingly, the fairness of the representations made through the financial statements is an implicit and integral part of management's responsibility. Management is responsible for disclosing to us all known related parties and related party transactions, and making specific representations that these transactions have been measured and disclosed in the financial statements in accordance with Canadian generally accepted accounting principles.

Management is responsible for informing us on a timely basis of any communications from or investigations by regulatory, police or governmental authorities concerning known or possible non-compliance with, or deficiencies in, or questions about, financial reporting or other business practices that may have an effect on BPDC's financial statements. Management is also responsible for disclosing to us allegations, if any, whether written or oral, of misstatements or other misapplication of accounting principles that could have a material impact on BPDC's financial statements.

Management is responsible for adjusting the financial statements to correct all material misstatements. Management is also responsible for affirming to us in the representation letter that the impact of any uncorrected financial statement misstatements identified by us during the current engagement and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Management understands that materiality is assessed giving consideration to both qualitative and quantitative factors that are likely to change or influence the decisions of persons relying on the financial statements.

Management acknowledges the importance of its representations to the effective performance of our services. Accordingly, BPDC agrees that KPMG and its personnel are not liable for any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations by management.

ELECTRONIC DISTRIBUTION AND COMMUNICATIONS

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While the audit report may be sent to BPDC electronically by the KPMG engagement partner for BPDC's convenience, only the signed (electronically or manually) audit report constitutes BPDC's record copy.

BPDC recognizes and accepts the risks associated with communicating by Internet (e-mail) including the lack of security, unreliability of delivery and possible loss of confidentiality and legal privilege. Unless BPDC requests in writing that KPMG not communicate with it by Internet (e-mail), KPMG accepts no responsibility or liability in respect of any loss or damage associated with the use of Internet communications.

WORK PAPERS

All work papers, files and other internal materials created or produced by KPMG during the audit engagement and all copyright and intellectual property rights in our work papers are the property of KPMG. In the event KPMG is requested, pursuant to subpoena or other legal process, to produce its documents relating to this engagement for BPDC in judicial or administrative proceedings to which KPMG is not a party, BPDC shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with such requests.

FEES

Our fee estimate considers the quality of BPDC's accounting records and the agreed-upon level of preparation and assistance from BPDC's personnel. KPMG will inform BPDC on a timely basis should these factors not be in place or should other circumstances arise which might cause the actual time we incur to exceed that estimate.

As a result of our planning process, BPDC and KPMG agree to a base fee of $11,600 for financial statement audit services, including our audit report on the financial statements, the Annual Report, our letter to management on significant internal control weaknesses, our communications to the Audit Committee. The amount of this base fee is based on the level of expertise of the individuals who will perform the services and is subject to the following conditions:

- BPDC's financial records are in good order and prepared in accordance with Canadian generally accepted accounting principles;
- BPDC's financial records are appropriately adjusted as of the start of the audit; and
- any agreed-upon assistance as specified in the Prepared By Client listing (e.g., preparation of account analyses, supporting schedules) is provided to us in a timely manner in a form that is mutually agreed upon.

Additional time may be incurred for such matters as significant issues, significant, unusual and/or complex transactions, related accounting assistance, informing management about new professional standards and assisting with their application, and assisting with financial statements and notes preparation. Where these matters arise and require research, consultation and audit work beyond that included in the base fee, BPDC and KPMG agree to revise the base fee.

Circumstances, such as the identification of significant internal control weaknesses, encountered during the performance of our audit, that warrant additional time or expense, could cause us to be unable to deliver our audit report within the above estimates. We will endeavor to notify BPDC of any such circumstances as they are assessed. No significant additional work will proceed without management's concurrence.

Our fees are exclusive of GST. Accordingly, the appropriate amounts of tax will be computed and shown separately on our invoices, together with our firm's GST, so that BPDC will have the information required to claim an input tax credit, if applicable.

Our invoices are due and payable upon receipt.

LLP STATUS

KPMG is a registered Limited Liability Partnership ("LLP") established under the laws of the Province of Ontario. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation does not, however, reduce or limit the liability of KPMG. KPMG's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. In addition, all partners of the LLP remain personally liable for their own actions and/or the actions of those who they directly supervise or control.

QUALITY ASSURANCE

As part of our process of assessing the quality of our services, you may receive questionnaires from us. We appreciate the attention that you give to these and value your feedback. If you have questions or concerns about our services, you may contact John Thompson at 660-2126, the concurring partner responsible for the engagement team serving you.

OTHER MATTERS

We are available to assist BPDC, upon request, with a wide range of services beyond those outlined above regarding financial, accounting, tax and other matters. Additional services would be subject to separate terms and arrangements.

The arrangements outlined in this letter will continue in effect from year to year, unless amended by the mutual consent of KPMG and BPDC.

We are proud to serve as BPDC's auditors and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with BPDC's requirements and if the above terms are acceptable to BPDC, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Kathy Davies
Partner
519-523-2239

KD:kp
Enclosure

cc: Board of Directors

The arrangements and terms set out are as agreed:

BLUEWATER POWER

By

Richard Grogan **Audit Committee Chair**	**Janice McMichael** **Chief Financial Officer**

Date

Schedule 1C

“BWP_Sch1C_Auditor_Engage_2004_OEB_Q1”

KPMG

KPMG LLP
Chartered Accountants
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Canada

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PRIVATE AND CONFIDENTIAL

Mr. Richard Grogan
Audit Committee Chairman
Bluewater Power
855 Confederation Street
PO Box 2140
Sarnia, Ontario N7T 7L6

Ms. Janice McMichael
President & Chief Executive Officer
Bluewater Power
855 Confederation Street
PO Box 2140
Sarnia, Ontario N7T 7L6

November 24, 2004

Dear Mr. Grogan and Ms. McMichael:

Thank you for re-appointing KPMG LLP ("KPMG") as the auditors of Bluewater Power Distribution Corporation for the year ending December 31, 2004. The purpose of this letter is to confirm and update our mutual understanding of the terms of our appointment to report upon our audit of the financial statements of Bluewater Power Distribution Corporation ("BPDC") as of and for the year ending December31, 2004 and the nature of the services we will perform for BPDC in this year and in the future. This letter supersedes our previous letter to BPDC dated November 26, 2003 on this matter.

Our statutory function as auditors of BPDC is to report to the stakeholders by expressing an opinion on BPDC's annual financial statements. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Our audit is not planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a specific third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

OUR RESPONSIBILITY

We will conduct our audit in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether BPDC's financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of BPDC in accordance with Canadian generally accepted accounting principles. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to management and the Audit Committee.

Canadian generally accepted auditing standards require us to plan and perform an audit to obtain reasonable, but not absolute, assurance that the financial statements taken as a whole are not materially misstated whether caused by fraud or error. Absolute assurance in auditing is not attainable because of such factors as: the nature of audit evidence which is based on the use of testing and where much of the evidence available to the auditor is persuasive, rather than conclusive; the inherent limitations of internal control; and the characteristics of fraud. Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit planned and performed in accordance with Canadian generally accepted auditing standards may not detect fraud. Further, while effective internal control reduces the likelihood that errors, fraud, or illegal acts will occur and remain undetected, it does not eliminate that possibility. Accordingly, there is a risk that material errors, fraud, and other illegal acts may exist and not be detected by an audit performed in accordance with Canadian generally accepted auditing standards. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

In planning and performing our audit, we will consider BPDC's internal control in order to determine the nature, extent and timing of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Under Canadian generally accepted auditing standards, we have no statutory obligation or responsibility to make an examination of internal controls beyond that which we make in determining the nature, extent and timing of our other audit procedures.

While we are not being engaged to report on BPDC's internal control and are not obligated to search for significant weaknesses, we will communicate to BPDC, to the extent that they come to our attention, any significant weaknesses in BPDC's internal control structure that we note during the audit. A weakness in internal control is a deficiency in the design or operations of internal control. Weaknesses in the design or operations of internal control are significant when the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited. The definition of significant weaknesses does not include potential future internal control problems.

In conducting our audit, we will perform tests of the accounting records and such other procedures we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We will also assess the accounting principles used and their application and significant estimates made by management, as well as evaluate the overall financial statement presentation. As required by Canadian generally accepted auditing standards, we will make specific enquiries of management and obtain a supporting representation letter concerning the effectiveness of internal control and the representations embodied in the financial statements, including the notes thereto. The results of audit tests, the responses to our enquiries, and the written representations from management, among other things, comprise the audit evidence we will rely upon in forming an opinion on the financial statements.

To the extent that they come to our attention during our audit, we will inform management and the Audit Committee about any non-trivial errors and any instances of fraud or illegal acts as well as suspected fraud and possibly illegal acts. The nature, magnitude, and frequency of these matters will determine the level of management to which these matters are communicated. Further, to the extent that these matters come to our attention during the audit, we will inform the Audit Committee about any: instances of fraud or suspected fraud; instances of illegal acts or possibly illegal acts, unless clearly inconsequential; related party transactions which are not in the normal course of operations and involve significant judgments made by management concerning measurement or disclosure; and uncorrected errors aggregated by us and represented by management to be immaterial, both individually and in the aggregate to the financial statements being reported on.

One of the underlying principles of our profession is a duty of confidentiality with respect to client affairs. Accordingly, we will not provide any third party with information related to BPDC without BPDC's permission, unless required to do so by legal authority or our Rules of Professional Conduct/Code of Ethics or information that is in or enters the public domain.

COMMUNICATIONS TO THE AUDIT COMMITTEE

In addition to the matters that come to our attention, which we will communicate to management and the Audit Committee (see Our Responsibility above), we will communicate during this engagement, in a mutually agreeable format and timetable, certain additional matters to the Audit Committee. Such matters include:

- a summary of our audit approach; we welcome discussion with and input from the Audit Committee regarding matters of particular interest or importance to it that we should consider in conducting our audit and that are within our professional competencies and the scope of the audit;
- a description of the audit, audit-related and non-audit services KPMG is providing to BPDC;
- our professional judgment on the qualitative aspects of the accounting principles used in BPDC's financial statement reporting including, but not limited to: a discussion of the selection and application of significant accounting policies; the processes used; the issues involved and the related judgments made by management in formulating particularly sensitive accounting estimates and disclosures; and our conclusions regarding the reasonableness of management's estimates in the context of BPDC's financial statements taken as a whole;

- other matters that may arise during the audit that are important and relevant to the Audit Committee, such as:
  - any disagreements with management about matters that individually or in the aggregate could be significant to BPDC's financial statements or the audit report, whether or not subsequently resolved;
  - our views about any matters that were the subject of management's consultation with other accountants about accounting and auditing matters;
  - any serious difficulties that we encountered in dealing with management while we performed the audit.
- in a written letter to the Audit Committee, disclosure of all relationships between KPMG and BPDC (including related entities) which in our professional judgment may reasonably be thought to bear on our independence, and disclosure of our fees charged for audit, audit-related and non-audit services provided by KPMG to BPDC and its related entities in the past year, and confirmation of KPMG's independence from BPDC.

