SUMMARY OF LEGISLATIVE FRAMEWORK

1.0 PURPOSE
This evidence provides a summary of the extensive legislative framework including legislation, regulations and other governmental requirements that govern OPG and that apply to OPG’s regulated facilities. It also summarizes relevant best practices and guidelines to which OPG adheres particularly in matters where regulations are under development.

2.0 INTRODUCTION
OPG is subject to provincial and federal legislation and regulations, including the decisions of administrative tribunals or other regulatory bodies whose powers are derived from such legislation or regulations (i.e., the Ontario Energy Board, the Independent Electricity System Operator or the Canadian Nuclear Safety Commission), and to Canada’s international obligations under certain international treaties (i.e., regarding international boundary waters and nuclear safeguards) which translate into a complex series of agreements between Canada and Ontario and related legislation which pass the obligations to OPG. Collectively, these sources dictate many of the constraints within which OPG is permitted to operate its prescribed facilities and manage its business. OPG must comply with all of these and they represent key cost drivers to OPG, and particularly to the prescribed facilities.

3.0 ONTARIO ENERGY BOARD ACT, 1998
The Ontario Energy Board Act, 1998 (“Act”), when read in conjunction with O. Reg. 53/05, as made under the act, as amended (“Regulation”), establishes that OPG is a prescribed generator for the purposes of section 78.1 of the Act. As such, section 78.1 provides that OPG is entitled to receive payments with respect to the output from generating units at the following facilities, which have been prescribed by the Regulation:

Regulated Hydroelectric Facilities
- The Niagara Plant Group, comprised of:
  o Sir Adam Beck I Generating Station
  o Sir Adam Beck II Generating Station
Sir Adam Beck Pump Generating Station
DeCew Falls I Generating Station
DeCew Falls II Generating Station
R. H. Saunders Generating Station

Nuclear Facilities
• Pickering A Generating Station
• Pickering B Generating Station
• Darlington Generating Station

The payment amounts for the output from the prescribed facilities are determined in accordance with the order of the OEB then in effect. Section 78.1 further provides that the OEB must make its orders for payments that the OEB determines to be just and reasonable in accordance with the rules that are set out in the Regulation.

Section 5 of the Regulation includes rules concerning the establishment of deferral and variance accounts. The Regulation requires OPG to have established eight transitional variance and deferral accounts for the period up to the date of the OEB’s first order (April 1, 2008) and that OPG establish three variance or deferral accounts to capture certain costs incurred on and after the effective date of the OEB’s first order. The three continuing accounts required by the Regulation are the Pickering A return to service deferral account (per section 5(4)), the nuclear liability deferral account (per section 5.2) and the nuclear development variance account (per section 5.2).

Section 6 of the Regulation establishes rules that apply to the determination of payment amounts by the OEB. The rules authorize the OEB to establish the form, methodology, assumptions and calculations for determining payment amounts. The Regulation specifies a number of costs that must be recovered through the payment amounts. These include:
• Any balance in the Pickering A Generating Station Return to Service deferral account (section 6 (2) 3) over a period not to exceed 15 years (see Exhibit H1, Tabs 1-3, Ex. H1-T1-S1 Tables 1-1d and 5, Ex. H1-T2-S1 Table 2).
• Costs and firm financial commitments incurred for investments to increase the output of, refurbish or add operating capacity to a nuclear or regulated hydroelectric generating facility if the OEB is satisfied that they were prudently incurred (section 6 (2) 4) (see Exhibit H1, Tabs 1-3, Ex. H1-T1-S1 Tables 1-1d, 8, Ex. H1-T2-S1 Table 2, Ex. D2-T1-S3, Ex. F2-T2-S3).

• Costs and firm financial commitments incurred in the course of planning and preparation for the development of proposed new nuclear facilities, if the OEB is satisfied they were prudently incurred (section 6 (2) 4.1). Any balances are to be recovered over a period not to exceed three years (section 6 (2) 7.1) (see Exhibit H1, Tabs 1-3, Tables 1-1d, 6 and Ex. H1-T2-S1 Table 2, Ex. D2-T1-S3).

• Any balance in the nuclear liability deferral accounts (section 6 (2) 7) over a period not to exceed three years (see Exhibit H1, Tabs 1-3, Ex. H1-T1-S1 Tables 1-1d, Ex. H1-T2-S1 Table 2, Ex. C2-T1-S1).

• All of the costs OPG incurs in connection with the Ontario Nuclear Funds Agreement (section 6 (2) 8) (see Exhibit H1, Tabs 1-3 Tables 1-1d, Ex. H1-T2-S1 Table 2, Ex. C2-T1-S1).

• All of the costs OPG incurs with respect to the Bruce Generating Stations and the excess earnings over cost from the lease of the Bruce Generating Stations shall be applied to reduce the revenue requirement of the nuclear generating facilities (section 6 (2) 9, 10) (see G2-T2-S1, Exhibit H1, Tabs 1-3, Ex. H1-T1-S1 Tables 1-1d, 10, 10a, Ex. H1-T2-S1 Table 2).

The relevant provisions of the Act are provided at Attachment 1 to this exhibit. The Regulation, in its entirety, is provided at Attachment 2.

4.0 ELECTRICITY ACT, 1998

Part IV.1 of the Electricity Act, 1998 is of direct application to OPG. The provisions set out in this Part of the Electricity Act, 1998 establish the objects of OPG as well as certain basic obligations on OPG to provide reports to its shareholder.
5.0 ELECTRICITY MARKETS

Under authority granted to it by the Electricity Act, 1998, the Independent Electricity System Operator (“IESO”) administers and ensures compliance with the Market Rules for the Ontario Electricity Market (the “Market Rules”). All of OPG’s prescribed generating facilities are registered in the IESO-controlled markets and are therefore obligated to comply with all applicable Market Rules. The Market Rules govern the IESO-controlled grid and establish and govern competitive markets for the wholesale sale and purchase of electricity and ancillary services in Ontario. Among other things, the Market Rules govern:

- the conveying of electricity into, through or out of the IESO-controlled grid and the provision of ancillary services.
- the terms and conditions for authorization to participate in the IESO-administered market or to cause or permit electricity to be conveyed into, through or out of the IESO-controlled grid.
- the manner in which electricity and ancillary services are sold, purchased, and dispatched in the IESO-administered markets.

OPG’s operation of the prescribed facilities is therefore significantly influenced by the requirements of the Market Rules.

6.0 OEB LICENCE

OPG is the holder of an Electricity Generation Licence (EG-2003-0104) from the OEB, which is valid until October 30, 2023 (the “Licence”). The Licence is provided in Attachment 3. The Licence applies to all generating stations that are owned or owned and operated by OPG, including the prescribed facilities. The Licence obligates OPG to comply with all applicable provisions of the Ontario Energy Board Act, the Electricity Act, all regulations under these Acts, as well as all applicable Market Rules. The Licence further obligates OPG to enter into agreements for the supply of energy or ancillary services where the IESO deems necessary for the purpose of maintaining the reliability and security of the IESO-controlled electricity grid. Ancillary services provided by the regulated hydroelectric facilities are discussed at Ex. G1-T1-S1 and for the nuclear facilities at Ex. G2-T1-S1.
7.0 REGULATED HYDROELECTRIC FACILITIES

OPG’s regulated hydroelectric facilities are subject to international treaties between Canada and the United States, federal and provincial regulatory and legislative requirements, and the common law as it pertains to riparian interests, waterways, and real property. Collectively these laws and requirements impose various costs and constraints on the operation and management of these facilities. Of particular note are the complex body of constraints that, along with the natural variations in water levels, govern the availability of water for OPG’s use in generating electricity at these facilities. These regulatory constraints are particularly complex and cumbersome for the regulated hydroelectric facilities because these facilities are supplied by international boundary waters (the Niagara River and the St. Lawrence River). Also of note are OPG’s dam safety activities and programs that relate to each of the 27 dams that are associated with the regulated hydroelectric facilities. Regulatory regimes that are uniquely applicable to OPG’s regulated hydroelectric generating facilities are in the areas of rights to use water for the purposes of generation, dam safety, and environmental protection. The key regulatory obligations and constraints applicable to the regulated hydroelectric facilities are highlighted below.

7.1 Water Rights and Usage

Relevant legislation and international agreements include:

- the Public Lands Act (Ontario).
- the Lakes and Rivers Improvement Act (Ontario).
- the Niagara Parks Act.
- the Boundary Waters Treaty of 1909 between Great Britain and the United States (sanctioned by the Parliament of Canada).
- the Niagara Diversion Treaty of 1950 between Canada and the United States.
- Memoranda of Understanding for Joint Works between OPG and the New York Power Authority, which provide obligations to operate and maintain certain international works and cost sharing mechanisms for such works.
- Memorandum of Understanding between OPG and the New York Power Authority which provides, among other things, for the coordination of generation between the parties to maximize generation from the total amount of water available.
• the *Electricity Act, 1998*, section 92.1, which addresses the gross revenue charge.

### 7.2 Dam Safety

OPG’s Dam Safety Policy and Program is critical for safety associated with the regulated hydroelectric facilities and their operations. The policy requires that all OPG dams be designed, constructed, operated and maintained in accordance with all regulations. In the absence of a specific regulation, the Canadian Dam Association (“CDA”) – Dam Safety Guidelines (2007) or other appropriate industry standards shall apply.

Dam safety legislation does not currently exist for dams located in the Province of Ontario. However, the Ontario Ministry of Natural Resources (“MNR”) is developing regulations which will be applicable to dams in Ontario.

Currently, OPG maintains internal standards for dam safety, which are aligned with but more detailed than the CDA Dam Safety Guidelines. These Guidelines and OPG’s internal standards provide guidance on dam safety covering: inspections, testing of flow control equipment, emergency preparedness planning, periodic reviews of safety and other aspects considered critical for ensuring the safety of the regulated hydroelectric facilities and their operations.

Relevant dam safety guidelines and legislation include:

- The Canadian Dam Association (“CDA”) – Dam Safety Guidelines (2007) have been accepted by most Provincial governments and other jurisdictions of Canada as the de facto standards where government regulations are not in place. OPG maintains alignment with the CDA – Dam Safety Guidelines, consistent with major dam operators in Canada.

- The *Lakes and Rivers Improvement Act* requires OPG to obtain approvals for the construction, alteration, improvement, or repair of dams.

- The *Navigable Waters Protection Act* requires OPG to obtain location approvals for all dams and governs the installation of in-water works built or placed in, on, over, under,
through or across any navigable water, such as safety booms and buoys associated with
the OPG Waterways Public Safety Program.

• The International Joint Commission, an international body created pursuant to the
  Boundary Waters Treaty of 1909, has jurisdiction over all cases involving the use or
  obstruction or diversion of boundary waters, including certain dams and structures
  situated in the Niagara and St. Lawrence Rivers. OPG’s use of these waters and OPG’s
  works which may affect the water levels are therefore constrained.

• OPG’s waterways public safety requirements which it proposes form the bases for dam
  safety regulations currently under development by the Ontario Ministry of Natural
  Resources.

