



LETTER NO. L-29-04

ROBERT J. PELLATT
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May 6, 2004

Mr. George Isherwood
Regulatory Affairs Executive
Aquila Networks Canada (British Columbia) Ltd.
P.O. Box 130
Trail, B.C. V1R 4L4

Dear Mr. Isherwood:

Re: Aquila Networks Canada (British Columbia) Ltd.

In the Application by Fortis Pacific Holdings Inc. ("Fortis Pacific") to acquire a reviewable interest in Aquila Networks Canada (British Columbia) Ltd ("Aquila", "ANCBC"), and during the ensuing process to examine the acquisition the matter of the conditions imposed as part of Commission Order No. G-31-87 was discussed at some length. Aquila acknowledged in response to an information request from registered intervenor Mr. Karow that:

"...with respect to condition 7, ANCBC's shareholder has, since the 1987 Order, maintained a board comprising five independent directors resident within the ANCBC service area, two nominees of ANCBC management and two nominees of Aquila, Inc. Within the last two years, the two nominees of ANCBC management have been resident outside the ANCBC service area.

With respect to condition 9, ANCBC retained its head office and management function in Trail for at least ten years from the date of the 1987 Order. Although within the last two years many management functions for ANCBC have been carried out at Aquila Networks Canada's [ANCL] Calgary headquarters, ANCBC continues to maintain executive and other fully-staffed offices in its service area, and certain of its senior executives spend significant amounts of time in the service area, discharging their responsibilities."

The Commission Panel appointed to hear the above reviewable interest matter is very concerned that Aquila has deviated from compliance with the conditions set out in Order No. G-31-87. Such a breach of Commission orders should normally lead to severe consequences imposed by the Commission. However, given the nature of the breach of conditions and the fact that the conditions of Order No. G-31-87 will be effectively extinguished with the issuance of Order No. G-39-04 and the completion of Fortis' acquisition of a reviewable interest in ANCBC, the Commission considers that, in the circumstances, it would not be appropriate to take steps to impose sanctions on Aquila or otherwise penalize the Utility with respect to the acknowledged violations of the 1987 Conditions.

This letter is to address this matter as raised during the written hearing process and to, even more significantly, record with the Utility the seriousness of any breaches of Commission orders, and to indicate that any future violations of Commission orders will lead to Commission action.

Yours truly,

Original signed by:

Robert J. Pellatt

LFK/cms

cc: Mr. Karl E. Gustafson, Lang Michener
Counsel for Fortis Pacific Holdings Inc.
Registered Intervenors/Interested Parties
Fortis Sale-RI/IP