THE ENGAGEMENT TEAM

The audit engagement will be led by:

- Kathy Davies, the engagement partner, who will be responsible for assuring the overall quality and value of our services to BPDC;
- Ian Jeffreys, the senior manager, who will be responsible for managing the delivery of our audit services to BPDC;
- Tom Clark, who will be the concurring partner on the audited financial statements and who will be available to BPDC in the absence of the engagement partner.

This team will have access to a full range of KPMG specialists to assist as necessary.

MANAGEMENT'S RESPONSIBILITY

We intend to issue our audit report on the financial statements of BPDC on a mutually agreed-upon date. Management agrees that: all records and documentation of BPDC will be made available to us; all material information will be disclosed to us; and we will have the full cooperation of BPDC's personnel. Management's cooperation in providing us with records, documentation and information and agreed-upon assistance on a timely basis is an important factor in being able to issue our audit report, and issue it by the mutually agreed-upon date.

Management has responsibility for the financial statements, including the accompanying notes and all representations contained therein. Management is responsible for: identifying and ensuring that BPDC complies with laws and regulations applicable to its activities; safeguarding assets; adopting and applying sound accounting principles; applying sound judgment in preparing accounting estimates and disclosures contained in the financial statements; and designing, implementing and maintaining effective internal control over financial reporting to maintain the reliability of the financial statements, to provide reasonable assurance against the possibility of

misstatements that are material to the financial statements, and to prevent and detect fraud and error. The audit of the financial statements does not relieve management of this responsibility.

Management is responsible for disclosing to us all significant facts relating to: any fraud or suspected fraud that may have an effect on BPDC; management's awareness of any allegations of fraud or suspected fraud affecting BPDC; the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud; any known violations or possible violations of laws or regulations that may have an effect on BPDC; and any illegal acts or possibly illegal acts attributable to BPDC or its management or employees acting on its behalf.

The transactions and estimates reflected in the accounts and in the financial statements are within the direct control of management. Accordingly, the fairness of the representations made through the financial statements is an implicit and integral part of management's responsibility. Management is responsible for disclosing to us all known related parties and related party transactions, and making specific representations that these transactions have been measured and disclosed in the financial statements in accordance with Canadian generally accepted accounting principles.

Management is responsible for informing us on a timely basis of any communications from or investigations by regulatory, police or governmental authorities concerning known or possible non-compliance with, or deficiencies in, or questions about, financial reporting or other business practices that may have an effect on BPDC's financial statements. Management is also responsible for disclosing to us allegations, if any, whether written or oral, of misstatements or other misapplication of accounting principles that could have a material impact on BPDC's financial statements.

Management is responsible for adjusting the financial statements to correct all material misstatements. Management is also responsible for affirming to us in the representation letter that the impact of any uncorrected financial statement misstatements identified by us during the current engagement and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Management understands that materiality is assessed giving consideration to both qualitative and quantitative factors that are likely to change or influence the decisions of persons relying on the financial statements.

Management acknowledges the importance of its representations to the effective performance of our services. Accordingly, BPDC agrees that KPMG and its personnel are not liable for any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations by management.

Electronic Distribution and Communications

It is agreed that for any electronic distribution of BPDC's financial statements and our audit report thereon, for example, on BPDC's web site, management is solely responsible for the accurate and complete reproduction of the financial statements and our audit report thereon. We accept no responsibility for any claim or damages resulting from any inaccurate or incomplete reproduction of such financial statements or our audit opinion thereon.

While the audit report may be sent to BPDC electronically by the KPMG engagement partner for BPDC's convenience, only the signed (electronically or manually) audit report constitutes BPDC's record copy.

BPDC recognizes and accepts the risks associated with communicating by Internet (e-mail) including the lack of security, unreliability of delivery and possible loss of confidentiality and legal privilege. Unless BPDC requests in writing that KPMG not communicate with it by Internet (e-mail), KPMG accepts no responsibility or liability in respect of any loss or damage associated with the use of Internet communications.

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FEES

Our fee estimate considers the quality of BPDC's accounting records and the agreed-upon level of preparation and assistance from BPDC's personnel. KPMG will inform BPDC on a timely basis should these factors not be in place or should other circumstances arise which might cause the actual time we incur to exceed that estimate.

As a result of our planning process, BPDC and KPMG agree to a base fee of $12,000 for financial statement audit services, including our audit report on the financial statements, the Annual Report, our letter to management on significant internal control weaknesses, our communications to the Audit Committee. The amount of this base fee is based on the level of expertise of the individuals who will perform the services and is subject to the following conditions:

- BPDC's financial records are in good order and prepared in accordance with Canadian generally accepted accounting principles;
- BPDC's financial records are appropriately adjusted as of the start of the audit; and
- any agreed-upon assistance as specified in the Prepared By Client listing (e.g., preparation of account analyses, supporting schedules) is provided to us in a timely manner in a form that is mutually agreed upon.

Additional time may be incurred for such matters as significant issues, significant, unusual and/or complex transactions, related accounting assistance, informing management about new professional standards and assisting with their application, and assisting with financial statements and notes preparation. Where these matters arise and require research, consultation and audit work beyond that included in the base fee, BPDC and KPMG agree to revise the base fee.

Circumstances, such as the identification of significant internal control weaknesses, encountered during the performance of our audit, that warrant additional time or expense, could cause us to be unable to deliver our audit report within the above estimates. We will endeavor to notify BPDC of any such circumstances as they are assessed. No significant additional work will proceed without management's concurrence.

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The arrangements outlined in this letter will continue in effect from year to year, unless amended by the mutual consent of KPMG and BPDC.

We are proud to serve as BPDC's auditors and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with BPDC's requirements and if the above terms are acceptable to BPDC, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Kathy Davies
Partner
905-523-2239

KD:kp
Enclosure

cc: Board of Directors

The arrangements and terms set out are as agreed:

BLUEWATER POWER

By

Richard Grogan
Audit Committee Chair

Janice McMichael
President & Chief Executive Officer

Date Nov 29 2004

Schedule 2A

“BWP_Sch2A_Mgmt_LOR_2003_OEB_Q2”

BLUEWATER
POWER
DISTRIBUTION CORPORATION

March 21, 2004

KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2

Dear Sirs:

We are writing at your request to confirm our understanding that the examination which you have made was directed for the purpose of expressing an opinion as to whether the financial statements of Bluewater Power Distribution Corporation (the "Company") as at December 31, 2003 and for the year then ended present fairly, in all material respects the Company's financial position, the results of operations, and cash flow in accordance with Canadian generally accepted accounting principles and that your audit procedures, including your tests of accounting records, were limited to those that you considered necessary in the circumstances. We also understand that such test examination would not necessarily detect fraud or error, should any exist.

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities, would be changed or influenced by such omission or misstatement. We understand that the determination of materiality involves qualitative as well as quantitative considerations.

We acknowledge that we are responsible for the fair presentation in the financial statements of the Company's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1) We have made available to you:

   a) All financial records and related data of the Company.

   b) All minute books of the meetings of shareholders, directors and committees of directors up to the date of this letter and summaries of actions of recent meetings

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for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.

2) a) The financial statements present fairly the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

   b) The Company's accounting policies and methods of application thereof are disclosed in the financial statements. There have been no changes in the Company's accounting policies and methods of application thereof that have not been disclosed to you and appropriately reflected in the financial statements.

   c) Significant matters have not arisen that would require a restatement of the comparative financial statements.

3) We confirm that:

   a) we are responsible for the design and operation of internal controls to prevent and detect fraud[1] and error, including those over the financial reporting process and the accuracy of period-end adjusting journal entries.

   b) we understand that the term fraud includes misstatements resulting from fraudulent financial reporting and misappropriation of assets.

   c) we have disclosed to you the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.

4) We have no knowledge of:

   a) any fraud or suspected fraud affecting the Company involving:

      i) Management;

      ii) Other employees who have significant roles in internal control; or

---

[1] Fraudulent financial reporting involves intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users including misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information; and intentional misapplication of accounting principles relating to amount, classification, manner of presentation or disclosure to deceive financial statement users. Misappropriation of assets involves the theft of an entity's assets when the effects of this theft of the assets cause the financial statements not to be in accordance with Canadian generally accepted accounting principles. Error refers to an unintentional misstatement in financial statements, including the omission of an amount or a disclosure, an incorrect accounting estimate arising from oversight or misinterpretation of facts; and a mistake in the application of accounting principles relating to amount, classification, manner of presentation, or disclosure.

iii) Others, where the fraud could have a material effect on the financial statements.

b) any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees.

c) violations or possible violations of laws or regulations the effect of which should be considered for disclosure in the financial statements or as the basis for recording a contingent loss.

d) illegal acts or possibly illegal acts attributable to the Company, or the Company's management or employees acting on its behalf.

e) communications from regulatory or governmental authorities or others concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

f) false statements affecting the Company's financial statements made to you.

g) significant weaknesses in the design or operation of internal controls[2].

5) The Company has:

a) complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the Company's debt agreements.

b) no side agreements with any parties that have not been disclosed to you.

c) no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

6) We confirm that:

a) we believe that the effects of those uncorrected financial statement misstatements, summarized in the accompanying schedule, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

b) there are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

---

[2] A weakness in internal control is a deficiency in the design or effective operation of internal control. Weaknesses in the design or operations of internal control are significant when the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements.

c) the Company has satisfactory title to all owned assets.

d) receivables reported in the financial statements represent valid claims against customers and other debtors for sales or other charges arising on or before the balance-sheet date, and do not include amounts relating to goods shipped on consignment or approval and have been appropriately reduced to their net realizable value.

e) the inventories of raw materials, work in progress, finished goods and supplies reported in the financial statements are based on physical quantities determined by actual count, weight, or measurement by competent employees under proper supervision and adjusted for intervening transactions to the end of the year where appropriate.

   The inventories include neither items billed to customers but not shipped nor items returned by customers for which credits have not been recorded. The inventories are priced at the lower of cost on an average cost basis and net realizable value. The inventories are stated on the same basis and were determined generally in the same manner as inventories at the end of the preceding year.

f) the Company has charged off all property, plant and equipment items sold, destroyed, or abandoned.

g) there are no material unrecoverable amounts classified in the financial statements.

h) there are no liens or encumbrances on assets and no assets have been pledged or assigned as security for liabilities, performance of contracts, etc.

i) there are no material unrecorded assets or contingent assets (such as claims related to patent infringements, unfulfilled contracts, etc. whose values depend on fulfillment of conditions regarded as uncertain).

j) there are no shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash negotiable instruments, etc.).

k) all sales transactions entered into by the Company are final and there are no side agreements with customers, or other terms in effect, which allow for the return of merchandise, except for defectiveness or other conditions covered by the usual and customary warranties.

l) the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

7) We have no knowledge of:

a) claims that are outstanding or possible claims that must be disclosed or accounted for in accordance with CICA 3290, *Contingencies*, which have not been disclosed to you, whether or not these claims were discussed with legal counsel.

b) other liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with CICA 3290, *Contingencies*.

c) material unrecorded liabilities or contingent liabilities (such as receivables sold or discounted, endorsements or guarantees, additional taxes for prior years, repurchase agreements, sales subject to renegotiation or price redetermination, obligations for future removal and site restoration costs, etc.).

d) significant contractual obligations (such as plant construction, purchases of property, plant, and equipment, etc.).

e) arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.

f) events that have occurred, or matters that have been discovered, subsequent to the balance sheet date and through to the date of this letter that would require adjustment to and/or disclosure in the financial statements.