7.3 Environmental
The following environmental legislation and best practice standards impact OPG’s regulated
hydroelectric facilities:

• Fisheries Act (Canada)
• Conservation Authorities Act (Ontario)
• Environmental Assessment Act (Ontario)
• Environmental Protection Act (Ontario)
• Ontario Water Resources Act (Ontario)
• Endangered Species Act, 2007
• ISO 14001 Environmental Management System standard, to which OPG’s prescribed
  hydroelectric facilities are registered

7.4 Other
OPG’s regulated hydroelectric facilities are also subject to relevant municipal by-laws that
apply locally, as well as to more generally applicable legislative and regulatory requirements
such as in areas that include:

• Technical standards and safety including corresponding regulations and codes,
  particularly in respect of fuel storage tanks
• Heritage
• Dangerous goods transportation
8.0 NUCLEAR GENERATING FACILITIES

8.1 Nuclear Operations and Materials

OPG’s nuclear operations are subject to a large number of regulatory requirements, particularly under federal statutes and associated regulations that specifically govern the nuclear industry, nuclear materials, nuclear liability, and nuclear facilities. Accordingly, OPG’s nuclear operations are subject to the jurisdiction of the Canadian Nuclear Safety Commission (“CNSC”), an independent federal government agency that derives its powers from, and is responsible for administering, ensuring compliance with and enforcing the Nuclear Safety and Control Act (Canada), which is described below. While the nuclear regulatory regime to which OPG is subject helps to ensure and guide OPG in the safe and secure operation of its nuclear facilities, it is a regime that is particularly rigorous and highly prescriptive in nature. As a result, these requirements are a significant driver of costs and operational constraints for OPG in respect of its nuclear operations. Several of the key regulatory regimes that are uniquely applicable to OPG’s nuclear facilities are discussed below.

The purpose of the Nuclear Safety and Control Act (Canada) is to limit the risks to national security, health and the safety of persons and the environment that are associated with the development, production and use of nuclear energy, as well as to limit risks associated with the production, possession and use of nuclear substances, certain equipment and certain related information. This Act also implements particular measures to which Canada has agreed respecting international control of the development, production and use of nuclear energy, including the non-proliferation of nuclear weapons and nuclear explosive devices. In addition, this Act establishes the CNSC and delineates the powers of the Commission.

The CNSC is authorized under this Act to regulate the development, production and use of nuclear energy, as well as to regulate the production, possession, use and transport of
nuclear substances and prescribed equipment. As such, the CNSC’s regulatory control extends to regulating all aspects of site selection, construction, operation and maintenance (including refurbishment for life extension), and decommissioning of nuclear facilities, that have bearing on the purposes of the Act.

The CNSC exercises its mandate in respect of OPG’s nuclear operations largely by means of the issuance of operating licences and amendments, as well as through continuous monitoring and inspections to ensure compliance with operating licences, relevant standards and applicable regulations. The regulator will issue requests for action and information on a routine basis in the order of 400 pieces of correspondence per station per year. These licences, which must be renewed approximately every five years for the generating stations (or ten years in respect of certain nuclear waste facilities), impose numerous conditions and constraints on OPG, including obligations to comply with Regulatory Guidance Documents issued by the CNSC and various external standards and codes (i.e., National Building Code, National Fire Code). Sometimes, new safety-based regulations are imposed and the economic impact is not a primary concern. These conditions and constraints, while not imposing a limiting date for continued operation of a nuclear facility, need to be addressed on an on-going basis to justify fitness for service and continued operation. For refurbishment of nuclear power plants for life extension, the regulatory process and CNSC expectations have been documented in Regulatory Document RD—360, Life Extension of Nuclear Power Plants. This document outlines expectations for, and CNSC acceptance of, integrated safety reviews against modern codes and standards, including an Environmental Assessment, and the ensuing integrated implementation plan for the corrective actions and safety improvements. Regulatory control over the latter would be exercised through amended operating licences by including licence conditions to be met in the return-to-service phase of the project.

OPG holds three Power Reactor Operating Licences from the CNSC, which allow for operation of Pickering A, Pickering B, and Darlington, as well as separate licences that authorize the operation of nuclear waste management facilities. In addition, OPG holds licences for nuclear waste packaging, the construction of new waste management facilities
and the possession, transport, and import/export of various nuclear substances. Further
discussion of the applicability of the *Nuclear Safety and Control Act* (Canada) to OPG’s
management of nuclear waste is set out at Ex. C2-T1-S1. In addition to the resources and
costs associated with compliance with the conditions in these licences, the application
process for each licence, including significant amendments or renewal, requires extensive
preparation and the conduct of public hearings involving CNSC staff and intervening
stakeholders. Also significant is the CNSC’s power under the *Nuclear Safety and Control Act*
to make regulations in the licensing area. OPG’s nuclear facilities are required to operate in
accordance with numerous regulations under this Act, including the following:

- General Nuclear Safety and Control Regulations
- Class 1 Nuclear Facilities Regulations
- Packaging and Transport of Nuclear Substances Regulations
- Nuclear Security Regulations
- Nuclear Non-proliferation Import and Export Control Regulations
- CNSC Cost Recovery Fees Regulations

A person or organization may only possess or dispose of nuclear substances, or construct,
operate and decommission nuclear facilities in accordance with the terms of a licence issued
by the CNSC, with such terms incorporating the applicable requirements set out in the
regulations. When applying for such a licence, the applicant must demonstrate that they are
qualified to carry out the activities authorized by the licence and that they “will, in carrying on
that activity, make adequate provision for the protection of the environment, the health and
safety of persons and the maintenance of national security and measures required to
implement international obligations to which Canada has agreed.” OPG is also required
under such licences to undertake extensive recordkeeping, including retaining numerous
records in some cases for the life of the station and to provide both routine and unusual
event reports on its operations to the CNSC. Compliance with international and national
standards in relation to matters such as nuclear safeguards and radioactive emissions are
other examples of conditions that are incorporated into station licences.
It is a fundamental principle of nuclear regulation that the licensee, in this case OPG, bears responsibility for the safe operation of nuclear facilities. The CNSC sets safety objectives in areas such as radiation protection, physical site security, and the transport of radioactive materials. OPG is required to design, implement, monitor, and continually improve upon its extensive programs in each of these critical areas. The CNSC audits OPG’s performance against these objectives, continually monitors OPG’s safety performance and reports annually to Parliament with an assessment of licensee performance in all areas of nuclear safety. The delivery and continual improvement of these programs represent a significant cost driver for OPG in respect of the regulated nuclear facilities.

To assist licensees in complying with the complex array of regulatory requirements, the CNSC also issues a variety of regulatory guidance documents. It is OPG’s practice to incorporate the directions from these guidance documents into the design and operating documents for OPG’s nuclear generating stations.

Heavy water is a controlled substance under the Nuclear Safety and Control Act. Heavy water is noteworthy because, in addition to requiring authorization under a licence issued by the CNSC, the export and import of heavy water requires a permit issued by the Export Controls Division of the Department of External Affairs and International Trade. The requirements for export and import permits are stipulated by the Export and Import Permits Act. An import licence is required where customers return heavy water to OPG for upgrading and clean-up services. Exhibit G2-T1-S1 presents a detailed discussion of heavy water sales and services.

8.2 Civil Liability
OPG is subject to the Nuclear Liability Act (Canada), which governs civil liability for nuclear damage in Canada. Proposed changes to this legislation which are likely to come into effect in 2011 will result in an increase to OPG’s risk management costs (see Ex. F4-T4-S2) which are centrally-held and, in turn, directly assigned to Nuclear.
8.3 Nuclear Waste Management

The Nuclear Safety and Control Act provides the CNSC with authority over nuclear waste from a health, safety and environmental protection perspective. The CNSC licenses all of OPG’s waste management facilities. OPG is also subject to the Nuclear Fuel Waste Act (Canada). The Nuclear Fuel Waste Act (Canada) addresses the long-term handling and disposal of used nuclear fuel.

Coincident with the formation of OPG on April 1, 1999, OPG and the Province of Ontario entered into the Ontario Nuclear Funds Agreement (“ONFA”). The ONFA is an agreement that generally establishes the responsibilities for funding the nuclear waste management and decommissioning liabilities that OPG inherited from Ontario Hydro.

The Nuclear Safety and Control Act, the Nuclear Fuel Waste Act (Canada), and ONFA are discussed in greater detail at Ex. C2-T1-S1.

8.4 Environmental

With respect to environmental matters, projects associated with OPG’s nuclear facilities, including the nuclear waste management facilities, can, depending on fact-specific determinations, be subject to requirements for the preparation of costly and resource-intensive environmental assessments under the Canadian Environmental Assessment Act (Canada). In addition, nuclear operations are subject to a wide range of environmental legislation and regulation, both federal (e.g., Fisheries Act, Canadian Environmental Protection Act, Transportation of Dangerous Goods Act, Species at Risk Act) and provincial (e.g., Environmental Protection Act, Ontario Water Resources Act, Endangered Species Act, 2007), along with the associated costs of compliance and the need to respond to rapidly changing regulatory requirements in these areas. Also, like the hydroelectric facilities, OPG’s nuclear generating facilities operate in accordance with their certifications under the ISO 14001 environmental management system standard.
8.5 Other

Beyond the nuclear-specific federal requirements described above, two pieces of provincial legislation apply in respect of the security personnel associated with OPG’s nuclear generating facilities. These are the *Police Security Act* (Ontario) and the *Public Works Protection Act* (Ontario).

OPG’s nuclear facilities are subject to generally applicable legislation and regulations in areas such as public access to information (Ontario or, indirectly as an affected third party, Canada), occupational health and safety (Ontario), employment standards (Ontario) and labour relations (provincial and federal), shipping and hazardous products as well as relevant municipal by-laws.
LIST OF ATTACHMENTS

1. Attachment 1: Section 78.1 of the OEB Act
2.
3. Attachment 2: Ontario Regulation 53/05
4.
5. Attachment 3: OPG Generation Licence
Payments to prescribed generator

78.1 (1) The IESO shall make payments to a generator prescribed by the regulations, or to the OPA on behalf of a generator prescribed by the regulations, with respect to output that is generated by a unit at a generation facility prescribed by the regulations. 2004, c. 23, Sched. B, s. 15.

Payment amount

(2) Each payment referred to in subsection (1) shall be the amount determined,

(a) in accordance with the regulations to the extent the payment relates to a period that is on or after the day this section comes into force and before the later of,

(i) the day prescribed for the purposes of this subsection, and

(ii) the effective date of the Board’s first order in respect of the generator; and

(b) in accordance with the order of the Board then in effect to the extent the payment relates to a period that is on or after the later of,

(i) the day prescribed for the purposes of this subsection, and

(ii) the effective date of the Board’s first order under this section in respect of the generator. 2004, c. 23, Sched. B, s. 15.

OPA may act as settlement agent

(3) The OPA may act as a settlement agent to settle amounts payable to a generator under this section. 2004, c. 23, Sched. B, s. 15.

Board orders

(4) The Board shall make an order under this section in accordance with the rules prescribed by the regulations and may include in the order conditions, classifications or practices, including rules respecting the calculation of the amount of the payment. 2004, c. 23, Sched. B, s. 15.

Fixing other prices

(5) The Board may fix such other payment amounts as it finds to be just and reasonable,

(a) on an application for an order under this section, if the Board is not satisfied that the amount applied for is just and reasonable; or

(b) at any other time, if the Board is not satisfied that the current payment amount is just and reasonable. 2004, c. 23, Sched. B, s. 15.

Burden of proof

(6) Subject to subsection (7), the burden of proof is on the applicant in an application made under this section. 2004, c. 23, Sched. B, s. 15.

