

3(a)(5) of the Act.<sup>2</sup> GMI is the general partner of Gaz Métropolitain and Company, Limited Partnership ("GMCLP"), in which it holds a 77.4% interest. Through Northern New England Gas Corporation, a public-utility holding company exempt from registration under section 3(a)(1) of the Act, GMCLP owns a 100% ownership interest in Vermont Gas Systems, Inc., a Vermont gas utility company. By order of the Commission dated November 23, 1994, GMI is exempt from registration under section 3(a)(5) of the Act.<sup>3</sup> The holding companies over GMI rely upon rule 10(a)(2) for exemption from registration.<sup>4</sup>

Noverco also owns 9.8% of Enbridge Inc. ("Enbridge"), a Canadian gas public-utility company that wholly owns St. Lawrence Gas Company, Inc. ("St. Lawrence Gas"), a New York public-utility company. HQ thus holds an indirect, economic interest in St. Lawrence Gas of less than 5%.

HQ's subsidiaries also have an active presence in the United States gas and electric markets.<sup>5</sup> HQ Energy Services (U.S.) Inc. ("HQUS") is a power marketing subsidiary of HQ that was authorized by the Federal Energy Regulatory Commission (the "FERC") in November 1997 to sell electricity at wholesale within the United States at market-based rates. HQUS does not own any electric generation or transmission facilities within the meaning of the Act in North America. HQUS buys electricity from HQ for resale in the United States and is an active trader of power in the New York Independent System Operator ("New York ISO"), the New England Independent System Operator ("New England ISO") and the PJM Interconnection, organizations in which HQUS is a member.<sup>6</sup>

<sup>2</sup> HQ owns 41.2% of the share capital of Noverco Inc., a Canadian corporation that holds a 100% ownership interest in GMI.

<sup>3</sup> Holding Co. Act Release No. 26170.

<sup>4</sup> Rule 10(a) in pertinent part provides an exemption for a holding company that is such "solely by reason of such company having as a subsidiary any company which, insofar as it is \* \* \* a holding company, is: (2) A company exempted as a holding company \* \* \* under subparagraph [3(a)(5) of the Act.]"

<sup>5</sup> HQ is a voluntary foreign government registrant of the Commission. HQ has debt securities registered under section 12(b) of the Securities Exchange Act of 1934 and files an Annual Report on Form 18-K.

<sup>6</sup> HQ also holds an indirect ownership interest in Bucksport Energy LLC ("Bucksport Energy"), which owns 72.2% of a qualifying cogeneration facility located in Bucksport, Maine. Energy Holding, Inc., a wholly owned subsidiary of HQ, owns 38.8% of Bucksport Energy's membership interests. MEG Holding US Corporation owns the remaining 61.12% interest. MEG Holding US Corporation is wholly owned by Multinational Electricity and Gas Corporation, which, in turn, is 50% owned by HQ.

HQ's transmission activities in the United States are held through an intermediate entity, TEI. TEI, a Canadian corporation, is a wholly owned subsidiary of HQ, with which TEI is fully consolidated.<sup>7</sup> At present, TEI has no utility or non-utility businesses in the United States except its indirect interest in the Project described below.

TEUS, currently a Delaware corporation, is owned by TEI.<sup>8</sup> Applicants state that, by holding TEUS through a conduit such as TEI, HQ can satisfy its legal mandate of conducting operations solely within the province of Québec.

## II. The Transaction

### A. The Project

TEUS and UIL Holdings Corporation ("UIL"), a Connecticut public-utility holding company exempt from registration under section 3(a)(1) of the Act by rule 2, have formed a joint venture for the construction, financing and ownership of a new merchant transmission facility between Connecticut and New York (the "Project").<sup>9</sup> The Project consists of a 26-mile high-voltage direct-current transmission cable system underneath the Long Island Sound that will connect the electric transmission grids of Connecticut and Long Island, New York, and provide additional power transfer capability of up to 330 megawatts in both directions between New Haven, Connecticut and Brookhaven/Shoreham, New York.

TEUS has obtained approval from the FERC to sell transmission service at negotiated rates that reflect the difference between generation prices in Connecticut and Long Island. The Project will not have any retail customers. It will sell only rights to transmission capacity, and will not take title to, or sell, electricity. Its sole customer will be the Long Island Lighting Company, doing business as

HQ therefore owns 49.9968% of the Bucksport facility, which commenced operations in January 2001.

<sup>7</sup> TEI does not publish financial statements separate from those of HQ.

<sup>8</sup> At present, TEUS is a Delaware corporation. A New York corporation, TransEnergie Newco, Inc. ("TEUS-NY") has been authorized to be formed as a wholly owned subsidiary of TEI. Applicants state that all necessary corporate approvals have been obtained to merge TEUS into TEUS-NY with the latter being the surviving corporation. Applicants state that upon receipt of the Commission's approval and following the filing of the various certificates of merger, TEUS-NY, a New York corporation will hold 100% of the Class A membership interest in CSC-NY and 75% of the Class B membership interest in CSC-NY.

<sup>9</sup> The sole public-utility subsidiary company of UIL is The United Illuminating Company.

LIPA. LIPA is a wholly owned subsidiary of the Long Island Power Authority, which is a corporate municipal instrumentality of the State of New York. LIPA provides retail electric service to Long Island residents and has entered into a twenty-year contract for all of the Project's available transmission capacity rights.

### B. Ownership of CSC NY

CSC NY has undertaken the construction, financing and ownership of the Project, and holds all of the Project's assets. As noted above, upon the commencement of operations, CSC NY will be an electric utility company within the meaning of section 2(a)(3) of the Act.

There are two classes of membership interests in CSC NY. A Class A membership interest entitles the holder to 100% of the voting rights. A Class B membership interest entitles the holder to a percentage of the economic benefits from the Project and no voting rights. "Economic benefits" consist of the right to income, losses and any gains or losses on the sale of the project.

TEUS owns all of the Class A membership interests in CSC NY (and thus has 100% of the voting interests) and 75% of the Class B membership interests (which entitle TEUS to 75% of the economic benefits). United Capital Investments, Inc. ("UCI"), a wholly owned subsidiary of United Resources, Inc., a non-regulated business unit of UIL, holds the remaining 25% of the Class B membership interest in CSC NY and is therefore entitled to 25% of the economic benefits in the Project. As of February 28, 2003, TEUS and UCI had made capital contributions of \$29,250,750 and \$9,750,250, respectively, for their respective membership interests in the Project.

### C. Operating and Financing Agreements

Applicants state that, upon commercial operation of the Project, both day-to-day and long-term administration of the Project will be exercised according to the following contracts and arrangements: (i) The Firm Transmission Capacity Purchase Agreement dated August 2, 2000 and as amended from time to time between TEUS, as seller, and LIPA, as buyer (the "LIPA Off-Take Agreement"), and the Assignment and Assumption Agreement between TEUS, as assignor and CSC NY, as assignee, under which CSC NY assumes all of the rights and obligations of TEUS under the LIPA Off-take Agreement; (ii) the Transmission System Operation and Maintenance Agreement dated October 13, 2000 and as amended from time to time between