8) Provision, when material, has been made for:

a) losses to be sustained in the fulfillment of, or inability to fulfill, any sales commitments.

b) losses to be sustained as a result of purchase commitments for inventory or other assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.

c) losses to be sustained as a result of the reduction of excess, damaged, unusable or obsolete inventories to their estimated net realizable value.

d) losses to be sustained as a result of other than temporary declines in the value of investments.

e) losses to be sustained from impairment of property, plant and equipment and certain identifiable, amortizable intangible assets in accordance with CICA 3061, *Property, Plant and Equipment*.

f) losses to be sustained from impairment of goodwill and/or non-amortizable assets in accordance with CICA 3062, *Goodwill and Other Intangible Assets*.

9) The following have been recorded and/or disclosed in the financial statements, in accordance with generally accepted accounting principles:

a) All known related parties and related party transactions including no-charge transactions, sales, purchases, loans, transfers, leasing arrangements, and guarantees, as well as all balances receivable or payable in accordance with CICA 3840, *Related Party Transactions*.[3]

b) Guarantees, whether written or oral, under which the Company is contingently liable, including guarantee contracts and indemnification agreements in accordance with CICA AcG-14, *Disclosure of Guarantees.*

c) Significant estimates, which could change materially within the next year, and all areas of measurement uncertainty known to us that are to be disclosed in accordance with CICA 1508, *Measurement Uncertainty.*

d) Economic dependence[4] known to management that is to be disclosed in accordance with CICA 3841, *Economic Dependence.*

e) Off-balance sheet activities, including accounting policies related to non-consolidation of certain entities and revenue recognition. Specifically, for those off-balance sheet activities in which the Company is a transferor, the off-balance sheet vehicle is either a qualifying special purpose entity as defined in CICA AcG-12, *Transfers of Receivables*, or is controlled by an independent third party that has the right and ability to obtain future economic benefits from the resources of the off-balance sheet vehicle and is exposed to the related risks. For those off-balance sheet activities in which the Company is a sponsor, administrator or lessee, the off-balance sheet vehicle is controlled by an

[3] We understand that the term "related parties" refers to: an enterprise or an individual (or members of his or her immediate family, as defined by CICA 3840) that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company; the other party, when an investment is accounted for by the equity or the proportionate consolidation method and Company is either the investor or the investee; management, which includes any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company (e.g., directors, officers and other persons fulfilling a senior management function) or members of his or her immediate family, as defined by CICA 3840; an individual having an ownership interest in the Company that results in significant influence or joint control(or members of his or her immediate family); the other party, when a management contract or other management authority exists and the Company is either the managing or managed party; any party that is subject to significant influence, whether by reason of an ownership interest, management contract or other management authority, by another party that also has significant influence over the Company; and any party that is subject to joint control by the Company.

[4] Economic dependence arises when the ongoing operations of a reporting enterprise depend on the continuance of a significant volume of business with another party such as a sale or major customer, supplier, franchisor or franchisee, distributor, general agent, borrower or lender. Refer to CICA 3841 for guidance regarding economic dependence.

independent third party that has the right and ability to obtain future economic benefits from the resources of the off-balance sheet vehicle and is exposed to the related risks.

f) Arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements.

g) Agreements to repurchase assets previously sold, including sales with recourse.

10) We confirm that:

a) the following information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

i) Extent, nature, and terms of financial instruments with off-balance-sheet risk;

ii) The amount of credit risk of financial instruments with off-balance-sheet credit risk and information about the collateral supporting such financial instruments; and

iii) Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

b) the Company is responsible for determining and disclosing the fair value of financial instruments in accordance with CICA 3860, *Financial Instruments – Disclosure and Presentation*. The amounts disclosed represent the Company's best estimate of the fair value of financial instruments required to be disclosed (and other assets or liabilities, if separately disclosed).

11) We confirm that:

a) the future tax asset valuation allowance has been determined pursuant to the provisions of CICA 3465, *Income Taxes*, including the Company's estimation of future taxable income, where necessary, and is adequate to reduce the total future tax asset to an amount that will more likely than not be realized.

b) tax-planning strategies used in determining the amount of the valuation allowance pursuant to the provision of CICA 3465, *Income Taxes* are prudent and feasible strategies that would, if necessary, be implemented.

c) the Company has the ability and the intent to recover, in a tax-free manner, assets with book/tax basis differences for which no future taxes have been provided in accordance with the provisions of CICA 3465, *Income Taxes.*

d) temporary differences that have not been tax-effected in accordance with the provisions of CICA 3465, *Income Taxes* are not expected to reverse in the foreseeable future.

e) the calculations of current and future tax expense (benefit) and related current and future tax assets and liabilities have been determined based on appropriate provisions of applicable enacted or substantively enacted tax laws and regulations.

f) we have not received any advice or opinion that contradicts the Company's support for the tax accrual related matters, that contradicts the Company's financial statement amounts and presentations, or that is necessary to understand the Company's tax accrual and related matters.

12) We confirm that the Company is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by Sarbanes-Oxley Act of 2002) nor will the financial statements of the Company be included in the consolidated financial statements of an SEC Issuer audited by any member of the KPMG organization.

13) The Company has obtained all consents and authorizations required under law in respect of the personal information, if any, of employees, customers and other individuals provided to you in the course of your audit, and you are authorized to use such personal information for the purposes of performing your audit and to retain any of such information required for your working papers.

Yours very truly,

Chief Executive Officer J.L. McMichael

Manager of Finance Mark Hurt

Bluewater Power Distribution Corporation

Year ended December 31, 2003

Schedule of Misstatements

Description	Net asset effect if recorded $ '000	Income effect if recorded $ '000
Misstatements greater than $ 8,600 individually	nil	nil
Revenue overstatements:	nil	nil
Revenue understatements:	nil	nil
Total Pre-Tax Misstatements	nil	nil

Schedule 2B

“BWP_Sch2B_Mgmt_LOR_2004_OEB_Q2”

A4
OM.
6/29/05

BLUEWATER
POWER
DISTRIBUTION CORPORATION

KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 140
PO Box 2305
London, ON N6A 5Y9

April 6, 2005

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that the examination which you have made was directed for the purpose of expressing an opinion as to whether the financial statements of Bluewater Power Distribution Corporation (the "Company") as at December 31, 2004 and for the year then ended, present fairly, in all material respects the Company's financial position, the results of operations, and cash flows in accordance with Canadian generally accepted accounting principles and that your audit procedures, including your tests of accounting records, were limited to those that you considered necessary in the circumstances. We also understand that such test examination would not necessarily detect fraud or error, should any exist.

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities, would be changed or influenced by such omission or misstatement. We understand that the determination of materiality involves qualitative as well as quantitative considerations.

P.O. Box 2140
855 Confederation Street
Sarnia, Ontario N7T 7L6
Tel.: (519) 337-8201
Fax: (519) 332-3878
www.bluewaterpower.com

We acknowledge that we are responsible for the fair presentation[1] in the financial statements of the Company's financial position, results of operations and its cash flows in accordance with Canadian generally accepted accounting principles[2].

We confirm, to the best of our knowledge and belief, that:

GENERAL:

1) All financial records and related data of the Company have been made available to you.

2) All minute books of the meetings of shareholders, directors and committees of directors up to the date of this letter and summaries of actions of recent meetings for which minutes have not yet been prepared have been made available to you. All significant board and committee actions are included in the summaries.

3) The financial statements have been prepared and present fairly the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

4) The Company's accounting policies and methods of application thereof are disclosed in the financial statements. There have been no changes in the Company's accounting policies and methods of application thereof that have not been disclosed to you and appropriately reflected in the financial statements.

5) Significant matters have not arisen that would require a restatement of the comparative financial statements.

---

[1] We understand that fair presentation in accordance with Canadian generally accepted accounting principles includes providing sufficient information about certain transactions or events having an effect on the Company's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect on the Company's financial statements, and providing information in a manner that is clear and understandable.

[2] We understand that generally accepted accounting principles encompass broad principles and conventions of general application as well as rules and procedures that determine accepted accounting practices at a particular time, and acknowledge that Canadian generally accepted accounting principles applicable to the Company are determined in accordance with CICA 1100, *Generally Accepted Accounting Principles*.

ASSETS & LIABILITIES – GENERAL:

6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

7) There are no material unrecorded assets or liabilities or contingent assets or liabilities (such as claims related to patent infringements, unfulfilled contracts, etc. whose values depend on fulfillment of conditions regarded as uncertain or receivables sold or discounted, endorsements or guarantees, additional taxes for prior years, repurchase agreements, sales subject to renegotiation or price redetermination, etc.).

8) There are no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9) There are no liens or encumbrances on assets and no assets have been pledged or assigned as security for liabilities, performance of contracts, etc.

10) There are no shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).

11) There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with CICA 3290, Contingencies.

12) There are no capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.

13) There are no arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements.

14) There are no agreements to repurchase assets previously sold, including sales with recourse.

15) The Company has satisfactory title to all owned assets.

RECEIVABLES:

16) Receivables reported in the financial statements represent valid claims against customers and other debtors for sales or other charges arising on or before the balance-sheet date, and do not include amounts relating to goods shipped on consignment or approval and have been appropriately reduced to their net realizable value.

INVENTORIES:

17) The inventories of supplies reported in the financial statements are based on physical quantities determined by actual count, weight, or measurement by competent employees under proper supervision and adjusted for intervening transactions to the end of the year where appropriate.

18) The inventories include neither items billed to customers but not shipped nor items returned by customers for which credits have not been recorded. The inventories are priced at the lower of cost and market. The inventories are stated on the same basis and were determined generally in the same manner as inventories at the end of the preceding year.

MEASUREMENT UNCERTAINTY:

19) The nature and extent of estimates, which could change materially within the near term, and all areas of measurement uncertainty have been disclosed in accordance with CICA 1508, *Measurement Uncertainty*.

CONTRACTUAL AGREEMENTS:

20) The Company has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

21) The Company has no side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

PROVISIONS:

22) Provision, when material, has been made for:

   a) losses to be sustained in the fulfillment of, or inability to fulfill, any sales commitments.

   b) losses to be sustained as a result of purchase commitments for inventory or other assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.

   c) losses to be sustained as a result of the reduction of excess, damaged, unusable or obsolete inventories to their estimated net realizable value.

d) losses to be sustained from impairment of property, plant and equipment and certain identifiable, amortizable intangible assets in accordance with CICA 3063, *Impairment of Long-Lived Assets*. Furthermore, the Company has appropriately grouped long-lived assets together for purposes of assessing impairment in accordance with CICA 3063, *Impairment of Long-Lived Assets.*

GUARANTEES:

23) Guarantees, whether written or oral, under which the Company is contingently liable, including guarantee contracts and indemnification agreements have been recorded and disclosed in accordance with CICA AcG-14, *Disclosure of Guarantees*.