Order

(7) If the Board on its own motion or at the request of the Minister commences a proceeding to determine whether an amount that the Board may approve or fix under this section is just and reasonable,

(a) the burden of establishing that the amount is just and reasonable is on the
generator; and

(b) the Board shall make an order approving or fixing an amount that is just and reasonable. 2004, c. 23, Sched. B, s. 15.

Application

(8) Subsections (4), (5) and (7) apply only on and after the day prescribed by the regulations for the purposes of subsection (2). 2004, c. 23, Sched. B, s. 15.

Payments to the Financial Corporation
Ontario Energy Board Act, 1998
Loi de 1998 sur la Commission de l’énergie de l’Ontario

ONTARIO REGULATION 53/05
PAYMENTS UNDER SECTION 78.1 OF THE ACT

Consolidation Period: From February 19, 2008 to the e-Laws currency date.

Last amendment: O. Reg. 27/08.

This Regulation is made in English only.

Definition

0.1 In this Regulation,

“approved reference plan” means a reference plan, as defined in the Ontario Nuclear Funds Agreement, that has been approved by Her Majesty the Queen in right of Ontario in accordance with that agreement;

“nuclear decommissioning liability” means the liability of Ontario Power Generation Inc. for decommissioning its nuclear generation facilities and the management of its nuclear waste and used fuel;

“Ontario Nuclear Funds Agreement” means the agreement entered into as of April 1, 1999 by Her Majesty the Queen in right of Ontario, Ontario Power Generation Inc. and certain subsidiaries of Ontario Power Generation Inc., including any amendments to the agreement. O. Reg. 23/07, s. 1.

Prescribed generator

1. Ontario Power Generation Inc. is prescribed as a generator for the purposes of section 78.1 of the Act. O. Reg. 53/05, s. 1.

Prescribed generation facilities

2. The following generation facilities of Ontario Power Generation Inc. are prescribed for the purposes of section 78.1 of the Act:

1. The following hydroelectric generating stations located in The Regional Municipality of Niagara:
   i. Sir Adam Beck I.
   ii. Sir Adam Beck II.
   iii. Sir Adam Beck Pump Generating Station.
   iv. De Cew Falls I.
   v. De Cew Falls II.

2. The R. H. Saunders hydroelectric generating station on the St. Lawrence River.

3. Pickering A Nuclear Generating Station.

4. Pickering B Nuclear Generating Station.

5. Darlington Nuclear Generating Station. O. Reg. 53/05, s. 2; O. Reg. 23/07, s. 2.

Prescribed date for s. 78.1 (2) of the Act

3. April 1, 2008 is prescribed for the purposes of subsection 78.1 (2) of the Act. O. Reg. 53/05, s. 3.

Payment amounts under s. 78.1 (2) (a) of the Act

4. (1) For the purpose of clause 78.1 (2) (a) of the Act, the amount of a payment that the IESO is required to make with respect to a unit at a generation facility prescribed under section 2 is,

(a) for the hydroelectric generation facilities prescribed in paragraphs 1 and 2 of section 2, $33.00 per megawatt hour with respect to output that is generated during the period from April 1, 2005 to the later of,
   (i) March 31, 2008, and
   (ii) the day before the effective date of the Board’s first order in respect of Ontario Power Generation Inc.; and
(b) for the nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2, $49.50 per megawatt hour with respect to output that is generated during the period from April 1, 2005 to the later of,

(i) March 31, 2008, and

(ii) the day before the effective date of the Board’s first order in respect of Ontario Power Generation Inc. O. Reg. 53/05, s. 4 (1).

(2) Despite subsection (1), for the purpose of clause 78.1 (2) (a) of the Act, if the total combined output of the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 exceeds 1,900 megawatt hours in any hour, the total amount of the payment that the IESO is required to make with respect to the units at those generation facilities is, for that hour, the sum of the following amounts:

1. The total amount determined for those facilities under clause (1) (a), for the first 1,900 megawatt hours of output.

2. The product obtained by multiplying the market price determined under the market rules by the number of megawatt hours of output in excess of 1,900 megawatt hours. O. Reg. 53/05, s. 4 (2).

(2.1) The total amount of the payment under subsection (2) shall be allocated to the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 on a proportionate basis equal to each facility’s percentage share of the total combined output in that hour for those facilities. O. Reg. 269/05, s. 1.

(2.2) Subsection (2.1) applies in respect of amounts payable on and after April 1, 2005. O. Reg. 269/05, s. 1.

(3) For the purpose of this section, the output of a generation facility shall be measured at the facility’s delivery points, as determined in accordance with the market rules. O. Reg. 53/05, s. 4 (3).

Deferral and variance accounts

5. (1) Ontario Power Generation Inc. shall establish a variance account in connection with section 78.1 of the Act that records capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecasts as set out in the document titled “Forecast Information (as of Q3/2004) for Facilities Prescribed under Ontario Regulation 53/05” posted and available on the Ontario Energy Board website, that are associated with,

(a) differences in hydroelectric electricity production due to differences between forecast and actual water conditions;

(b) unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear generation facilities, excluding revenue requirement impacts described in subsections 5.1 (1) and 5.2 (1);

(c) changes to revenues for ancillary services from the generation facilities prescribed under section 2;

(d) acts of God, including severe weather events; and

(e) transmission outages and transmission restrictions that are not otherwise compensated for through congestion management settlement credits under the market rules. O. Reg. 23/07, s. 3.

(2) The calculation of revenues earned or foregone due to changes in electricity production associated with clauses (1) (a), (b), (d) and (e) shall be based on the following prices:

1. $33.00 per megawatt hour from hydroelectric generation facilities prescribed in paragraphs 1 and 2 of section 2.

2. $49.50 per megawatt hour from nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2. O. Reg. 23/07, s. 3.

(3) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

(4) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A Nuclear Generating Station, including those units which the board of directors of Ontario Power Generation Inc. has determined should be placed in safe storage. O. Reg. 23/07, s. 3.

(5) For the purposes of subsection (4), the non-capital costs include, but are not restricted to,

(a) construction costs, assessment costs, pre-engineering costs, project completion costs and demobilization costs; and

(b) interest costs, recorded as simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

Nuclear liability deferral account, transition

5.1 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records for the period up to the effective date of the Board’s first order under section 78.1 of the Act the revenue requirement impact of any change in its nuclear decommissioning liability arising from an approved reference plan, approved after April 1, 2005, as reflected in the audited financial statements approved by the board of directors of Ontario Power Generation Inc. O. Reg. 23/07, s. 3.
(2) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

Nuclear liability deferral account

5.2 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records, on and after the effective date of the Board’s first order under 78.1 of the Act, the revenue requirement impact of changes in its total nuclear decommissioning liability between,

(a) the liability arising from the approved reference plan incorporated into the Board’s most recent order under section 78.1 of the Act; and

(b) the liability arising from the current approved reference plan. O. Reg. 23/07, s. 3.

(2) Ontario Power Generation Inc. shall record interest on the balance of the account as the Board may direct. O. Reg. 23/07, s. 3.

Nuclear development deferral account, transition

5.3 (1) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records, for the period up to the effective date of the Board’s first order under section 78.1 of the Act, the costs incurred and firm financial commitments made on or after June 13, 2006, in the course of planning and preparation for the development of proposed new nuclear generation facilities that are associated with any one or more of the following activities:

1. Activities for carrying out an environmental assessment under the Canadian Environmental Assessment Act.

2. Activities for obtaining any governmental licence, authorization, permit or other approval.

3. Activities for carrying out a technology assessment or for defining all commercial and technical requirements to, or with, any third parties. O. Reg. 27/08, s. 1.

(2) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 27/08, s. 1.

Nuclear development variance account

5.4 (1) Ontario Power Generation Inc. shall establish a variance account in connection with section 78.1 of the Act that records, on and after the effective date of the Board’s first order under section 78.1 of the Act, differences between actual non-capital costs incurred and firm financial commitments made and the amount included in payments made under that section for planning and preparation for the development of proposed new nuclear generation facilities. O. Reg. 27/08, s. 1.

(2) Ontario Power Generation Inc. shall record interest on the balance of the account as the Board may direct. O. Reg. 27/08, s. 1.

Rules governing determination of payment amounts by Board

6. (1) Subject to subsection (2), the Board may establish the form, methodology, assumptions and calculations used in making an order that determines payment amounts for the purpose of section 78.1 of the Act. O. Reg. 53/05, s. 6 (1).

(2) The following rules apply to the making of an order by the Board that determines payment amounts for the purpose of section 78.1 of the Act:

1. The Board shall ensure that Ontario Power Generation Inc. recovers the balance recorded in the variance account established under subsection 5 (1) over a period not to exceed three years, to the extent that the Board is satisfied that,
   i. the revenues recorded in the account were earned or foregone and the costs were prudently incurred, and
   ii. the revenues and costs are accurately recorded in the account.

2. In setting payment amounts for the assets prescribed under section 2, the Board shall not adopt any methodologies, assumptions or calculations that are based upon the contracting for all or any portion of the output of those assets.

3. The Board shall ensure that Ontario Power Generation Inc. recovers the balance recorded in the deferral account established under subsection 5 (4). The Board shall authorize recovery of the balance on a straight line basis over a period not to exceed 15 years.

4. The Board shall ensure that Ontario Power Generation Inc. recovers capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2, including, but not limited to, assessment costs and pre-engineering costs and commitments,
   i. if the costs and financial commitments were within the project budgets approved for that purpose by the board of directors of Ontario Power Generation Inc. before the making of the Board’s first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., or
   ii. if the costs and financial commitments were not approved by the board of directors of Ontario Power Generation Inc. before the making of the Board’s first order under section 78.1 of the Act in respect of Ontario Power
Generation Inc., if the Board is satisfied that the costs were prudently incurred and that the financial commitments were prudently made.

4.1 The Board shall ensure that Ontario Power Generation Inc. recovers the costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities, to the extent the Board is satisfied that,
   i. the costs were prudently incurred, and
   ii. the financial commitments were prudently made.

5. In making its first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., the Board shall accept the amounts for the following matters as set out in Ontario Power Generation Inc.’s most recently audited financial statements that were approved by the board of directors of Ontario Power Generation Inc. before the effective date of that order:
   i. Ontario Power Generation Inc.’s assets and liabilities, other than the variance account referred to in subsection 5 (1), which shall be determined in accordance with paragraph 1.
   ii. Ontario Power Generation Inc.’s revenues earned with respect to any lease of the Bruce Nuclear Generating Stations.
   iii. Ontario Power Generation Inc.’s costs with respect to the Bruce Nuclear Generating Stations.

6. Without limiting the generality of paragraph 5, that paragraph applies to values relating to,
   i. capital cost allowances,
   ii. the revenue requirement impact of accounting and tax policy decisions, and
   iii. capital and non-capital costs and firm financial commitments to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2.

7. The Board shall ensure that the balances recorded in the deferral accounts established under subsections 5.1 (1) and 5.2 (1) are recovered on a straight line basis over a period not to exceed three years, to the extent that the Board is satisfied that revenue requirement impacts are accurately recorded in the accounts, based on the following items, as reflected in the audited financial statements approved by the board of directors of Ontario Power Generation Inc.,
   i. return on rate base,
   ii. depreciation expense,
   iii. income and capital taxes, and
   iv. fuel expense.

7.1 The Board shall ensure the balances recorded in the deferral account established under subsection 5.3 (1) and the variance account established under subsection 5.4 (1) are recovered on a straight line basis over a period not to exceed three years, to the extent the Board is satisfied that,
   i. the costs were prudently incurred, and
   ii. the financial commitments were prudently made.

