

2016 ELECTRICITY DISTRIBUTION RATES
Ottawa River Power Corporation

EB-2014-0105

OEB STAFF COMPENDIUM
For Cross Examination

March 31, 2016

For the purposes of calculating the additional revenue required and the resulting adjustment to rates to achieve market-based returns, the Board requires that the electricity distribution utilities use a deemed capital structure and debt rate as specified in Table 3-1.

The revenue requirement adjustment for a return up to the MBRR, if elected by the electricity distribution utility, should be based upon a deemed common equity ratio ("CER") of CER per cent, a debt-to-capital ratio of (1-CER) per cent, a target return on equity ("TROE") of up to 9.88 per cent, and a DR (see Table 3-1). The DR is based on the forecast long-term Canada bond rate.

The formula for calculating the pre-market opening (i.e., exclusive of PILs) Market Adjusted Revenue Requirement ("MARR") for 2000-2001 rates is given in equation 3-2. The 1999 Rate Base is the distribution "wires only" 1999 year-end rate base calculated in accordance with Table A.3 in Appendix D.

$$\text{MARR} = (\text{1999 Rate Base}) \times ((\text{CER} \times \text{Target ROE}) + ((1 - \text{CER}) \times \text{DR})) \quad [3-2]$$

This equation calculates the total revenue requirement associated with the return on equity and debt expense. Pre-market opening rates will not include a revenue requirement for PILs. Post-market opening rates will include PILs. Upon market opening, rates will be adjusted to reflect PILs. PILs will apply to the portion of MARR related to ROE and will be prorated for the amount of ROE which has been phased-in. Further information on this calculation, as well as the appropriate tax rate, will be available once a market opening date has been established.

The deemed CER per cent, (1-CER) per cent, and DR values to use in the above formula depend on the size of each utility's rate base, as set out in Table 3-1.

Table 3-1 Deemed Common Equity and Debt Ratios and Debt Cost Rates			
<u>Size of Utility Rate Base</u>	<u>CER%</u>	<u>(1-CER)%</u>	<u>DR</u>
Greater than \$1.0 billion	35%	65%	6.80%
Between \$250 million and \$1 billion	40%	60%	6.90%
Between \$100 million and \$250 million	45%	55%	7.00%
Under \$100 million	50%	50%	7.25%

Ontario Energy Board

EB-2009-0084

Report of the Board

**on the Cost of Capital for Ontario's Regulated
Utilities**

December 11, 2009

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current ROE formula would have served to increase the allowed ROE during the recent credit crisis, which, in the Board's view, would have been directionally correct.⁶⁴

The Board has determined that it is appropriate to use a corporate yield variable that is reflective of the borrowing costs of Canadian utilities, one that is well-understood and is based on an established index from a recognized source. **The Board has accordingly determined that it will use a utility bond spread based on the difference between the Bloomberg Fair Value Canada 30-Year A-rated Utility Bond index yield and the long Canada bond yield.** This is further described in Appendix B.

The Board agrees with the comment of Ms. McShane that separating the LCBF and the utility bond spread variables, as opposed to using one corporate bond yield variable that would implicitly incorporate the LCBF, provides transparency as it shows "what part is causing the ROE to move in either direction."⁶⁵

The Board also determines that the utility bond spread reflected in the reset and refined formulaic ROE approach will be subject to a 0.50 adjustment factor, consistent with the empirical analyses provided by participants to the consultation.

4.3 Capital structure

The Board's current policy with regard to capital structure for all regulated utilities continues to be appropriate. As noted in the Board's draft guidelines, capital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals.⁶⁶ The Board's current policy is as follows:

⁶⁴ Written Comments of the Electricity Distributors Association. September 8, 2009. Schedule 4.

⁶⁵ Ontario Energy Board. Transcript of Consultation Process on Cost of Capital Review. Ms. McShane's presentation, p. 161.