ECONOMIC DEPENDENCE:

24) Economic dependence[3] known to management is disclosed in accordance with CICA 3841, *Economic Dependence*.

FINANCIAL INSTRUMENTS, INCLUDING OFF-BALANCE SHEET ACTIVITIES:

25) Off-balance sheet activities, including accounting policies related to non-consolidation of certain entities and revenue recognition has been recorded and disclosed in the financial statements. Specifically, for those off-balance sheet activities in which the Company is a transferor, the off-balance sheet vehicle is either a qualifying special purpose entity as defined in CICA AcG-12, *Transfers of Receivables*, or is controlled by an independent third party that has the right and ability to obtain future economic benefits from the resources of the off-balance sheet vehicle and is exposed to the related risks. For those off-balance sheet activities in which the Company is a sponsor, administrator or lessee, the off-balance sheet vehicle is controlled by an independent third party that has the right and ability to obtain future economic benefits from the resources of the off-balance sheet vehicle and is exposed to the related risks.

26) The extent, nature, and terms of financial instruments, both recognized and unrecognized, have been disclosed in the financial statements.

---

[3] Economic dependence arises when the ongoing operations of a reporting enterprise depend on the continuance of a significant volume of business with another party such as a sale or major customer, supplier, franchisor or franchisee, distributor, general agent, borrower or lender. Refer to CICA 3841 for guidance regarding economic dependence.

27) The amount of credit risk of financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments has been disclosed in the financial statements.

28) Significant concentrations of credit risk arising from all financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments has been disclosed in the financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS & HEDGING:

29) Freestanding derivative financial instruments that are entered into for trading or speculative purposes, or that do not qualify for hedge accounting under CICA AcG-13, *Hedging Relationships*, have been accounted for in accordance with CICA EIC-128, *Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments.*

ASSET RETIREMENT OBLIGATIONS:

30) Asset retirement obligations have been accounted for in accordance with CICA 3110, *Asset Retirement Obligations*. All legal obligations, including those under the doctrine of promissory estoppel,[4] associated with the retirement of tangible long-lived assets have been recognized. The obligations were recognized when incurred using management's best estimate of fair value.

REVENUES:

31) All sales transactions entered into by the Company are final and there are no side agreements (contractual or otherwise) with customers.

---

[4] Promissory estoppel is described by the Supreme Court of Canada as "The principles of promissory estoppel are well settled. The party relying on the doctrine must establish that the other party has, by words or conduct, made a promise or assurance which was intended to affect their legal relationship and to be acted on. Furthermore, the representee must establish that, in reliance on the representation, he acted on it or in some way changed his position." [Supreme Court of Canada judgment in Travellers Indemnity Company of Canada *v.* Maracle (1991) 2 S.C.R. 50, page 57]

INCOME TAXES:

32) The future tax asset valuation allowance has been determined pursuant to the provisions of CICA 3465, *Income Taxes*, including the Company's estimation of future taxable income, where necessary, and is adequate to reduce the total future tax asset to an amount that will more likely than not be realized.

33) Tax-planning strategies used in determining the amount of the valuation allowance pursuant to the provision of CICA 3465, *Income*, are prudent and feasible strategies that would, if necessary, be implemented.

34) The Company has the ability and the intent to recover, in a tax-free manner, assets with book/tax basis differences for which no future taxes have been provided in accordance with the provisions of CICA 3465, *Income Taxes.*

35) Temporary differences that have not been tax-effected in accordance with the provisions of CICA 3465, *Income Taxes,* are not expected to reverse in the foreseeable future.

36) The calculations of current and future tax expense (benefit) and related current and future tax assets and liabilities have been determined based on appropriate provisions of applicable enacted or substantively enacted tax laws and regulations.

37) The Company has not received any advice or opinion that contradicts its support for accounting for income taxes and related matters, that contradicts its financial statement amounts and presentations, or that is necessary to understand its accounting for income taxes and related matters.

SEC REGISTRANTS:

38) We confirm that the Company is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by Sarbanes-Oxley Act of 2002) nor will the financial statements of the Company be included in the consolidated financial statements of an SEC Issuer audited by any member of the KPMG organization.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

39) We understand that we are responsible for the design and operation of internal controls to prevent, deter and detect fraud[5] and error, including those over the financial reporting process and the accuracy of period-end adjusting journal entries.

40) There are no significant weaknesses in the design or operation of internal controls over financial reporting.[6]

FRAUD & ILLEGAL ACTS:

41) We understand that the term fraud includes misstatements resulting from fraudulent financial reporting and misappropriation of assets.[3]

42) We have disclosed to you the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.

43) We have no knowledge of:

a) any fraud or suspected fraud affecting the Company involving:

i) Management;

---

[5] Fraudulent financial reporting involves intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users including misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information; and intentional misapplication of accounting principles relating to amount, classification, manner of presentation or disclosure to deceive financial statement users. Misappropriation of assets involves the theft of an entity's assets when the effects of this theft of the assets cause the financial statements not to be in accordance with Canadian generally accepted accounting principles. Error refers to an unintentional misstatement in financial statements, including the omission of an amount or a disclosure, an incorrect accounting estimate arising from oversight or misinterpretation of facts; and a mistake in the application of accounting principles relating to amount, classification, manner of presentation, or disclosure.

[6] A weakness in internal control is a deficiency in the design or effective operation of internal control. Weaknesses in the design or operations of internal control are significant when the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements.

ii) Other employees who have significant roles in internal control over financial reporting; or

iii) Others, where the fraud could have a material effect on the financial statements.

b) any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, regulators, or others.

c) violations or possible violations of laws or regulations, including illegal acts or possibly illegal acts, the effect of which should be considered for disclosure in the financial statements or as the basis for recording a contingent loss.

d) communications from regulatory or governmental authorities or others concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

e) any officer or director of the Company, or any other person acting under the direction thereof, to take any action to fraudulently influence, coerce, manipulate or mislead you during your audit.

COMMITMENTS & CONTINGENCIES:

44) We have no knowledge of material contractual obligations (such as plant construction, purchases of property, plant, and equipment, etc.).

45) We have no knowledge of claims that are outstanding or possible claims that must be disclosed or accounted for in accordance with CICA 3290, *Contingencies*, which have not been disclosed to you, whether or not these claims were discussed with legal counsel.

SUBSEQUENT EVENTS:

46) We have no knowledge of events that have occurred, or matters that have been discovered, subsequent to the balance sheet date and through to the date of this letter that would require adjustment to and/or disclosure in the financial statements.

RELATED PARTIES:

47) All known related parties and related party transactions including no-charge transactions, sales, purchases, loans, transfers, leasing arrangements, and guarantees, as well as all balances receivable or payable have been recorded and disclosed in the financial statements in accordance with CICA 3840, *Related Party Transactions*.[7]

FAIR VALUE MEASUREMENTS AND RELATED DISCLOSURE:

48) For recorded or disclosed amounts that incorporate fair value measurements:

a) the measurement methods are appropriate and consistently applied.

b) the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable, and have been consistently applied.

c) appropriate disclosure of fair values have been made for all material amounts in accordance with Canadian generally accepted accounting principles.

---

[7] We understand that the term "related parties" refers to: an enterprise or an individual (or members of his or her immediate family, as defined by CICA 3840) that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company; the other party, when an investment is accounted for by the equity or the proportionate consolidation method and Company is either the investor or the investee; management, which includes any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company (e.g., directors, officers and other persons fulfilling a senior management function) or members of his or her immediate family, as defined by CICA 3840; an individual having an ownership interest in the Company that results in significant influence or joint control(or members of his or her immediate family); the other party, when a management contract or other management authority exists and the Company is either the managing or managed party; any party that is subject to significant influence, whether by reason of an ownership interest, management contract or other management authority, by another party that also has significant influence over the Company; and any party that is subject to joint control by the Company.

PERSONAL INFORMATION PROTECTION AND ELECTRONIC DOCUMENTS ACT:

49) The Company has obtained all consents and authorizations required under law in respect of the personal information, if any, of employees, customers and other individuals provided to you in the course of your audit, and you are authorized to use such personal information for the purposes of performing your audit and to retain any of such information required for your working papers.

UNCORRECTED MISSTATEMENTS:

50) We believe that the effects of those uncorrected financial statement misstatements, summarized in the accompanying schedule, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Yours very truly,

J McMichael

Jamie McMichael
President and Chief Executive Officer

Mark Hutson

Mark Hutson
Manager Finance

Bluewater Power Distribution Corporation
Year ended December 31, 2004
Summary of Uncorrected Misstatements

Description	**Balance sheet effect if recorded $ '000**			**Income effect if recorded $ '000**
	Assets	**Liabilities**	**Equity**	
Misstatements greater than $5,000 individually (debit (credit))				
Overstatements of income:				
Prepaid assets understated		7.1		(7.1)
Cost of power under accrued			(17)	17
Total Misstatements		7.1	(17)	(9.9)

Schedule 4

PROCUREMENT

MANUAL

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1.0 General

1.1 Procurement Policy

It is the policy of Bluewater Power (herein referred to as "BWP") to purchase or provide equipment, materials, and/or services of all types in a cost efficient manner with full consideration given to quality, price, delivery, reliability, engineering specifications and service. Purchases will be made; to the buyers best knowledge, with reputable, financially sound suppliers that are capable of meeting the specific needs of BWP.

1.2 Business Ethics

No employee is in any way authorized to take any procurement action on behalf of BWP which would result in an inadequate or inaccurate recording and reporting of assets, liabilities or any other transaction of which would violate any applicable laws. Procurement of goods and/or services for BWP are to be carried out with highest of ethical standards.

If any information comes to the attention of any employee which indicates and departure from conduct consistent with the standards set forth in this clause, the VP of Corporate Services is to be notified of such information for the appropriate action.

1.3 Conflict of Interest

It is the policy of BWP regarding conflict of interest requires all employees to avoid any conflict between their own interests and the interest of BWP when dealing with suppliers, customers and all other organizations of individuals doing or seeking to do business with BWP and or its affiliates. Further to this policy, BWP requires that competitive pricing be used, whenever practical, in the procurement of materials or equipment, and for contracted services.

While it is not practice to enumerate all situations which might be in conflict with this policy, the examples given below indicate some of the relationships which should be avoided. It is considered to be a conflict with BWP's interest and violation of trust.

1) For any employee of any dependent member of a family to have an interest in any organization which has, or is seeking to have, business dealings with BWP or an affiliate where there is an opportunity for preferential treatment to be given or received.

2) For any employee or any dependent member of a family to buy, sell or lease any kind of property, facility or equipment to BWP or an affiliate.