8. The Board shall ensure that Ontario Power Generation Inc. recovers the revenue requirement impact of its nuclear decommissioning liability arising from the current approved reference plan.

9. The Board shall ensure that Ontario Power Generation Inc. recovers all the costs it incurs with respect to the Bruce Nuclear Generating Stations.

10. If Ontario Power Generation Inc.’s revenues earned with respect to any lease of the Bruce Nuclear Generating Stations exceed the costs Ontario Power Generation Inc. incurs with respect to those Stations, the excess shall be applied to reduce the amount of the payments required under subsection 78.1 (1) of the Act with respect to output from the nuclear generation facilities referred to in paragraphs 3, 4 and 5 of section 2. O. Reg. 23/07, s. 4; O. Reg. 27/08, s. 2.

7. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 53/05, s. 7.
Electricity Generation Licence

EG-2003-0104

Ontario Power Generation Inc.

Valid Until

October 30, 2023

Jennifer Lea
Counsel, Special Projects
Ontario Energy Board
Date of Issuance: October 31, 2003
Date of Last Amendment: March 18, 2010

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
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PART 1 GENERAL CONDITIONS

1 Definitions

In this Licence:


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

"generation facility" means a facility for generating electricity or providing ancillary services, other than ancillary services provided by a transmitter or distributor through the operation of a transmission or distribution system and includes any structures, equipment or other things used for that purpose;

"Licensee" means Ontario Power Generation Inc.;

"regulation" means a regulation made under the Act or the Electricity Act;

2 Interpretation

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

3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this licence:

a) to generate electricity or provide ancillary services for sale through the IMO-administered markets or directly to another person subject to the conditions set out in this Licence. This Licence authorizes the Licensee only in respect of those facilities set out in Schedule 1;

b) to purchase electricity or ancillary services in the IMO-administered markets or directly from a generator subject to the conditions set out in this Licence; and

c) to sell electricity or ancillary services through the IMO-administered markets or directly to another person, other than a consumer, subject to the conditions set out in this Licence.
4 **Obligation to Comply with Legislation, Regulations and Market Rules**

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act, and regulations under these acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

5 **Obligation to Maintain System Integrity**

5.1 Where the IMO has identified, pursuant to the conditions of its licence and the Market Rules, that it is necessary for purposes of maintaining the reliability and security of the IMO-controlled grid, for the Licensee to provide energy or ancillary services, the IMO may require the Licensee to enter into an agreement for the supply of energy or such services.

5.2 Where an agreement is entered into in accordance with paragraph 5.1, it shall comply with the applicable provisions of the Market Rules or such other conditions as the Board may consider reasonable. The agreement shall be subject to approval by the Board prior to its implementation. Unresolved disputes relating to the terms of the Agreement, the interpretation of the Agreement, or amendment of the Agreement, may be determined by the Board.

6 **Restrictions on Certain Business Activities**

6.1 Neither the Licensee, nor an affiliate of the Licensee shall acquire an interest in a transmission or distribution system in Ontario, construct a transmission or distribution system in Ontario or purchase shares of a corporation that owns a transmission or distribution system in Ontario except in accordance with section 81 of the Act.

7 **Provision of Information to the Board**

7.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

7.2 Without limiting the generality of paragraph 7.1 the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee, as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

8 **Term of Licence**

8.1 This Licence shall take effect on October 31, 2003 and expire on October 30, 2023. The term of this Licence may be extended by the Board.

9 **Fees and Assessments**

9.1 The Licensee shall pay all fees charged and amounts assessed by the Board.
Communication

10.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

10.2 All official communication relating to this Licence shall be in writing.

10.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; or

c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

Copies of the Licence

11.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

PART 2 PRICE CAP AND REBATE

Definitions and Interpretation

In Parts 2 through 5 inclusive of these Licence Conditions:

"Average Price" or "AP" is the price against which the Price Cap is compared to determine whether a Rebate is required in respect of a Settlement Period. The Average Price is determined by summing the product of the Hourly Price multiplied by the Contract Weight for all hours of that Settlement Period;

"Changes in Law" means changes in law (including without limitation environmental laws, laws affecting OPGI's generation facilities, tax laws and the general laws affecting the regulation of electricity in Ontario), but excluding provincial tax laws and, for greater certainty, excluding changes in licence conditions and market rules;

"Contract Required Quantity" or "CRQ" means the quantity of energy upon which any Rebate is determined, in respect of a Settlement Period, as set forth in the Model Output Data and as may be modified pursuant hereto. Subject to such adjustments, the CRQ will equal the sum of all Hourly Quantities for all hours in a Settlement Period;
"Contract Weight" or "CWₜ" means the weighting for each hour in a Settlement Period, t, that is used to calculate the Average Price. For any particular hour, the Contract Weight equals the Hourly Quantity for that hour divided by the CRQ for that Settlement Period.

"Effective Control" in respect of output means control over the timing, quantity and bidding into the Ontario market of such output;

"Force Majeure Adjustment" or "FMA" means a reduction in the Rebate as a result of a Force Majeure Event;

"Force Majeure Event" means an event defined in clause 2(c)(ii) of Part 2 below;

"Force Majeure Replacement Cost" or "FMRCₜ" means, for any particular hour in a Settlement Period, t, the predetermined net incremental replacement cost for each OPGI generation unit, as set forth in the Model Output Data that is used in determining the Force Majeure Adjustment, and as may be modified pursuant hereto. FMRCₜ may be constant in the Model Output Data over the hours in a month or other period;

"Hourly Quantity" or "Qₜ" means, for any particular hour in a Settlement Period, t, the quantity of energy upon which the Contract Weight is established, as set forth in the Model Output Data. The sum of the Hourly Quantities for all hours in a Settlement Period equals the CRQ for that Settlement Period;

"Hourly Price" or "Pₜ" means, for any particular hour in a Settlement Period, t, the unconstrained spot price for energy for that hour expressed in a price in $ per MWh, as determined by the IESO pursuant to its market rules;

"Hourly Reserve Capacity Price" is the hourly market clearing price of reserve capacity;

"Hourly Unit Quantity," or "qᵢₜ," means, for any particular hour in a Settlement Period, t, the hourly quantity of energy associated with a particular OPGI generation unit, i, upon which the Hourly Quantity is established, as set forth in the Model Output Data. The sum of all Hourly Unit Quantities for all OPGI generation units in respect of an hour equals the Hourly Quantity for that hour;

"Locational Spot Price" means, for any particular hour in a Settlement Period, t, and any particular OPGI generation unit, the spot price for energy at such generation unit's interconnection, which will only apply if location-based marginal pricing is developed in Ontario;

"Model Output Data" means the data filed with the Board. The Model Output Data contains data, some of which is confidential, derived from a production cost model of the electricity market in Ontario and neighbouring regions under the assumption that OPGI is assumed to bid its generation units in a manner that achieves an average sales price of $ 38/MWh. The resulting CRQ, Qₜ, and qᵢₜ data reflects 90 per cent of OPGI’s predicted sales to Ontario customers;

"OPGI" means Ontario Power Generation Inc.

"Potential Force Majeure Event" means an event defined in clause 2(c)(i) of Part 2 below;

"Price Cap" or "CAP" means $38/MWh, which is the threshold used in calculating the Rebate;
"Price Spike Adjustment" or "PSA" means the reduction in the Rebate as a result of qualifying price spikes, as calculated pursuant hereto;

"Prime Rate" means the variable annual rate of interest, calculated on the basis of a calendar year, announced from time to time by the IESO’s then principal Canadian banker as the reference rate of interest (commonly known as its prime rate) then in effect and used by such bank for determining interest rates on Canadian dollar denominated commercial loans made by it in Canada to customers of varying degrees of credit-worthiness;

"Rebate" or "R" means the amount OPGI must pay the IESO as a consequence of the Average Price in any Settlement Period exceeding the Price Cap, less any applicable adjustments;

"Rebate Carryforward Adjustment" or "RCA" means the adjustment in which negative Rebates from a Settlement Period are used to offset Rebates in subsequent Settlement Periods;

"Reserve Capacity Ratio" is a number greater than 1, such as 1.2, that is set by the IESO for the purposes of multiplying by the hourly demand to determine the reserve capacity target in such hour;

"Settlement Period" means each time period over which OPGI’s compliance with the Price Cap shall be measured, which shall be over a 12 month period, except that (1) the first Settlement Period shall commence on the opening of the competitive electricity market and shall consist of the first full 12 calendar months plus the days, if any, in the first partial month; and (2) the last Settlement Period shall end on the termination of the provisions of Part 2, and therefore could be less than 12 full calendar months; and

"Tier 1" capacity means all nuclear and hydroelectric generation in Ontario and "Tier 2" capacity means that portion of Ontario’s generation capacity, including inter-tie capacity and demand-side bidding, that is not part of Tier 1 capacity. For such purposes, generation capacity shall be based upon the maximum continuous rating of a unit, inter-tie capacity shall be based on the average of summer and winter season Ontario transfer capacity, and demand-side bidding shall be based on the sum of the dispatchable and interruptible loads, all expressed in MW.

All dollar amounts referred to are expressed in Canadian dollars.

2 Determination of Rebate

OPGI shall pay a Rebate to the IESO in respect of each Settlement Period in which the Average Price (AP) exceeds the Price Cap (CAP). The amount of the Rebate shall be determined in accordance with the following formula:

\[ R = (\text{AP} - \text{CAP}) \times \text{CRQ} - (\text{RCA} + \text{PSA} + \text{FMA}) \]

If the calculated Rebate in respect of any Settlement Period is a negative number, then there shall be no Rebate, and the Rebate Carryforward Adjustment shall be changed as described herein.

(a) Rebate Carryforward Adjustment
Initially, the Rebate Carryforward Adjustment ("RCA") shall be zero. In any Settlement Period in respect of which the calculated Rebate is negative, the absolute value of that amount shall be the Rebate Carryforward Adjustment for the purposes of the next Settlement Period.

(b) **Price Spike Adjustment**

A Price Spike Adjustment (PSA) shall be calculated for all hours in a Settlement Period in which both (1) the Hourly Price ($P_h$) exceeds $125/MWh, and (2) OPGI’s Generation for that hour is less than the Hourly Quantity ($Q_h$). The PSA for a Settlement Period shall equal the sum of the adjustments for each applicable hour, which shall be calculated pursuant to the following formula:

$$PSA = (P_h - 125/MWh) \times (Q_h - OPGI\text{'}s\ Generation\ for\ that\ hour)$$

where OPGI’s Generation for that hour = OPGI’s energy generated from all sources in Ontario (metered as per IESO market rules) the output of which is Effectively Controlled by OPGI and which was included as OPGI energy generated in the Model Output Data, and includes the current power purchase agreement with Manitoba Hydro.