3) For any employee to serve as an officer or director, or any other company or in any management capacity for, as a consultant to any individual, firm or any other company doing or seeking to do business with BWP.

4) For any employee, without proper authority, to give or release to anyone, not employed by BWP any data or information of a confidential nature concerning BWP, such as that relating to a competitive bid, or to use such information for personal advantage and not in the best interest of BWP.

5) For any employee or any dependent family member to accept commissions, a share in profits, gifts in cash, gift certificates or other payments, loans or advances (from other than established in banking or financial institutions) materials, services, repairs or improvements at no cost or unreasonably low cost, excessive or extravagant entertainment, travel, gifts of merchandise or more than nominal value form any organization seeking to do business with BWP.

1.4 Gifts and Gratuities

BWP employees are not to accept nor solicit, from any supplier or prospective supplier any money, gifts or other favours which might influence or be suspected of influencing any purchasing or contracting decision. Only those gifts or gratuities which are used as advertisement or promotion are acceptable, and then only when they are of nominal value and include the name of the offerer on the gift.

1.5 Entertainment

It is acceptable to meet a business associate for lunch or dinner in order to become better acquainted or to discuss a lengthy business matter. It is *not* acceptable to be entertained solely for the sake of entertainment. Also, repeated entertainment from a particular individual or company is *not* acceptable.

2.0 PURCHASING

2.1 General
Refer to Sarnia Hydro Policies and Procedures – Policy #SHEC-013

Material, equipment, and supplies will be procured with proper consideration given to price, quality, delivery, performance and service. Such considerations will include the following parameters:

- Cost effectiveness based on an estimated target price normally solicited through competitive bidding.
- Timeliness of availability.
- Quality of the product based on standards established by plans and specifications.

The methods employed in affecting purchases will be consistent with established procedures, policies and guidelines. Material purchases should be undertaken in the manner most advantageous to BWP, price/cost, quality and other factors considered. To assure the award of business on an impartial basis, procurement actions shall secure, to the maximum extent possible, full and free competition, through the use of competitive proposals and awards.

The lowest evaluated bidder is that bidder who provides the lowest overall cost, most responsive proposal to the terms, conditions, specifications and drawings is financially and technically acceptable, and complies with the required safety, quality and assurance stipulations. Where exceptions tot his policy are made, a full and clear statement of the reasons for the exception must be prepared and made part of the procurement/central file.

Awards may be split on purchase requests where it is clearly an advantage to do so. Waiver of the competitive bid requirement is provided for in such specific instances as sole source procurements and other clearly defined cases. Selection of the type of purchase orders to be used shall be based on considerations of the nature of supplies and services required, or other circumstances surrounding the procurement.

2.2 Requisitions

The requisition is the basic document required to initiate a procurement action. This section is designed to assist in understanding the preparation and flow of requisitions. **All requisitions shall be prepared by requisitioner/end user and forwarded to Purchasing for processing.**

2.2.1 Initiation

All procurement actions will be initiated by means of a properly approved and executed purchase requisition as issued by an authorized employee (See Exhibit 6.1).

Note: It is the responsibility of the Requisitioner/End User to ensure requisition is completed properly ensuring the Buyer will understand what is required; when it is required; where it is to be charged, etc.

For those items in excess of $501.00, plus taxes, Exhibit 6.1 shall be used.

For those items $500.00 or less, plus taxes, which does not require drawings or specifications and/or is not for a service or rental, a minor purchase order (PO) may be used (See section 2.3.2 Request for Proposal Limits).

2.2.2 Approval

Approval of all requisitions shall be as noted in Appendices.

2.2.3 Screening and Review

Prior to formal purchase action, purchase requisitions should be reviewed by the buyer as applicable for the following information:

- Availability of required documents including drawings, specifications, special or unusual instructions, and an estimated budget price
- Required delivery dates
- Responsibility for inspection and/or quality control review
- Recommended bidders
- Appropriate general ledger, budget, work order numbers
- Appropriated approval levels
- Site contact

2.2.4 Corrective Action

Corrective action may be required following the screening and review. It shall be the responsibility of the buyer to check with the requisitioner to ensure that all pertinent data is forwarded for incorporation in t he requisition. If, for example the buyer discovers that delivery dates are unrealistic, it shall be the responsibility of that buyer to coordinate with the requisitioner to ensure that:

- Delivery dates are changed to coincide with availability
- Alternate purchase actions are taken to improve delivery
- Project schedules are consulted to determine any negative affects
- Approvals obtained accordingly.

2.2.5 Requisition Descriptions

- All requisitions forwarded to Purchasing should define as accurately as possible the needs of the Requisitioner/End User.

- Requisitions shall clearly set forth the desired delivery dates, descriptive details for all items. Pertinent drawings and/or specifications are to be listed on the requisition with copies attached to requisition.

The requisition shall be issued to Purchasing promptly to allow time for bidding, bid evaluation, approvals, and issuance of purchase order. All requisitions should carry a cost estimate.

Requisitions should specify tagging instructions, ie: equipment markings identification numbers, work order number.

Requisitions covering third party rentals should show estimated duration of rental.

If items are specified for brand names, the requisition should clearly state "Equal Acceptable" or No Substitution Acceptable".

Account/Work Order/Budget numbers.

2.3 Request for Proposal (Formal)

See Exhibit 6.02
Purchasing must call formal proposals (competitive proposals) when the estimated total amount of the expenditure to acquire the goods and services will be **$30,000** or more.

The **Commission** shall be the **sole authority** in (a) **awarding contracts** and accepting proposals resulting from the opening of sealed proposals for values of $30,000.00 or more and (b) reviewing/accepting/rejecting recommendations made by Purchasing and end user at Commission meetings.

Examples of Commission business that would require solicitation of proposals, irrespective of value, are as follows:

- **All commission approved capital projects utilizing the services of contractors or non BWP personnel when such services are estimated to $30,000 or more prior to purchase.**
- **Purchase of major equipment, e.g. transformers; wire and cable; meters; vehicles; etc.**
- **The Commission requires specific service, e.g. janitorial, snow removal, insurance (insurance at least every five years), other large dollar value purchases.**
- **BWP would participate in Commission approved joint soliciting agreements with other government organizations or utilities.**
- **The Commission will solicit for the disposal of its scrap materials on an annual basis, irrespective of the value of such material.**

Sealed proposals shall be invited by:

(a) public advertisement in at least one newspaper having general local circulation

(b) mail/fax/courier

Proposals will be opened publicly by the General Manager, or by a Director and Purchasing Agent prior to Commission meetings. Proposals not received by BWP or designate at the stated time and place stipulated in the proposal document will be returned to the vendor unopened. The results of the proposal(s) will be presented to the Commission for approval.

The General Manager or Director responsible for Purchasing shall approve all requisitions for Capital goods/services with a value of $5,000.00 up to $29,999.00.

When Proposals are Required:

Generally speaking, request for proposals are required in all cases where estimated values exceed $5001.00.

- The expenditure must be related to a whole or completed job, item or service.
- The purchase must not be segmented or divided in a manner that would circumvent the request for proposal process.

Inviting Proposals

The most common methods are:

- Written request for proposal (formal or informal) ie. transformers, etc.
- Requests for proposal by public advertisement. Used when it is desired to reach the general public, ie. snow removal.

Exceptions to Request for Proposals

Exceptions to obtaining competitive proposals would be permitted under following conditions:

- As outlined in emergency spending limit authorization
- When there is only one source for the required goods or services (must be reported to the Commission prior to purchase)
- The proposal process was completed by a member of the Purchasing Co-op and the item can be purchased directly by the Commission at the proposal price.

Under these conditions, purchases not proposed but falling within the proposal limits, will be reported to the Commission at it's next regular meeting for it's information.

The purchasing agent and/or buyer is responsible for the proper initiation and completion of Request for Proposal forms.

2.3.1 Processing a Formal Request for Proposal (R.F.P.)

The buyer is to provide as a minimum the following information in the R.F.P.

Instruction to Bidders

- Clear instructions as to the method, form and completeness of the proposal
- Proposal and contract securities required
- Other documentation required (ie: W.C.B/Insurance Certificate(s), proof of EUSA membership)
- Time and place for receiving proposals
- Number of copies of the proposal form to be submitted [usually three (3)]
    - One for Commercial (buyer), Central File
    - One for Technical (engineer/originator)
    - One for Commission approval
- Details of signing, sealing and witnessing
- Instructions concerning unit, itemized, total, alternative and separate pricing, ie: freight, packaging, taxes
- Job site visit, ie: determine conditions, safety requirements and scope of work
- Required delivery date (should be realistic)
- Freight terms, ie: FOB Delivered
- Payment terms, ie; Net 30 days
- Inspection requirements (if applicable)
- Tagging/marking (if applicable)
- Right to access for inspection
- Evaluation process
- Other germane requirements and instructions

Scope of Work

- Full description and quality of items/services to be included in scope of work (obtain from Requisitioner, Originator/Technical person)

Proposal Documents

- Instruction to bidders
- Proposal forms
- Scope of Work
- Terms & Conditions
- Supplementary Conditions (if applicable)
- Specifications
- Drawings, design detail and schedules
- List of required submissions from bidder, ie: insurance certificates, completed pre-qualification form
- Addenda (issued prior to bid closing)

The R.F.P. will be completed by the Buyer in such a manner that the Bidder will have a clear understanding of all requirements. The proposal due date should be carefully determined, keeping in mind the following:

- Required delivery date
- Time needed by Bidder to prepare a proposal (to ensure accurate and effective price completion)
- Complexity of proposal
- In-house time required to evaluate the proposal, prepare a summary and obtain approvals.
- Lead times

The R.F.P. will be compiled in accordance with Exhibit 6.02.

All items intended to be incorporated into the Purchase Order must be identified in the R.F.P.

It is the responsibility of the Buyer to pursue the R.F.P. with vendors to ensure the timely receipt of proposals.

Proposal Security

Every construction proposal, utilizing the services of contractors or non BWP personnel, in excess of $100,000 shall be accompanied by a deposit in the form of a certified cheque, letter of credit or bond acceptable to the Commission, payable to the BWP Corporation, equal to ten percent (10% of the total value of the proposal.

The deposit of the successful bidder will be retained until the contract has been signed and the Performance Bond or Security deposit has been furnished to the satisfaction of the Commission.

Performance Security

All successful bidders for construction contracts in excess of $100,000 will be required to provide either (a) a Performance Bond from a licensed Canadian Surety Company in an amount equal to fifty percent (50%) of the total proposal, or (b) a Security deposit in the form of cash or irrevocable letter of credit acceptable to the Commission, in the amount equal to Fifty percent (50%) of the total tender. The above securities shall be maintained in good standing until the fulfilment of the contract, but may be decreased, at the Commission's discretion, at a rate equal to the contract payment schedule.

In determining the value of goods and services to ascertain if the purchase comes within the proposal limit, the following criteria will be used:

- The expenditure must be related to a whole or complete job, item or service,

- The purchase must not be segmented or divided in a manner that would circumvent the request for proposal process.