(c) **Force Majeure Adjustment**

(i) **Potential Force Majeure Event**

A Potential Force Majeure Event is any event consisting of any of the following conditions or events that results in the loss or failure of, or the inability to operate, in whole or in part, one or more generation units in Ontario the output of which is Effectively Controlled by OPGI and that, in each case, is beyond the reasonable control of OPGI and which is not a result of OPGI’s failure to comply with pre-existing laws or licence conditions or market rules or to reasonably maintain or to use its best efforts to promptly repair any generation unit or units:

(A) acts of war, revolution, riot, sabotage, occupation or vandalism;

(B) earthquakes, tornadoes or severe storms;

(C) other acts of God;

(D) local, regional or national states of emergency;

(E) strikes or other labour disputes;

(F) other failure or damage to an OPGI generating facility, including failure or damage caused by construction defects, fire, or damage to necessary equipment and which is not a result of negligence in the maintenance or repair thereof;

(G) interruptions in the supply of fuel or other essential supplies (excluding variations in water supplies in the case of hydroelectric generation units);

(H) failure of transmission or distribution facilities in Ontario;

(i) other system emergencies in Ontario; and
(J) Changes in Law.

(ii) Definition of Force Majeure Event

A Force Majeure Event is either an Isolated Force Majeure Event or a Cumulative Force Majeure Event.

An Isolated Force Majeure Event is that portion of any Potential Force Majeure Event that occurs after the Potential Force Majeure Event has caused a reduction in the energy actually generated by the applicable units greater than 250,000 MWh from the sum of such units’ Hourly Unit Quantities during the effectiveness of such Potential Force Majeure Event.

A Cumulative Force Majeure Event occurs in a Settlement Period when the cumulative reduction in that Settlement Period of energy actually generated by affected generation units in Ontario the output of which is Effectively Controlled by OPGI caused by Potential Force Majeure Events exceeds 500,000 MWh when compared to the sum of such affected units’ Hourly Unit Quantities during the effectiveness of such Potential Force Majeure Events. OPGI will, where applicable, designate within 15 days following the end of the applicable Settlement Period that portion of Potential Force Majeure Events that is in excess of 500,000 MWh and that qualifies as a Cumulative Force Majeure Event.

A Potential Force Majeure Event, or a portion of a Potential Force Majeure Event, that qualifies as both an Isolated Force Majeure Event or a Cumulative Force Majeure Event may at the discretion of OPGI within 15 days following the end of the applicable Settlement Period be designated as either type of Force Majeure Event, but not as both, and, for greater certainty, a Potential Force Majeure Event designated as one type of Force Majeure Event by OPGI shall not be treated for purposes of determining whether the other type of Force Majeure Event has occurred.

(iii) Force Majeure Adjustment

A Force Majeure Adjustment (FMA) in respect of any Settlement Period shall be equal to the sum, for all generation units the output of which is Effectively Controlled by OPGI subject to Force Majeure Events, of the Force Majeure Replacement Cost (FMRC_n) in respect of each applicable unit for each hour during the effectiveness of each Force Majeure Event in respect of such unit during the Settlement Period, less any insurance or other recovery in respect of such loss or deemed loss.

The Force Majeure Adjustment in respect of any Settlement Period for each generation unit the output of which is Effectively Controlled by OPGI whose generation is reduced as a consequence of a Force Majeure Event shall be calculated pursuant to the following formula, prior to any recovery adjustment:

\[ \sum_{n} \left[ q_n \cdot \left( FMRCh \cdot \left( \frac{(\text{Capacity} - \text{Reduced Capacity}_n)}{\text{Capacity}} \right) \right) \right] \]

where:
Capacity = the maximum continuous rating of the unit at the time of the Force Majeure Event (at normal head for hydroelectric generation units);
and
Reduced Capacity, = the reduced capacity in an hour of the unit as a consequence of and during the effectiveness of the Force Majeure Event.

(iv) Adjustment to Force Majeure Replacement Cost

In the event that over 2,000 MW of OPGI generating capacity the output of which is Effectively Controlled by OPGI qualifies for a particular Force Majeure Event, OPGI shall have the right to petition the Board to increase the amount of the Force Majeure Replacement Cost in respect of one or more affected unit(s) in the applicable hours, which petition shall be granted if OPGI can demonstrate to the Board’s satisfaction higher incremental replacement costs (net of any variable costs avoided as a consequence of the Force Majeure Event) than those set forth in the Model Output Data.

(v) Notice

OPGI shall promptly notify the IESO of any Force Majeure Event claimed by OPGI and shall provide the IESO with all information reasonably required to verify the Force Majeure Event and to calculate the Force Majeure Adjustment.

3 Conduct of OPGI

3.1 OPGI may engage in unilateral actions to attempt to maintain Hourly prices at levels that will result in the Average Price for a Settlement Period equaling the Price Cap, plus all adjustments provided for in Part 2, Section 2 above. In the event that unilateral actions taken by OPGI cause the Average Price to exceed such a level, the sole remedy shall be for OPGI to pay the Rebate as provided for in paragraph 2 of Part 2 above.

4 Reduction to CRQ and Q,h Upon Decontrol

(a) Unadjusted Reductions

Except as may be provided in (b) below, in the event that OPGI completes the transfer of Effective Control over the output of a generation unit, as determined by the Board under Part 3, then Q,h for each hour in respect of the current and any subsequent Settlement Period shall be reduced by 110 percent of the q,h of the transferred unit for each hour subsequent to the completion of the transfer. As a result, the CRQ in respect of each applicable Settlement Period shall be reduced by these reductions in Q,h.

(b) Adjustment Necessitated by Environmental Laws

In the event that OPGI transfers Effective Control over the output of a generation unit and the transferee, at the date of completion of the transfer, does not have and cannot reasonably obtain sufficient environmental emission permits or other environmental authorizations ("emission permits"), in respect of the applicable hours in the period commencing following the completion of the transfer of Effective Control (the "applicable hours"), to enable the unit’s potential output during the applicable hours (the "transferred permitted output") to meet or exceed 110 percent times the sum for the applicable hours of the q,h of such unit (the "transferred output"), whether as the result of a change in environmental laws or otherwise, then:
(i) any adjustment to Qₙ and CRQ otherwise provided for in (a) above will be reduced by the proportion that the transferred permitted output is of the transferred output, subject to (ii) below;

(ii) in circumstances where OPGI’s remaining emission permits following the transfer of Effective Control are not sufficient to enable its remaining output during the applicable hours (the “remaining permitted output”) to meet or exceed 110 percent times the sum for the applicable hours of the qᵢᵢ’s of its remaining units, (the “remaining output”), then, in lieu of the adjustment provided for in (i) above, any adjustment to Qₙ and CRQ otherwise provided for in (a) above will be multiplied by the result of the following formula, which if greater than 1.0 shall be deemed to be equal to 1.0:

\[
\frac{\text{(transferred permitted output/transferred output)}/}{\text{(remaining permitted output/remaining output)}}, \text{ and}
\]

(iii) where the transferee’s emission permits are affected by more than one substance, then the resulting adjustment to Qₙ and CRQ otherwise provided for in (i) or (ii) above will be that which operates to constrain the transferee’s output.

5 Administration of Rebate

5.1 OPGI shall enter into and comply with a settlement agreement with the IESO consistent with the document attached as Schedule A and B to this licence.

6 Capacity Reserve Market

6.1 In the event that a capacity reserve market is developed in Ontario at any time while the provisions of Part 2 are in effect, then:

(a) the following definition of “Average Price” or “AP” shall be used in lieu of the definition provided for in paragraph 1 of Part 2 above:

“Average Price” or “AP” is the price against which the Price Cap is compared to determine whether a Rebate is required in respect of a Settlement Period. The Average Price is determined by using the following formula:

\[
\text{AP} = \sum_{h} \left[ C W_h \times \left( P_h + \text{Hourly Reserve Capacity Price} \times \text{Reserve Capacity Ratio} \right) \right]
\]

(b) the Price Spike Adjustment shall be calculated according to the following formula in lieu of the formula provided for in paragraph 2(b) of Part 2 above:

\[
\text{PSA} = \left[ (P_h + \text{Hourly Reserve Capacity Price} \times \text{Reserve Capacity Ratio}) - $125/MWh \right] \times (Q_h - \text{OPGI's Generation for that hour});
\]

(c) OPGI may apply to the Board for adjustments to (a) or (b) above if necessary or desirable depending upon the precise nature of the capacity reserve market introduced.
7 Location-Based Marginal Pricing

In the event that location-based marginal pricing is developed in Ontario at any time while the provisions of Part 2 are in effect, then:

(a) the following definition of “Average Price” or “AP” shall be used in lieu of the definition provided for in paragraph 1 of Part 2 above:

“Average Price” or “AP” is the price against which the Price Cap is compared to determine whether a Rebate is required in respect of a Settlement Period. The Average Price is determined by using the following formula:

\[ AP = \sum \frac{(\text{Locational Spot Price} \times q_h^i)}{CRQ} \]

(b) the Hourly Price, or \( p_h \), for purposes of determining if a price spike has occurred and in order to calculate the Price Spike Adjustment in each applicable hour, shall be the average price of energy OPGI sells into the IESO spot market in that hour, which average price shall be determined by dividing OPGI’s hourly spot market revenue in $ by the quantity (calculated in MWh) of OPGI’s spot market sales; and

(c) OPGI may apply to the Board for adjustments to (a) or (b) above if necessary or desirable depending upon the precise nature of the location-based marginal pricing introduced.

8 Capacity Reserve Market and Location-Based Marginal Pricing

In the event that both a capacity reserve market and location-based marginal pricing are developed in Ontario at any time while the provisions of Part 2 are in effect, then:

(a) the following definition of “Average Price” or “AP” shall be used in lieu of the definitions provided for in paragraphs 1, 6 or 7 of Part 2 above:

“Average Price” or “AP” is the price against which the Price Cap is compared to determine whether a Rebate is required in respect of a Settlement Period. The Average Price is determined by using the following formula:

\[ AP = \sum_h \left[ \text{CW}_h \times (\text{Hourly Reserve Capacity Price} \times \text{Reserve Capacity Ratio}) \right] \]

\[ + \sum_{h,i} \frac{(\text{Locational Spot Price} \times q_h^i)}{CRQ} \]

(b) the Price Spike Adjustment shall be calculated according to the following formula in lieu of the formula provided for in paragraphs 2(b) or 6 of Part 2 above:

\[ PSA = \left( \text{[Hourly Reserve Capacity Price} \times \text{Reserve Capacity Ratio}] \right. \]

\[ + \sum_i \left( \frac{(\text{Locational Spot Price} \times q_i^h)}{Q_h} - $125/MWh \right) \]

\[ \times (Q_h^i - \text{OPGI’s Generation for that hour}) \]
(c) OPGI may apply to the Board for adjustments to (a) or (b) above if necessary or desirable depending upon the precise nature of the capacity reserve market or location-based marginal pricing introduced.

9 Additional Adjustment for Changes in Law

If one or more Changes in Law cause or are reasonably expected to cause a decrease in OPGI's net annual income equal to or greater than $60,000,000, then, rather than treating such Changes in Law as a Force Majeure Event for purposes of paragraph 2 above, OPGI may apply to the Board for a variation in the CRQ, Rebate, and/or the Price Cap methodology in respect of the Settlement Period in which the Change in Law occurs and all subsequent Settlement Periods the Change in Law is reasonably expected to affect in order to ensure that OPGI is not materially adversely affected as a result, taking into account all Changes in Law and whether the net effect of these Changes in Law have benefited or are reasonably likely to benefit OPGI during the same time period or any prior or subsequent time period.

10 Termination of Part 2

Beginning April 1, 2005 the OPG rebate calculation will be determined by the formula set out in Schedule B - Additional Terms and Conditions of Settlement Agreement Between IESO & OPG as amended from time to time.

PART 3 TRANSFER OF EFFECTIVE CONTROL

[Part 3 is revoked, effective December 7, 2005]

PART 4 INBOUND TRANSMISSION RIGHTS AND IMPORT LIMITS

1 Definitions and Interpretation

In this Part 4, “season” means the winter period (the “winter season”) from and including November 1 until and including April 30 of the following year or the summer period (the “summer season”) from and including May 1 until and including October 31 of the same year, as applicable.

2 Inter-tie and Import Limits

(a) OPGI shall not import energy into Ontario in excess of the energy import limits set forth in (b) below. In no event shall a purchase from the IESO spot market in Ontario be construed as an import of energy into Ontario for such purposes.

(b) The energy import limits referred to in (a) above are:

(i) 7.24 TWh during the winter season (increased to 7.28 TWh in a leap year); and

(ii) 6.58 TWh during the summer season;

all of which figures shall be increased, at the in service date of new or upgraded inter-tie facilities, by 35 percent times the number of hours in a season multiplied by any applicable net increase in inter-tie capacity in Ontario as determined by the IESO from that in effect on the date of the opening of the competitive electricity market. For such
purposes, inter-tie capacity shall be based on the Ontario transfer capacity in the applicable season.

(c) The foregoing provisions of paragraph 2 shall not be required to be complied with by OPGI with the IESO’s consent in an emergency situation.

3 Export Limits

Unless otherwise provided herein, none of the provisions of Parts 2 through 5 shall limit OPGI’s ability to export energy from Ontario.

PART 5 MARKET BASED ANCILLARY SERVICES

(Note: Market based ancillary services are currently comprised of Operating Reserves only, but the principles outlined herein suggest a framework that could be used for other market based ancillary services.)

Unless the IESO has determined, based on the number of independently controlled competing alternatives and other circumstances in its discretion, that a competitive market for any category of operating reserves (i.e. 10-minute and 30-minute) exists, OPGI shall be required to comply with the following requirements:

(a) subject to (a.1), the price to be offered by OPGI associated with each category of OPGI operating reserve services will not exceed a cap to be contained in an agreement to be negotiated between OPGI and the IESO, which cap will be designed, taking into account the relevant IESO market rules, to compensate OPGI for its actual cost of providing such operating reserve services, including additional operating and maintenance costs, additional fuel costs, additional opportunity costs associated with providing such operating reserve services from OPGI hydroelectric generation units, and a reasonable rate of return on incremental capital needed to provide such operating reserve services, and which agreement shall require OPGI to offer the maximum available amount of each category of operating reserve services, consistent with good utility practices, for each OPGI generation unit capable of providing such services;

(a.1) notwithstanding (a) above, save and except where the IESO has advised OPGI that specific units are required to offer in for reliability, OPGI may offer less than the maximum available amount of any category of operating reserve where this is necessary in order for OPGI to satisfy its obligations under, or to give effect to, any shareholder declaration or resolution of the Minister of Energy in effect at the relevant time relating to, or any Regulation made under the Environmental Protection Act (Ontario) relating to, carbon dioxide (CO₂) emissions arising from the use of coal at OPGI’s coal-fired generation stations;

(b) subject to (a.1), in the event that the agreement referred to in (a) above cannot be reached, the terms of such agreement shall be determined through binding commercial arbitration by a mutually agreed independent arbitrator on agreed terms of arbitration;

(c) subject to (a.1), in the event that either OPGI or the IESO subsequently determines that the operation of the market is such that the intent of the agreement referred to in (a) or (b) above is materially frustrated, then OPGI and the IESO shall negotiate amendments (which may be retroactive) to the terms of such agreement with a view to correcting such situation and, in the event that they cannot agree on such amendments, the amendments, if any, shall be determined
through binding commercial arbitration by a mutually agreed independent arbitrator on agreed
terms of arbitration,

(d) subject to (a.1). OPG shall comply with the terms of the agreement referred to in (a) or (b) above,
as it may be amended under (c) above;

(e) subject to (a.1), pending reaching an agreement, or pending the resolution of any dispute, the
IESO may at any time set the price cap and terms on which OPG must provide any category of
operating reserve services, subject to later adjustment upon final agreement or final resolution of
the dispute with interest at the Prime Rate, calculated and accrued daily; and

(f) subject to (a.1), if the IESO’s market rules at any time are such that the market clearing price for
a category of operating reserve services does not include both the offer price and the opportunity
cost of the marginal unit providing the service, and the agreement referred to in (a) or (b) above
has not taken such factors into account, then the agreement referred to in (a) or (b) above shall
be considered to have been materially frustrated for purposes of (c) above.

PART 6 BRUCE DECONTROL RELATED CONDITIONS

1. The Licensee shall implement a Ring-Fence plan in accordance with the plans referred to in
Section 8A of OPG’s pre-filed evidence, and as detailed more fully in Interrogatory Responses I
6.5, and I 15.13 of RP-2002-0142, with the following exception:

a) Only commercially sensitive information will be captured by the Ring-Fence plan. For
clarity, this consists of Bruce Power outage information not already in the public domain
and unit condition information only.

2. The Licensee shall conduct internal audits of the Ring-Fence plan every two calendar years. For
clarity, the next internal audit will take place in 2007.

3. The Licensee must provide to the Board every year a self-certification statement signed by both
the Chief Executive Officer and the Senior Regulatory Officer or other Senior Officer of OPG that
the Ring-Fence plan methodology is operational for the activities that remain ring-fenced.

4. OPG shall make Status Reports to the Board within 30 days of:

a. Any additional agreements entered into with BP LP;

b. Any amendments, replacements or extensions of existing agreements with BP LP; and

c. Expired agreements under the Bruce Transaction.

5. Prior to May 1st of every other year of this licence (coincident with the years in which an internal
audit is conducted), OPG shall submit an annual Confidential Audit Report to the Board. For
clarity, the next report will be filed on or before May 1, 2007. The report shall include:

a. A review of the design, implementation, completeness and security of the
Ring-Fence plan by OPG’s internal audit group.
b. A list of all the violations of the Ring-Fence plan with an explanation as to the type of violation, the employee's position and department or group, and whether the incident represents a repeat violation by a given employee;

c. Recommendations regarding corrective action where the Ring-Fence plan has been violated;

d. A list of the number of employees that have moved outside the Ring-Fence to a new position in OPG (whether the position is permanent or temporary) The Report shall identify the old position and department or group that was in the Ring-Fence plan, and the new position and department or group in which the employee now works.

6. Prior to December 31st of every other year of this licence (coincident with the years in which an internal audit is conducted), OPG shall submit an annual Public Audit Report to the Board for the public record. The report shall include the above findings from the Confidential Audit Report, however, the report shall be redacted to remove personal information and any other information that the Board agrees may be redacted under its confidential filing guidelines. For clarity, the next report will be filed on or before December 31, 2007.

7. The Contract for Differences for Forced Outages agreement between OPG and BP LP shall not be renewed at its expiry on the second anniversary of Market Opening.
SCHEDULE A

TERMS AND CONDITIONS OF SETTLEMENT AGREEMENT BETWEEN IESO AND OPGI

For these purposes, terms with initial capitals not otherwise defined herein shall have the meanings ascribed thereto in paragraph 1 of Part 3 of the licence conditions of OPGI or the IESO’s Market Rules, as applicable.

OPGI will be required to rebate annually to the IESO. As soon as practicable and preferably within 15 days following the final settlement of transactions which occurred during each Settlement Period, the IESO shall calculate the Rebate and notify OPGI of such calculated Rebate.

If OPGI agrees with the IESO’s calculation then, within 30 days of being notified, OPGI will be required to pay such Rebate, if any, to the IESO. If OPGI does not agree with the IESO’s calculation and the parties can agree within a further 30 days on a revised Rebate, then, within 30 days of so agreeing, OPGI will be required to pay the agreed revised Rebate, if any, to the IESO. If OPGI does not agree with the IESO’s calculation and the parties cannot agree on a revised Rebate within such further 30 day period, then the matter shall be finally determined by arbitration by the Dispute Resolution Panel of the IESO, and, within 30 days of such final determination, OPGI will be required to pay the finally determined Rebate, if any, to the IESO. The initially calculated, agreed revised, or finally determined Rebate, as applicable, shall be the Rebate in respect of such Settlement Period for all purposes hereof. Unless the Rebate is paid within 30 days of the IESO notifying OPGI, interest at the Prime Rate, calculated and accrued daily, from such 30th day until the date of payment to the IESO will in all cases be added to (and based upon) the final Rebate owing.

Following payment of the Rebate by OPGI to the IESO, the IESO shall pay or apply the Rebate as follows:

(a) Where the Rebate is $10 million or more, exclusive of any amounts representing interest or GST, the IESO shall pay the Rebate, including GST and interest, to all persons who were Market Participants in Ontario during the Settlement Period and who pursuant to the Market Rules had attributed to them during the Settlement Period an allocated quantity of energy withdrawn at a Delivery Point (the “Ontario Payees”). The IESO shall pay the Rebate to Ontario Payees by the next IESO Payment Date for the real-time market following the end of the month in which the payment from OPGI is received and the IESO shall distribute payment of the Rebate to Ontario Payees in proportion to the allocated quantities of energy withdrawn at a Delivery Point which were attributed to each Ontario Payee during the Settlement Period. The IESO may, to the extent practicable, pay the Rebate to all or some Ontario Payees by applying a Rebate settlement credit to the Ontario Payees’ applicable Settlement Statements; and

(b) Where the Rebate is less than $10 million, exclusive of any amounts representing interest or GST, the IESO shall retain and apply the Rebate, inclusive of any amounts representing interest or GST, to offset the IESO Administration Charge imposed on Market Participants in accordance with section 4.5, Chapter 9 of the Market Rules, during the period in which the first order of the OEB approving the IESO Administration Charge made,

(i) pursuant to subsection 19(2) of the Electricity Act, 1998, and

(ii) subsequent to the date on which payment of the Rebate is received by the IESO, is in effect.

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Where paragraph (a) applies, if by the date upon which the IESO is required to pay the Rebate to Ontario Payees, the IESO cannot locate an Ontario Payee, or a successor or other representative of the said Ontario Payee to whom the IESO is permitted or required by law to pay the said Ontario Payee’s share of the Rebate, the IESO shall retain the said Ontario Payee’s share of the Rebate for a period of 90 days from the date upon which the Rebate is otherwise payable to all other Ontario Payees, and during this period the IESO will make commercially reasonable efforts to locate and payout the applicable share of the Rebate to the said Ontario Payee or his successor or other legal representative. If the IESO is unable to locate the said Ontario Payee or his successor or other legal representative within this 90 day period, the IESO shall retain the said Ontario Payee’s share of the Rebate and apply it to the IESO Administration Charge in accordance with paragraph (b), as set out herein.

Nothing shall preclude agreements that require the purchaser to return the rebate or any portion thereof to OPGI or any other party.