It is important to define "performance" or "default" in the contract. In defining these terms consideration should be given to:

- Adherence to the specifications
- Measurable quality standards
- Operating parameters
- Timetables
- Notice provisions and timing for remedial work

Furthermore, it should be clearly stated who would judge the performance. It could be the field supervisor, the construction foreman, the engineer, or all of these.

Lastly, the proposal should be accompanied by a letter from the prospective bond holder or financial institution that the bidder is going to be provided with the securities if successful.

Formal and Non-Conforming Proposals

Single Formal Proposal

When one and only one proposal is received, it should be considered acceptable. If the Utility is unable or unwilling to award the contract the proposal should be returned unopened to the bidder. If the proposal is opened and it meets all the requirements of the proposal documents and the Utility's budget constraints the proposal should be awarded. Once a proposal has been opened rebidding should be avoided.

Late Proposals

Proposals received after the closing time should be returned unopened, labelled "Late Proposal – Unopened".

Mistaken Proposals

If a bidder informs the Utility, reasonably promptly after the bid closing and before the utility communicates acceptance of the proposal, that a serious and demonstrable mistake has been made and requests to withdraw the proposal, the bidder should be allowed to so without penalty.

Insufficient Proposal Security

If a bidder submits insufficient proposal security as specified in the proposal documents, the bid shall be rejected.

Arithmetic Mistakes

In Unit Price Contracts, if there are arithmetic mistakes in extending or adding unit prices on the proposal form, the *unit prices shall prevail* and the extensions and contract price shall be adjusted accordingly.

2.3.2 <u>Request for Proposal Limits</u>

Note: Purchasing shall solicit for all proposals, except in a true emergency, and only if purchasing is not available, shall the Requisitioner make contact with Vendors with the intention of obtaining a proposal.

The following guidelines will be used in obtaining proposals:

1.	From $0 - $500.00 (minor P.O.'s)	-	one informal telephone call/fax or over the counter pick-up. Log on Minor PO file.
	See Exhibit 6.7.C	-	*Exception – not to be used for:*
		-	capital/expense purchases when Budget/W.O. is applicable
		-	rentals
		-	services (exception – may be used for services if estimated time one day or less and Insurance, W.C.B., Safety requirements, all met prior to coming on

			site) – must be confirmed through purchasing.
2.	\$501.00 - \$2,000.00	-	one or more informal telephone or telefax proposals with the low bid to be confirmed by telefax for inclusion in the PO file.
3.	\$2,001.00 - \$29,000.00	-	a minimum of three competitive proposals in writing, whether formal or informal procedures are employed.
4.	\$30,000.00 and over	-	a formal Request for Proposal shall be issued for the solicitation of proposals (see section 2.3 Requests for Proposals Format)

2.3.3 Formal or Informal Requests for Proposal

Formal or informal solicitations may be used, however, formal written R.F.P.'s shall be used on all capital expenditures; requisitions where drawings and specifications are part of the requisition, ie: truck; wire/cable; transformers; meters; large blanket requirements for stores items. Note: Formal R.F.P.'s are to be used on all requirements in excess of \$30,000.00 except under emergency conditions.

2.3.4 Single Source Solicitations

Orders may be placed by solicitation from a single source under the following conditions:

- When failure to receive the material or service by the required date will prolong an unsafe condition; adversely affect operation; cause a work stoppage; hardship to customers or additional financial costs to the Commission.

- A competitive procurement [within three (3) months] for similar items establishes that the supplier selected offers the best available price with reasonable delivery and service. This is acceptable for all items under \$5,000.00.

- The material is an item of required design or is a proprietary or patented item available only from the patent holder or license.

- A reasonable attempt at competition has been unsuccessful

- Awards under $2,000.00

2.3.5 Manufacturers and Regular Dealers

Proposals are to be solicited only from manufacturers, exclusive representative, distributers. An exclusive representative is that person or firm who has the exclusive rights of distribution of the materials, supplies, articles, or services required. A “distributer” is a person or firm that owns, operates or maintains a store, warehouse, or other establishment in which the materials, supplies, articles, or equipment required are bought, kept in stock, serviced, and sold to the general public in the course of business.

The use of local distributors cannot be overlooked. Their importance in an procurement program contains many intangibles such as support services and information.

2.3.6 Pre-Award Meeting (Bid Review)

It may be necessary to hold a bid review meeting prior to awarding a contract/order. These meetings are to be arranged by the buyer who will ensure all necessary staff are present as well as bidder’s staff.

The buyer will chair the meeting and carefully minute the discussions and, as necessary, issue formal addenda to bidders covering clarifications and changes are specified in the meeting.

2.4 Supplier Relationships

It is the responsibility of the buyer to maintain good and open business relationships with all supplier/contacts.

2.5 Review of Proposals

Proposals are to be directed to the purchasing agent and/or buyer. Although technical questions by the bidder may be directed to the requisitioner, contact between bidders and requisitioners should be kept to a minimum. All vendor contacts during the proposal process must be through the buyer. This is to ensure the buyer is knowledgeable on all subjects pertaining to any proposal request.

During the proposal process, a vendor meeting may be required to clarify proposal documents and to allow site inspection. In such a case, the buyer will arrange the meeting with the appropriate departments, taking minutes of the meeting and issue any necessary addenda as a result of this meeting.

On the proposal due date, Informal Proposals may be opened by the buyer. Sealed Proposals requiring Commission approval shall be opened publicly, by the General Manager or Director and the buyer prior the the next Commission meeting. The original of three proposals submitted shall not be marked up in any way. Later to be filed in Central File.

- One copy will be forwarded to the requisitioner for technical/engineering evaluation

- One copy retained by buyer for commercial evaluation. The buyer shall prepare a Bid Summary, obtain signature of requisitioner and/or resolve to a mutual recommendation. Buyer shall present recommendation to General Manager who will in turn seek Commission approval.

Award will generally be made to the supplier submitting the lowest priced responsible offer where competitive proposals are solicited. Justification for award to other than the lowest bidder must appear in the bid evaluation and purchase order file. In addition to the actual item or unit prices, the following factors shall be considered in determining the lowest price:

- Unit prices
- Brief description of FOB point
- Escalation (if any)
- Validity date of proposal
- Delivery date terms of payment
- Freight terms and costs
- Exceptions to R.F.P. specifications, drawings and other documents
- Service
- Reliability
- Quality
- Safety
- History
- Other points that might influence vendor selection

(See Exhibit 6.5 Proposal Evaluation Checklist)

All pricing information should be treated as confidential by all parties before purchase. Disclosure of results to be announced.

2.5.1 Alterations to Proposals

Alterations to proposals by letter or fax are acceptable if received before the scheduled proposal closing date.

2.5.2 Rejection of Proposals

If the initial proposal response does not provide acceptable prices, or material, or delivery schedule, all or partial proposals may be rejected and new proposals requested. It is important to remember that schedule requirements may dictate that proposals not be rejected or that alternate methods or award be made, such as through negotiation.

2.5.3 Change in Scope

Bidders should be advised via formal addendum when the specifications, or conditions of bidding are revised. Once the proposals are in, should it be found that new conditions prevail, the Buyer may either negotiate a price properly reflecting these changed conditions or may reopen the proposal process. The Commission's best interest will be the guide in such a decision. If changes occur prior to the receipt of the proposals, all bidders should be expeditiously advised. If bidders require more time to complete the R.F.P. because of the change, it should be granted in writing showing the new closing date, only if the schedule will allow it.

2.5.4 Clerical Errors in Proposal

If a proposal appears to contain clerical errors, the bidder should be contacted by the Buyer for written clarification.

2.5.5 Mistakes

In the case of a mistake other than a clerical error, where for example it is suspected or alleged that the bidder has mistaken the cost of an item prior to award, the bidder is to be requested to furnish either a verification of the proposal of evidence in support of a mistake, and the proposal shall be considered in the form resubmitted.

In evidence of an error in calculation is submitted, the Buyer shall determine whether the evidence is sufficient to establish that an honest mistake was made, and in so, the bid may be revised only to the extent of correcting the mistake.

2.5.6 Acceptance of Terms and Conditions

Where it is not clearly indicated if the bidder accepts the terms and conditions stated in the Request for Proposal, bidder shall be contacted to determine whether or not he accepts the terms and conditions.

The Terms and Conditions of purchase cannot be taken lightly. Full accord between Buyer and Seller must be finalized prior to order of issuance. If the Seller makes a counter-proposal that includes deletions/additions/or changes to BWP's Terms and Conditions, consultation with the Director of Finance, General Manager & Secretary and/or Commission Lawyer should be undertaken as appropriate.

2.6 Transmittal of Proposal

Upon completion of the commercial evaluation, a copy of the proposal summary, along with a copy of the proposals received, shall be transmitted to the requisitioner for technical review, recommendation and approval. Approval will be indicated by the appropriate signatures.

The transmittal should contain a statement as follows:

"Enclosed please find copy of proposals for technical review as well as the commercial summary.

Please treat this information as confidential at all times.

Should you require additional information from any bidder, please contact the Purchasing Department to obtain it on your behalf.

Thank you for your cooperation in this matter."

2.7 Escalation

Firm prices should always be requested, negotiated and agreed upon. This is generally not a problem for a one year or less purchase order contract. However, from an efficiency and in-house cost perspective, Purchasing may wish to engage in a long term Blanket Order, i.e. three to five years. In this instance all increases must be scrutinized and negotiated and be in accordance with the following guideline references: Statistics Canada Industrial Price Indexes Catalogue #62-011 June, 1996 and Man-Hours & Hourly Earnings, complied and published monthly in Catalogue #72-002.

2.8 Pre-Award/Bid Review Meetings

A pre-award meeting with the selected supplier should be held in connection with major complex procurements. The prime objective is to achieve maximum assurance that the work will be performed smoothly and satisfactorily. In no event should a pre-award meeting be used for changing pricing unless warranted by corresponding change in specifications, drawings, quantities, schedules, etc. The pre-award meeting should be conducted by the responsible buyer or purchasing agent directly in charge of awarding the purchase. In order to fully accomplish the objectives stated above, the meeting should be attended by personnel qualified to answer questions relating to matters that are expected to be discussed.

It is important that the persons attending clearly understand that the purpose of the meeting is not to modify the requirements, the contractural agreement or the terms and conditions previously arrived at through the proposal process and/or any subsequent negotiations, but rather to afford an opportunity to explain, to the extent considered necessary, BWP's policies and requirements with respect to the scope and administration of work.

2.9 Approvals, Awards and Preparation of the Purchase Order

Prior to purchase it may be necessary to obtain approval from the Director of Finance, the General Manager and/or Commission if total estimated expenditure will exceed the spending limit authorization shown on the requisition.

In order to obtain these approvals a recommendation must be developed. This should incorporate a technical recommendation from the engineering/originator and a commercial recommendation from Purchasing. This recommendation should be prepared in accordance with Exhibit 6.4A – Bid Summary.

It is the policy of BWP to award to the lowest evaluated bidder. Award to other than the lowest must be justified in writing and approved by the General Manager/Commission prior to proceeding.

The buyer may verbally place the order with the successful Bidder, reviewing all criterion such as quantities, description, price, shipping and payment, terms, carrier, tagging, delivery dates, etc. This will ensure a quicker, more accurate response from the Bidder. A confirming order should be issued immediately.

Purchase Order form (see exhibit 6.6) is to be used for all purchases over $501.00

The purchase order as a minimum must include the following:

- Bidder's legal name and address
- Purchase Order number
- Date
- Terms of payment
- Shipping terms and FOB point
  Complete description of items purchased, quantity, unit and total prices.
- Firm Price Policy (escalation clause if prices not firm)
- Tax status
- Shipping instructions
- Tagging/Marketing instructions
- Customs instructions (if applicable)
- Schedule of engineering/fabrication (if applicable)
- BWP's Terms and Conditions
- If the order was placed verbally it should state: *"Verbal Confirmation between your _ ______ and our ______ on date."*

2.9.1 FOB Point and Freight Charges

The FOB (Free on Board) point stated on the purchase order determines the place at which title to the goods passes from the seller to the buyer. The responsibility for the goods also passes at this point. For example, for a shipment FOB shipping point, it would be the responsibility of the buyer to file any necessary freight claims whereas if the same shipment had been FOB destination, the seller would be responsible for the claim. The FOB stated on the Purchase Order is usually followed by a statement clarifying who pays freight. Some typical examples are as follows:

FOB Shipping Point, Freight Collect
Buyer – pays freight charges
Buyer – bears freight charges
Buyer – owns goods in transit
Buyer – files claims (if any)

FOB Shipping Point, Freight Prepaid and Allowed
Seller – pays freight charges
Seller – bears own freight
Buyer – owns goods in transit
Buyer – files claims (if any)

FOB Shipping Point, Freight Prepaid and Add
Seller – pays freight charges
Buyer – bears freight charges
Buyer – owns goods in transit
Buyer – files claims (if any)

FOB Destination, Freight Collect
Buyer – pays freight charges
Buyer – bears freight charges
Seller – owns goods in transit
Seller – files claims (if any)

FOB Destination, Freight Prepaid & Allowed
Seller – pays freight charges
Seller – bears freight charges
Seller – owns goods in transit
Seller – files claims (if any)

Note: In most instances FOB Destination, Freight Prepaid and Allowed is the most advantages to BWP.

2.9.2 Goods and Services Tax (GST)

The following aspects of the GST should be considered when assessing the bids and preparing the purchase order.

1. *Foreign Currency*
   When the value of the Purchase Order is specified in foreign currency, the GST will be calculated on the Canadian dollar ($) value on the date the payment to the vendor is due.

2. *Payment Discounts/Late Payment Penalty*
   The GST is payable on the full invoice price, not the discounted price. Therefore if the terms of payment are 25% 10, the discount has no impact on the GST payable.

   In the same fashion, interest on overdue amounts are not considered in the total price for GST purposes. The GST payable is still on the base price *not* the price and accrued interest.

3. *Provincial Sales Tax*
   Provincial Sales Tax is not included in the calculation of GST payable, i.e. the GST is calculated on the base price *exclusive* of PST.

4. *Federal Taxes and Duties*
   The GST is calculated on the base price plus any duties, fees or taxes imposed by the Federal Government (other than GST itself).

5. *Imports*
GST on imported goods will be imposed at the same time as custom duties apply. The GST will be paid by the custom broker on our behalf and shown on the brokers invoice.

6. *Imported Services*
Services imported into Canada by a Vendor are not subject to GST and should therefore be quoted separately from any equipment/material.

2.10 <u>Purchase Order Number</u>

Purchasing maintains a manual purchase order number log and assigns a number to each purchase order prior to award.

Each time a number is taken from the log, the date, requisitioner's name, description of goods/service and Vendor is completed by Purchasing to serve as a record of transaction.

2.10.1 <u>Approval of Purchase Orders</u>

All purchase orders shall be signed on behalf of BWP by the Purchasing Agent, respective buyer and/or a delegate.

2.11 <u>Distribution of Purchase Order</u>

White (original):	Vendor copy – mail or fax
Yellow:	Originator – tracking/future reference, *Note:* if order for a service then Contract Administrator/Building Maintenance should be copied.
Blue:	Accounts Payable – pay invoice according to PO.
Green:	Receiving – to receive against and advice accounting and purchasing accordingly. *Note:* If order covers a service then green is attached to blue and forwarded to accounting.
Pink:	Purchasing – all relative back up is filed with pink and filed in purchasing in "Open File" for expediting. Once complete it is filed numerically in completed file. Relative back up includes requisition, specifications, quotes, bid summary.

If purchase order covers a Capital Requirement (formal request for proposal) or a high dollar informal R.F.P. or covers disposition of scrap transformers or other goods/services of interest to Commission, then a copy of the Purchase Order should be filed with the R.F.P. and Proposal Summary in Central File.

Purchase Orders may not be required for procurement of professional services, common carrier, transportation at tariff rates, postage, telephone metered utilities, subscriptions, credit card purchases, etc. It is usually not customary to cover the aforementioned requirements with a purchase order.

Purchase Orders should be issued before or concurrent with any purchase or commitment, except in emergencies, in which case a confirming order will be written as soon as possible.

2.12 Split Awards

Split Awards should be made when advantageous to do so. Buyers should be sure to check with the bidders prior to order award to ensure that a spit order will be acceptable. All R.F.P.'s should have a provision which states BWP's authority to split awards if deemed desirable.

2.13 Special Consideration Purchase Orders

Suppliers Financial Ability
Prior to issuing an R.F.P. to bidder, the bidder should be pre-qualified financially, technically and to quality assurance level. The bidders pre-qualification forms (exhibit 6.30 should be used for this purpose.

Insurance Requirements
Anyone providing a service (outside labour) for BWP must have insurance in the following amounts and in form satisfactory to BWP, insuring himself against claim and all liability for property damage and public liability.

General Liability	$2,000,000 per occurrence
Automotive Liability	$2,000,000 third party liability and $2,000,000 third party for non ownership liability.

Note: Requirement for Live Line Clearing is $5,000,000.00

Evidence of Insurance
Certificates of Insurance for Bidder and/or any proposal sub contractor(s) along with a clearance certification from the Workman's Compensation Board are required prior to commencement of work. *Note:* Certificates are filed in Purchasing.

Performance Bond Labour and Material Payment Bond
A Performance and/or Labour and Material Payment Bond may be required where risk to BWP is evident. Determination of risk will be made in cooperation with General Manager & Secretary of BWP.

2.14 General Terms and Conditions

BWP's General Terms and Conditions (exhibit 6.02) are provided to standardize certain basic rights and obligations.

2.15 Supplementary Terms and Conditions

Clauses developed to cover a specific requirement or risk.

2.16 Additional Terms and Conditions of Order

Occasionally there will be a need for the insertion of special clauses to further define the rights and obligations of the parties to the Purchase Order.

By definition, these statements are written to cover a special situation, therefore standardization is not possible.

TYPES OF PURCHASE ORDERS

2.17 Fixed-Price Indefinite Quantity Purchase Order

Requirements for supplies which are requisitioned on a repetitive basis may, in some cases, be fulfilled most advantageously with the use of a fixed-price indefinite quantity purchase order. While this type or order clearly offers the advantage of simplifying purchases and reducing transaction costs, it should be used when all of the following conditions are present:

- Required items can be grouped properly into a single R.F.P.
- Estimates of requirements are reasonable

- Subject to the fixed price procurements
- A stable market is anticipated
- Anticipated quantities of individual orders are not sufficient to obtain favourable prices by individual orders

All such orders must state a dollar limitation of the commitment and termination date. The use of these types of contracts are beneficial and should be sought out.

2.18 Blanket Orders

Blanket Orders are a valuable technique in the following circumstances:

Blanket orders are useful and offer cost saving benefits for the purchase of consumables, repetitive items, and miscellaneous supplies picked up or ordered on a frequent basis. Can also be used successfully to cover ongoing services (see Exhibits 6.7A and 6.7B). Normally blanket orders are renewed annually, however, longer duration contracts may have price advantages and save on precious in-house resources.

Blanket orders can reduce inventory costs by supplying materials/equipment only as they are required **Just In Time.** BWP needs only to maintain minimum stock.

When possible, Blanket Orders should state the dollar limitation of the commitments and the termination date of the order. The names of the persons who are authorized to obtain such material should be specified and only the Purchasing Department or those authorized persons should be allowed to make releases against the order.

Releases should be confirmed in writing with copies to Purchasing, Receiving and Accounting.

No Blanket Order should be issued without first soliciting proposals from vendors that are capable of furnishing quality products and services. The date of the contract must be noted on the Purchase Order. Continual review of such orders should be made to ensure that pricing schedule remains as quoted.

2.19 Rentals

Bare Rentals – Equipment, Tools, etc. (See Exhibit 6.8 Sample of Purchase Order)

The following information is required on the Purchase Order:

- Complete description – make, model, serial number
- General description, age, condition
- Rental fees (day. week, month)
- Rental period
- Replacement cost
- Freight, loading terms and charges – incoming and outgoing
- Responsibility for maintenance, repairs, downtime
- Insurance
- Maximum expenditure authorized for payment

Note: In addition to normal receiving procedures, as bare rental equipment is received, the receiver should perform an inspection. The following should be noted on receiving report:

- Conditions of equipment
- Make, model, serial number
- Mechanical condition
- Condition of tires (if applicable0
- Mileage and/or hour meter reading
- Other germane observations/comments

If there appear to be excessive wear or the presence of defects, the Lessor should be made aware of the problems in writing. This will preclude claims or back charges when equipment is returned “Off Rent”.

A “Shipping Order” must be completed by the warehouse when equipment is terminated and returned. A change order or fax should be issued when equipment is terminated confirming conclusion of the transaction.

2.20 Time and Material (Labour/Material/Equipment)

A Time and Material Contract is recommended where the scope of work is not clearly defined or services are required on a per unit of time basis. Contract costs are then established on progress billings based on previously bid hourly, daily or crew “charge out rates”. All invoices must be substantiated by copies of time/material sheets duly approved by BWP Site Supervisor.

2.21 Fuelled, Maintained and Operated Equipment

Operators must be covered by Workman's Compensation and the Lessor must present certification of insurance satisfactory to lessee prior to equipment being placed into operation.

Daily time sheets must be approved by the BWP Site Contact and copies of same must accompany invoices. The labour requirements clause must be part of the order.

2.22 Rental With Option to Purchase

If equipment is required for a substantial period of time it would be good business practice to negotiate a rental with option to purchase prior to rental.

2.23 Leases

Rentals and Leases are often thought of synonymous, but there are differences which have financial and tax ramifications.

Simply stated, leasing is a form of financing whereby the lessee (user) utilizes the money of the lessor to obtain equipment.