The Settlement Agreement may also include the following terms:

- Definitions and Interpretation
- Notice by OPGI to IESO of Payment and Non-Payment
- Appropriate limitations of liability
- IESO shall recover its reasonable rebate administration expenses through its fees
- Appropriate indemnification provisions
- IESO to act on its own behalf and as agent for Ontario Metered Market Participants entitled to rebates to the extent of their interests, and such Metered Market Participants are entitled, provided that they give a satisfactory funded indemnity to the IESO, to enforce, by arbitration, the Settlement Agreement directly against OPGI if desired, with reasonable assistance to be provided by IESO at their expense
- IESO may assign agreement to a qualified replacement upon approval of OEB. No other assignments without consent of other party and OEB
- IESO may subcontract any duties required of it
- Fund transfer instructions, which may be changed on notice to OPGI by IESO
- Arbitration clause with Dispute Resolution Panel as arbitrator
- Recipient registrants responsible for all taxes, if any
- Any interest earned on funds by IESO shall be paid to recipient registrants similarly to other funds
- IESO not to be viewed as in conflict in any respect as a result of its participation in the Settlement Agreement
- IESO may hold funds on deposit with a Canadian financial institution or in short-term obligations of the federal or Ontario government or any Canadian financial institution
- IESO may, but shall not be obliged to, retain and refrain from distributing any funds in the event of any dispute, and may seek advice from the Dispute Resolution Panel
- Termination of agreement when OPGI Rebate obligations terminate and all funds distributed or applied. OPGI/IESO indemnification obligations and third party enforcement rights to survive termination, former indefinitely and latter for 2 years only
- IESO may rely on any document which it believes to be genuine and on the advice of counsel, if it acts in good faith
- IESO not responsible for any non-payment by OPGI
- Binding on successors and permitted assigns
- Notice clause
- Only may be amended in writing
- Governed by the laws of Ontario
- Counterparts clause
- Further assurances clause
SCHEDULE B

ADDITIONAL TERMS AND CONDITIONS OF SETTLEMENT AGREEMENT BETWEEN IESO & OPG


For the First Settlement Period (May 1, 2002 to April 30, 2003)

1) The first MPMA Rebate is to be paid out for the 9-month period ending January 31, 2003. This is the amount, as calculated by the IESO and agreed to by OPG, that OPG is required to rebate for the nine month period, based on OPG’s MPMA license conditions, less the interim payment already made by OPG of approximately $335 million and amounts relating to decontrol applications pending before the Ontario Energy Board. OPG is to pay this net amount to the IESO by May 9, 2003.

2) The second MPMA Rebate will cover the three-month period February 1, 2003 to April 30, 2003 inclusive. This is the amount, as calculated by the IESO and agreed to by OPG, that OPG is required to rebate for the three month period, based on OPG’s license conditions, adjusted for any true-up required to ensure that the sum of the two rebates for the first settlement period, including the interim payment, is equal to OPG’s full rebate requirements for the first Settlement Period under the OPG’s MPMA license conditions. OPG is to pay this amount to the IESO by August 12, 2003.

3) The IESO will pay the pro rata share of the first MPMA Rebate and the second MPMA Rebate based on the allocated quantity of energy withdrawn during the applicable period by market participants who are receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 to the Ontario Electricity Financial Corporation.

4) The IESO will pay the pro rata share of the first MPMA Rebate and the second MPMA Rebate based on the allocated quantity of energy withdrawn during the applicable period by market participants who are not distributors and are not receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 directly to those market participants or their assignees that are market participants where the market participants have assigned their MPMA rebate.

5) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the first MPMA Rebate and the second MPMA Rebate based on the share of energy withdrawn during the applicable period by consumers in the distributor’s or embedded distributor’s respective service areas who are not receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 and by customers of retailers who have assigned all or a portion of their entitlement to an MPMA Rebate to that retailer. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the first MPMA Rebate or
the second MPMA Rebate in accordance with this Schedule B, there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

6) After making the payments set out in 3), 4), and 5), the IESO is to pay any remaining Rebate to the Ontario Electricity Financial Corporation to offset in whole or in part the cost of providing the fixed price of 4.3 cents per kilowatt hour to consumers who are eligible to receive, are receiving or have received the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998. Any amounts returned to the IESO by distributors in accordance with their license conditions shall be paid over to the Ontario Electricity Financial Corporation.

For the Settlement Periods (May 1, 2003 to January 31, 2005)

7) For each Settlement Period or partial Settlement Period from May 1, 2003 to January 31, 2005, OPG is to make quarterly MPMA Rebate payments to the IESO, consistent with OPG’s MPMA license conditions, as calculated by the IESO and agreed to by OPG. The IESO and OPG may agree to appropriate true-up and carry forward mechanisms provided that these are consistent with forwarding the Rebate as soon as practicable.

8) For each Settlement Period or partial Settlement Period from May 1, 2003 to January 31, 2005 the MPMA rebate payments to market participants will be calculated and determined by the IESO as follows:

\[ BPPR = \left( (WAP - CAP) \times 0.5 \times TAQEW \right) \]

Where:
- **Business Protection Plan Rebate** or **BPPR** is the MPMA Rebate paid out to consumers who are not receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998. The BPPR is to rebate half of the amount by which the weighted average commodity price of electricity exceeds 3.8 cents per kilowatt-hour.
- **Weighted Average Price** or **WAP** is the average Hourly Ontario Electricity Price weighted by load over the Settlement Period as determined by the IESO.
- **Total Allocated Quantity of Energy Withdrawn** or **TAQEW** is the total electricity withdrawn from the IESO-controlled grid for use in Ontario during the Settlement Period.

9) The IESO will make quarterly MPMA payments to market participants based on the applicable Settlement Period to the end of the previous quarter, and taking into account all prior quarterly MPMA payments made with respect to the applicable Settlement Period. The IESO will adjust the payment for the final quarter of each Settlement Period to ensure that the sum of the quarterly MPMA payments for the applicable Settlement Period does not exceed the BPPR entitlement for the Settlement Period. If there is an overpayment of quarterly payments over a Settlement Period based on the BPPR entitlement for that Settlement Period, any such overpayment can be carried over to successive Settlement Periods to be offset against future payments.

10) The IESO will pay the pro rata share of the BPPR based on the allocated quantity of energy withdrawn for the applicable period by market participants who are receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 to the Ontario Electricity Financial Corporation.
11) The IESO will pay the pro rata share of the BPPR based on the allocated quantity of energy withdrawn for the applicable period by market participants who are not distributors and are not receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 directly to those market participants or their assignees that are market participants where the market participants have assigned their MPMA Rebate.

12) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the BPPR based on the share of energy withdrawn for the applicable period by consumers in the distributor’s or embedded distributor’s respective service areas who are not receiving the fixed price under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 for the MPMA Rebate and by customers of retailers who have assigned all or a portion of their entitlement to an MPMA Rebate to that retailer. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the BPPR for that quarter in accordance with this Schedule B, there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

13) For the quarterly periods from May 1, 2003 to January 31, 2005, after making the payments set out in 10), 11), and 12), the IESO is to pay any remaining Rebate to the Ontario Electricity Financial Corporation to offset in whole or in part the cost of providing the prices established under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998 to consumers who are eligible to receive the prices established under sections 79.4 and 79.5 of the Ontario Energy Board Act, 1998. Any amounts returned to the IESO by distributors in accordance with their license conditions shall be paid over to the Ontario Electricity Financial Corporation.

For the Payment for the Period (February 1, 2005 to March 31, 2005)

14) For the Payment for the Period from February 1, 2005 to March 31, 2005, OPG is to make an MPMA Rebate payment to the IESO, consistent with OPG’s MPMA license conditions, as calculated by the IESO and agreed to by OPG. The IESO and OPG may agree to appropriate true-up and carry forward mechanisms provided that these are consistent with forwarding the Rebate as soon as practicable.

15) For the Payment for the Period from February 1, 2005 to March 31, 2005 the MPMA rebate payments to market participants will be calculated and determined by the IESO as follows:

\[
\text{BPPR} = [(\text{WAP} - \text{CAP}) \times 0.5 \times \text{TAQEW}] 
\]

Where:

"Business Protection Plan Rebate" or "BPPR" is the MPMA Rebate paid out to consumers who are not receiving the fixed price under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998. The BPPR is to rebate half of the amount by which the weighted average commodity price of electricity exceeds 3.8 cents per kilowatt hour.

"Weighted Average Price" or "WAP" is the average Hourly Ontario Electricity Price weighted by load over the Settlement Period as determined by the IESO.

"Total Allocated Quantity of Energy Withdrawn" or "TAQEW" is the total electricity withdrawn from the IESO-controlled grid for use in Ontario during the Settlement Period.
16) The IESO will make the MPMA payment to market participants for the two month period ending March 31, 2005 taking into account all prior MPMA payments made in that Settlement Period.

17) The IESO will pay the pro rata share of the BPPR based on the allocated quantity of energy withdrawn for the applicable period by market participants who are receiving the prices established under sections 79.4, 79.5 and 79.16 of the Ontario Energy Board Act, 1998 to the Ontario Electricity Financial Corporation.

18) The IESO will pay the pro rata share of the BPPR based on the allocated quantity of energy withdrawn for the applicable period by market participants who are not distributors and are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 directly to those market participants or their assignees that are market participants where the market participants have assigned their MPMA Rebate.

19) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the BPPR based on the share of energy withdrawn for the applicable period by consumers in the distributor's or embedded distributor's respective service areas who are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board, Act 1998 for the MPMA Rebate and by customers of retailers who have assigned all or a portion of their entitlement to an MPMA Rebate to that retailer. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the BPPR for that quarter in accordance with this Schedule B, there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

20) After making the payments set out in 17), 18), and 19), the IESO is to pay any remaining Rebate to the Ontario Electricity Financial Corporation to offset in whole or in part the cost of providing the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 to consumers who are eligible to receive the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998. Any amounts returned to the IESO by distributors in accordance with their license conditions shall be paid over to the Ontario Electricity Financial Corporation.

Replacement of the MPMA Rebate With A New Payment for the Period (April 1, 2005 to December 31, 2005)

21) For the Payment for the Period from April 1, 2005 to December 31, 2005, OPG is to make a single payment to the IESO, calculated as follows:

\[
\text{Payment} = \text{Sum over all hours } ([\text{HOEP} - 47] \times (\text{ONPA (output)} \times 0.85])
\]

Where:
- **ONPA or OPG's Non-Prescribed Assets** are those generation assets operated and controlled by Ontario Power Generation, excluding Lennox Generating Station, that are not prescribed assets under section 78.1 of the Ontario Energy Board Act, 1998 as amended by the Electricity Restructuring Act, 2004.

**HOEP** is the Hourly Ontario Energy Price as determined by the IESO.
ONPA (output) is the generation output from OPG’s Non-Prescribed Assets generation assets over each hour of the period adjusted to take account of volumes sold through Transitional Rate Option contracts and forward contracts in effect as of January 1, 2005.

22) For the Payment for the Period from April 1, 2005 to December 31, 2005 the single payment to market participants will be equal to the payment calculated in 21) above.

23) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable period by market participants who are receiving the prices established under sections 79.4, 79.5 and 79.16 of the Ontario Energy Board Act, 1998 to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.

24) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable period by market participants who are not distributors and are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 directly to those market participants or their assignees that are market participants where the market participants have assigned their Payment.

25) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the Payment based on the share of energy withdrawn for the applicable period by consumers in the distributor’s or embedded distributor’s respective service areas who are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 for the Payment and by customers of retailers who have assigned all or a portion of their entitlement to a Payment to that retailer. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the Payment for the period in accordance with this Schedule B, there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

26) After making the payments set out in 23), 24), and 25), the IESO is to pay any remaining amount of the Payment to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.

27) With respect to its non-prescribed generating facilities, OPG shall maximize their value to the people of Ontario by operating those facilities in response to the price signals of the IESO-administered markets. OPG’s conduct in the IESO-administered markets under this direction is subject to review by the Market Surveillance Panel of the Ontario Energy Board.

Replacement of the MPMA Rebate With A New Payment for the Period (January 1, 2006 to April 30, 2006)

28) For the Payment for the Period from January 1, 2006 to April 30, 2006, OPG is to make a single payment to the IESO, calculated as follows:

\[
\text{Payment} = \text{Sum over all hours} \left[ \left( \text{HOEP} - \$47 \right) \times (\text{ONPA (output)} \times 0.85) \right] + \left( \left( \text{PA (price)} - \$52 \right) \times (\text{PA (amount)})) \right]
\]

Where:
ONPA or OPG’s Non-Prescribed Assets are those generation assets operated and controlled by Ontario Power Generation, excluding Lennox Generating Station, that are not prescribed assets under section 78.1 of the Ontario Energy Board Act, 1998 as amended by the Electricity Restructuring Act, 2004.

HOEP is the Hourly Ontario Energy Price as determined by the IESO.

ONPA (output) is the generation output from OPG’s Non-Prescribed Assets generation assets over each hour of the period adjusted to take account of volumes sold through Transitional Rate Option contracts and forward contracts in effect as of January 1, 2005 and volumes sold through the Pilot Auction administered by the Ontario Power Authority in the first half of 2006 with sales volumes commencing on April 1, 2006.

PA is the Pilot Auction administered by the Ontario Power Authority in the first half of 2006, which includes a limited amount of output from OPG’s non-prescribed assets, with sales to commence on April 1, 2006.

PA (amount) is the hourly volume in MWh of OPG non-prescribed assets output sold through the Pilot Auction administered by the Ontario Power Authority in the first half of 2006 with sales commencing on April 1, 2006.

PA (price) is the weighted average auction price in $/MWh realized in each hour of the Period for the output of the limited amount of OPG non-prescribed assets output volume sold through the Pilot Auction administered by the Ontario Power Authority in the first half of 2006 with sales volumes commencing on April 1, 2006.

29) For the Payment for the Period from January 1, 2006 to April 30, 2006 the single Payment to market participants will be equal to the Payment calculated in 28) above.

30) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable period by market participants who are receiving the prices established under sections 79.4, 79.5 and 79.16 of the Ontario Energy Board Act, 1998 to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.

31) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable period by market participants who are not distributors and are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 directly to those market participants or their assignees that are market participants where the market participants have assigned their Payment.

32) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the Payment based on the share of energy withdrawn for the applicable period by consumers in the distributor’s or embedded distributor’s respective service areas who are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 for the Payment and by customers of retailers who have assigned all or a portion of their entitlement to a Payment to that retailer. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the Payment for the period in accordance with this Schedule B, there
shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

33) After making the payments set out in 30), 31), and 32), the IESO is to pay any remaining amount of the Payment to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.

34) With respect to its non-prescribed generating facilities, OPG shall maximize their value to the people of Ontario by operating those facilities in response to the price signals of the IESO-administered markets. OPG’s conduct in the IESO-administered markets under this direction is subject to review by the Market Surveillance Panel of the Ontario Energy Board.

**OPG Rebate for the Period (May 1, 2006 to April 30, 2009)**

35) For the Period from May 1, 2006 to April 30, 2009, OPG is to make quarterly Payments to the IESO, as calculated by the IESO and agreed to by OPG as follows:

\[
\text{Payment} = \text{Sum over all hours } [(\text{HOEP} - \text{ORL}) \times (\text{ONPAO} \times 0.85 - \text{PAA}) + (\text{PAP} - \text{PAORL}) \times \text{PAA}]]
\]

Ontario Power Generation’s quarterly payments will be based on a cumulative calculation commencing May 1, 2006 to the end of each quarter less the same cumulative calculation to the end of the previous quarter. This will continue until the final quarter ending April 30, 2009. For greater certainty, where the payment formula results in an amount owing to OPG for any quarter, no such payment will be made to OPG by the IESO and any such amount will be carried forward into subsequent quarters.

Where:

**ONPA or OPG’s Non-Prescribed Assets** are those generation assets operated and controlled by Ontario Power Generation assets in service as of January 1, 2006, excluding Lennox Generating Station and excluding stations whose generation output is subject to a contract with the Ontario Power Authority (OPA) in the form of a hydroelectric energy supply agreement [entered into by the OPA and OPG pursuant to a ministerial direction made under section 25.32 of the Electricity Act, 1998], that are not prescribed assets under section 78.1 of the Ontario Energy Board Act, 1998 as amended by the Electricity Restructuring Act, 2004.

**HOEP** is the Hourly Ontario Energy Price as determined by the IESO.

**ONPAO** is the generation output from OPG’s Non-Prescribed Assets, over each hour of the quarter adjusted to take account of volumes sold through forward contracts in effect as of January 1, 2005. For greater certainty, any output from ONPA resulting from fuel conversion by Ontario Power Generation in ONPA, or incremental output from ONPA resulting from refurbishment or expansion, or is subject to a contract with the OPA in the form of a hydroelectric energy supply agreement, [entered into by the OPA and OPG pursuant to a ministerial direction made under section 25.32 of the Electricity Act, 1998] is to be excluded from ONPAO.

**Incremental Output is defined as:**

\[
\text{generation output} \times (\text{new total installed capacity} - \text{installed capacity as of January 1, 2006}) / \text{new total installed capacity}
\]
ORL is the Ontario Power Generation Revenue limit.
For the period May 1, 2006 to April 30, 2007 ORL is equal to $46/ MWh.
For the period May 1, 2007 to April 30, 2008 ORL is equal to $47/ MWh.
For the period May 1, 2008 to April 30, 2009 ORL is equal to $48/ MWh.

PA is the Pilot Auction administered by the Ontario Power Authority in the first half of 2006.

PAA is the volume in MWh over each hour in the quarter that is sold by Ontario Power Generation through the PA.

PAORL is the Pilot Auction Ontario Power Generation Revenue limit.
For the period May 1, 2006 to April 30, 2007 PAORL is equal to $51/ MWh.
For the period May 1, 2007 to April 30, 2008 PAORL is equal to $52/ MWh.
For the period May 1, 2008 to April 30, 2009 PAORL is equal to $53/ MWh.

PAP is the weighted average auction price in $/ MWh over each hour of the quarter realized for the PAA by Ontario Power Generation.

36) For the Payment for the Period from May 1, 2006 to April 30, 2009 quarterly payments made by the IESO to market participants will be equal to the quarterly Payment calculated in 35) above. In the event of any quarterly Payment calculated in 35) above being negative, no quarterly payment will be made by the IESO to market participants.

37) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable quarter by market participants who are receiving the prices established under sections 79.4, 79.5 and 79.16 of the Ontario Energy Board Act, 1998 to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.

38) The IESO will pay the pro rata share of the Payment based on the allocated quantity of energy withdrawn for the applicable quarter by market participants who are not distributors and are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 directly to those market participants.

39) The IESO will pay to distributors who are market participants, including host distributors on behalf of their embedded distributors, the pro rata share of the Payment based on the share of energy withdrawn for the applicable quarter by consumers in the distributor’s or embedded distributor’s respective service areas who are not receiving the prices established under sections 79.4, 79.5, and 79.16 of the Ontario Energy Board Act, 1998 for the Payment. In making these calculations and payments the IESO will rely on the information reported by the distributors to the IESO as required under Appendix D. Once the IESO has received the information from the distributors and disbursed the Payment for the quarter in accordance with this Schedule B, there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

40) After making the payments set out in 37), 38), and 39), the IESO is to pay any remaining amount of the Payment to the Ontario Power Authority to be applied to the variance account established under section 25.33 (5) of the Electricity Act, 1998 as amended by the Electricity Restructuring Act, 2004.
41) With respect to its non-prescribed generating facilities, OPG shall maximize their value to the people of Ontario by operating those facilities in response to the price signals of the IESO-administered markets. OPG’s conduct in the IESO-administered markets under this direction is subject to review by the Market Surveillance Panel of the Ontario Energy Board.
SCHEDULE 1  LIST OF LICENSED GENERATION FACILITIES

The Licence authorizes the Licensee only in respect to the following:

Hydraulic Generation Facilities by River System - Owned and Operated

<table>
<thead>
<tr>
<th>Niagara River System</th>
<th>Montreal River System</th>
<th>Aquasabon River System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Adam Beck - No. 1</td>
<td>Indian Chute</td>
<td>Aquasabon</td>
</tr>
<tr>
<td>Sir Adam Beck - No. 2</td>
<td></td>
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<tr>
<td>Pumping Gen. Stn.</td>
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<tr>
<td>DeCew Falls No. 1</td>
<td>Matakibouch River System</td>
<td>Mississippi River System</td>
</tr>
<tr>
<td>DeCew Falls No. 2</td>
<td>Matakibouch</td>
<td>High Falls</td>
</tr>
<tr>
<td>St. Lawrence River System</td>
<td>South River</td>
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<tr>
<td>Robert H. Saunders</td>
<td>Elliott Chute</td>
<td></td>
</tr>
<tr>
<td>Ottawa River</td>
<td>Bingham Chute</td>
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<tr>
<td>Otto Holden</td>
<td>Nipissing</td>
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<td>Des Joachims</td>
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<tr>
<td>Chenaux</td>
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<tr>
<td>Chats Falls (Units 2,3,4,5)</td>
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<tr>
<td>Madawaska River System</td>
<td>Wanapitei River System</td>
<td>Muskoka River System</td>
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<tr>
<td>Mountain Chute</td>
<td>Stinson</td>
<td>Ragged Rapids</td>
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<tr>
<td>Barrett Chute</td>
<td>Coniston</td>
<td>Big Eddy</td>
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<tr>
<td>Arnprior</td>
<td>McVittie</td>
<td>South Muskoka</td>
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<tr>
<td>Stewartville</td>
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<td>South Falls</td>
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<tr>
<td>Calabogie</td>
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<td>Trethewey Falls</td>
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<tr>
<td>Trent River System</td>
<td>Nipigon River System</td>
<td>Hanna Chute</td>
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<tr>
<td>Healey Falls</td>
<td>Pine Portage</td>
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<td>Ranney Falls</td>
<td>Cameron Falls</td>
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<td>Meyersburg</td>
<td>Alexander</td>
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<td>Hagues Reach</td>
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<td>Seymour</td>
<td>Winnipeg River System</td>
<td>Beavert River System</td>
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<tr>
<td>Franford</td>
<td>Whitedog Falls</td>
<td>Eugenia Falls</td>
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<tr>
<td>Sills Island</td>
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<tr>
<td>Montreal River System</td>
<td>Kaministikwia River System</td>
<td>Mattagami River System</td>
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<tr>
<td>Lower Notch</td>
<td>Silver Falls</td>
<td>Little Long</td>
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<tr>
<td></td>
<td>Kakabeka Falls</td>
<td>Harmon</td>
</tr>
</tbody>
</table>

Hydraulic Facilities - Operated only
St. Lawrence River System
Chats Falls (Units 6,7,8,9)
Fossil Generation - Owned and Operated

Lambton
Nanticoke
Thunder Bay - Unit 1
Thunder Bay - Units 2, 3
Atikokan
Lennox

Nuclear Generation - Owned and Operated

Pickering A
Pickering B
Darlington

Wind Generation - Owned and Operated

BIC Wind Turbine
Pickering Wind Turbine

Nuclear Generation - Owned Only

Bruce A
Bruce B