True lease agreements should be reviewed by the General Manager and/or Director of Finance.

2.24 Emergency Procurement

If the emergency is so great as to out weigh all considerations of possible price savings through the use of competitive proposals, then a full statement of the reasons justifying it shall be made a part of the purchase order file. Approval shall be sought from the Director of Finance.

2.25 Minor Purchase Orders

See Exhibit 6.7C

2.26 Changes to Purchase Orders

2.26.1 Processing Change

Change Orders are initiated to supplement purchase orders which require amendment to provide for additions to, or deletions from, original quantities of material and equipment or scope of work, changes in design, revisions to terms and conditions and shipping instructions, and completion of delivery dates.

Processing of Change Orders conforms to the procedure for processing purchase orders. A duly approve Change Order/Requisition is required prior to executing a Change Order.

2.26.2 Initiated by Engineering/Requisitioner

Change Orders to Purchase Orders involving changes in engineering design and specifications, quantity of items to be furnished, scope of work to be performed, price of goods or work, or scheduling of work are initiated by the engineer/requisitioner who will complete a Change Order and forward a copy to Purchasing for processing.

Note: Changes regarding engineering/design/schedule must be covered on a Change Order Form (see exhibit 6.9). Changes regarding goods supplied, quantities, price, etc. shall be covered on a Requisition.

2.26.3 Initiated by Buyer

Change Orders concerning the commercial provisions and Terms and Conditions of the original Purchase Order which do not involve a change in work scope or schedule, are initiated by the Buyer. These changes may be covered on a Requisition, but require the same levels of approval as the Purchase Order.

2.26.4 Preparation of Change Orders

Purchasing shall cover ***all*** changes by way of a Revised Purchase Order which must include the following:

- A numerical designation (01, 02, etc.) for Purchase Order change
- Description of the change
- Reason for the change
- Any additional or revised plans and specifications referred to in the change
- Other subject matter pertaining to the change
- Total of Change Order and Purchase Order’s cumulative value to date

2.27 Purchase Order Termination

Purchase Orders are terminated when it is in the best interest of BWP to do so. Appropriate clauses must be included in all purchases orders to establish a basis of termination and/or refer to General Terms and Conditions number seventeen (17) Termination of Convenience.

Approval for termination must be obtained from the appropriate level of authority.

2.27.1 Restocking Charges

In many cases it is possible to terminate for convenience or cancel an order at no cost when the items involved are standard to the vendor's production line and the vendor has and immediate market elsewhere for them. The first goal will always be to attempt to terminate orders on this basis.

The agreement to not-cost termination will be reflected by a Change Order to the Purchase Order indicating that such and agreement has been reached.
In many cases a termination for convenience can be arranged by agreement of the vendor to accept back into stock the items being cancelled in exchange for a reasonable restocking charge to cover the extra expense to which the vendor has been put by this action. All costs for restocking require approval by the necessary level. Purchasing will then issue a Change Order to cover.

2.28 Cost Savings

In the course of the buying function there are situations which, due to the buyer's skills and persistence, can realize a cost savings. Such instances should be documented.

Cost savings can be realized through a number of actions such as:

1. Value analysis resulting in specific material substitution for lower cost/better value.
2. Combined requirements.
3. Negotiated price decreases or additional benefits.
4. Vendor sourcing beyond the normal procedures.

Reduction in costs from normal purchasing practices such as proposal solicitation are not recognized as cost savings.

3.0 EXPEDITING

(Purchasing Function, See Exhibit 6.10)

The successful completion of a project depends on the timely scheduled delivery of material and equipment. Expediting efforts are primarily directed toward meeting and/or maintaining the current required on-site delivery dates for these products. Expediting activity involves maintaining close contact with the vendors.

All purchase orders placed are subject to expediting.

The buyer through expediting will analyze vendor plant capabilities, labour conditions, damage to vendor's premises by acts of nature, ie, flood, fire.

3.1 Buyer Responsibilities

- The buyer is also responsible to inform Requisitioners from all departments, ie operation, technical, etc. of production lead times.
- Analyze all purchase orders and ensure that all instructions contained therein are complied with by vendors.
- Maintain close adherence to the purchase order delivery dates.
- The buyer is responsible for ensuring "Approval Drawings" are approved and returned in a timely manner, ie. transformers.

4.0 SHIPPING ORDER (See Appendices)

A Shipping Order must be completed by the Originator of a shipping action and approved by Purchasing or Warehouse. A copy of the shipping order shall be retained by the originator with copies forwarded to:

- Warehousing (Shipping)
- Purchasing
- Accounts Payable

The originator is responsible for accurate completion of the form/

- Purpose of Shipment
  - Defective unit
  - Return “Off Rent”
  - Return a loaned sample, literature, piece of equipment
  - Repair of equipment
  - Calibration/Testing of equipment etc.

- Ship To
  - Complete company name and address

- Value of Goods
  - Important for Shipper/Purchaser to determine a carrier with adequate insurance to cover.
- Number of packages and estimated weights

- Quantity and description

Shipping/Purchasing will complete the following:

- Shipped via
- B.L. NO. and Date
- Freight terms – prepaid and charge
- Approved by Purchasing/Warehousing

Note: Copies can be made once the carrier/driver signs forms.

4.1 Bill of Lading

(Shippers Responsibility)
A carrier's Bill of Lading must be completed by the shipper and signed by both the shipper and the carrier. The Bill of lading provides evidence of the Contract of Carriage for the goods included in the shipment, as such, is an important legal document.

5.0 CUSTOMS

BWP has appointed a Canadian Customs Broker to act on their behalf in all matters pertaining to importation of goods into Canada and payment of import duties and taxes. Purchasing is the contact point for all correspondence with Canada Customs and the Customs Broker (exhibit 6.11).

Broker – Fritz Starber Inc.

5.1 US – Canada Free Trade Agreement – Exporters Certificate of Origin

Purchasing shall maintain a file with Certificates of Origin

BWP does not have to pay duty on goods which have been manufactured (100%) in the USA. To substantiate this the Exporter shall provide a Certificate of Origin to the Customs Broker with a copy to Purchasing. This document indicates the degree of value added in the USA.

All carrying charge calculations for Account 1570 were completed monthly using simple interest applied to the beginning balance of each month. The grand total for 1570 was used each month, regardless of the amounts allocated to respective APH Categories. This was done to easier facilitate the carrying charge calculation for 1570 as a whole.

The amounts at the end of the following table agree to Sheet 1 of the Regulatory Asset Model.

G/L Year	Month	Cumulative Total @ End of Each Month	Interest @ 7.25 %	Booked in Month:
1999	October	658.05	3.98	November
1999	November	658.05	3.98	December
1999	December	658.05	3.98	January'00
2000	January	35,569.05	214.90	February
2000	February	124,389.33	751.52	March
2000	March	152,183.40	919.44	April
2000	April	152,638.22	922.19	May
2000	May	158,093.95	955.15	June
2000	June	158,691.65	958.76	July
2000	July	174,932.50	1,056.88	August
2000	August	175,626.88	1,061.08	September
2000	September	192,683.88	1,164.13	October
2000	October	211,985.57	1,280.75	November
2000	November	237,767.27	1,436.51	December
2000	December	270,029.86	1,631.43	January'01
2001	January	441,639.15	2,668.24	February
2001	February	442,703.72	2,674.67	March
2001	March	444,519.67	2,685.64	April
2001	April	490,214.52	2,961.71	May
2001	May	546,173.19	3,299.80	June

G/L Year	Month	Cumulative Total @ End of Each Month	Interest @ 7.25 %	Booked in Month:
2001	June	546,173.19	3,299.80	July
2001	July	555,880.19	3,358.44	August
2001	August	567,682.85	3,429.75	September
2001	September	1,192,382.40	7,203.98	October
2001	October	1,285,376.06	7,765.81	November
2001	November	1,339,844.74	8,094.90	December
2001	December	1,650,157.65	9,969.70	January'02
2002	January	1,848,193.14	11,166.17	February
2002	February	2,307,670.08	13,942.17	March
2002	March	2,801,765.98	16,927.34	April
2002	April	3,200,306.85	19,335.19	May
2002	May	3,400,750.27	20,546.20	June
2002	June	3,613,444.16	21,831.23	July
2002	July	3,671,237.66	22,180.39	August
2002	August	3,733,888.43	22,558.91	September
2002	September	3,744,183.55	22,621.11	October
2002	October	3,756,853.80	22,697.66	November
2002	November	3,774,322.17	22,803.20	December
2002	December	3,929,182.56	23,738.81	January'03
2003	January	3,929,182.56	23,738.81	February
2003	February	3,929,182.56	23,738.81	March
2003	March	3,929,182.56	23,738.81	April
2003	April	3,929,182.56	23,738.81	May
2003	May	3,929,182.56	23,738.81	June
2003	June	3,929,182.56	23,738.81	July

G/L Year	Month	Cumulative Total @ End of Each Month	Interest @ 7.25 %	Booked in Month:
2003	July	3,929,182.56	23,738.81	August
2003	August	3,929,182.56	23,738.81	September
2003	September	3,929,182.56	23,738.81	October
2003	October	3,929,182.56	23,738.81	November
2003	November	3,929,182.56	23,738.81	December
2003	December	3,929,182.56	23,738.81	January'04
2004	January	3,929,182.56	23,738.81	February
2004	February	3,929,182.56	23,738.81	March
2004	March	3,929,182.56	23,738.81	April
2004	April	3,929,182.56	23,738.81	May
2004	May	3,929,182.56	23,738.81	June
2004	June	3,929,182.56	23,738.81	July
2004	July	3,929,182.56	23,738.81	August
2004	August	3,929,182.56	23,738.81	September
2004	September	3,929,182.56	23,738.81	October
2004	October	3,929,182.56	23,738.81	November
2004	November	3,929,182.56	23,738.81	December
		Total =	**856,118.13**	**To End of '04**
2004	December	3,929,182.56	23,738.81	January'05
2005	January	3,929,182.56	23,738.81	February
2005	February	3,929,182.56	23,738.81	March
2005	March	3,929,182.56	23,738.81	April
2005	April	3,929,182.56	23,738.81	May
2005	May	3,929,182.56	23,738.81	June
2005	June	3,929,182.56	23,738.81	July

G/L Year	Month	Cumulative Total @ End of Each Month	Interest @ 7.25 %	Booked in Month:
2005	July	3,929,182.56	23,738.81	August
2005	August	3,929,182.56	23,738.81	September
2005	September	3,929,182.56	23,738.81	October
2005	October	3,929,182.56	23,738.81	November
2005	November	3,929,182.56	23,738.81	December
		Total =	**284,865.74**	**To End of '05**
2005	December	3,929,182.56	23,738.81	January'06
2006	January	3,929,182.56	23,738.81	February
2006	February	3,929,182.56	23,738.81	March
2006	March	3,929,182.56	23,738.81	April
		Total =	**94,955.25**	**4 mos of '06**
7.25%/12mos =	0.00604	**Total =**	**1,235,939.11**	**To Date Apr'06**