⁶⁶ Ontario Energy Board. Ontario Energy Board Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities. March 1997. p. 2

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- The Board has determined that a split of 60% debt, 40% equity is appropriate for all electricity distributors.⁶⁷ Capital structure was not a primary focus of the consultation and the Board notes that the comments made by participants in the consultation largely supported the continuation of the Board's existing policy.
- For electricity transmitters, generators, and gas utilities, the deemed capital structure is determined on a case-by-case basis. The Board's draft guidelines assume that the base capital structure will remain relatively constant over time and that a full reassessment of a gas utility's capital structure will only be undertaken in the event of significant changes in the company's business and/or financial risk.⁶⁸

4.4 Debt Rates

4.4.1 Long-term debt

The determination of the cost of long-term debt was not a primary focus of the consultation and the Board notes that the comments made by participants in the consultation largely supported the continuation of the Board's existing policies and practices.

While the Board agrees with this approach, it is important to note that the determination of the cost of long-term debt has typically received significant interest in the processes to establish electricity distribution and, to a lesser extent, electricity transmission rates. In contrast to the difficulty establishing the utility cost of equity that arises from a lack of transparency, the issues associated with the determination of a utility's long-term debt cost arise from different factors, including the relatively short period of time since the corporatization of electricity distribution and transmission utilities, the relatively short history of rate regulation by the Board, and the presence of significant amounts of affiliate debt.

⁶⁷ Ontario Energy Board. Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. December 20, 2006. p. 5

⁶⁸ Ontario Energy Board. Compendium to Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities. March, 1997. p. 30

Natural gas distributors

The Board has a long history of determining the cost of long-term debt for natural gas distributors. Based on this experience and in the absence of any material comments in the consultation suggesting otherwise, the Board is of the view that **the current policy of using the weighted cost of embedded debt should continue**. Consistent with the current practice, in a forward test year rate application the onus is on the applicant utility to forecast the amount and cost of new long-term debt. These values are then factored into the estimated cost of existing long-term debt for the purpose of setting regulated natural gas distribution rates. Debt instruments and debt rates are subject to a prudence review in an application for rates. However, it is the Board's policy that the total estimated cost of debt should be a close proxy for the actual long-term debt cost incurred by the natural gas utility in the rate year.

OPG's prescribed rate-regulated baseload generation

Consistent with the Board's practice in OPG's 2008 Cost of Service application, considered under Board file number EB-2007-0905, the Board is of the view that **OPG's cost of long-term debt should be set in a manner similar to that adopted for natural gas distributors**.

Electricity transmitters

Consistent with the Board's current practice as set out in various Decisions and Orders arising from rate applications by electricity transmitters, the Board is of the view that **an electricity transmitter's cost of long-term debt should be set in a manner similar to that adopted for natural gas distributors**.

Electricity distributors

In the 2000 Electricity Distribution Rate Handbook, the Board adopted deemed long-term debt rates and deemed capital structures that varied based on the size of utility rate base.

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The deemed long-term debt rates applied regardless of a utility's actual cost of debt and actual capitalization. This deemed approach reflected the ongoing corporatization of the sector and the fact that many electricity distribution utilities had no debt.

The *2006 Electricity Distribution Rate Handbook*, issued by the Board on May 11, 2005, documented an evolution of the treatment of long-term debt for electricity distributors. While the size-related capital structure and (updated) deemed debt rates were retained, the handbook outlined that long-term debt costs could also reflect the cost of embedded debt. The cost of affiliate debt was also capped by the deemed debt rate at the time of issuance.

In April of 2006, Board Staff undertook research, commissioned expert advice and consulted with stakeholders on the methods for setting the cost of capital and 2nd Generation Incentive Rate Making. These consultative activities culminated in the December 20, 2006 Report. In that report, the Board provided additional guidance on the treatment of long-term debt, and emphasized that while there should be increased reliance on actual or embedded debt costs, the need for a deemed debt rate that would continue to apply (either in itself or as a ceiling on affiliate debt) was recognized.

In distribution utility rate applications heard by the Board since the issuance of the December 20, 2006 Report, the Board has made determinations on the treatment of long-term debt that not only reflect the 2006 guidelines, but are based on the record before it in each application. The Board has also been informed by the findings made in relation to completed applications. **The Board is of the view that it is appropriate for this cost of capital policy to reflect the current practices of the Board with respect to determining the cost of long-term debt based on recent Board decisions.**

The following guidelines on the treatment of long-term debt are intended to provide more certainty for applicants and all participants in general. **The Board wishes to emphasize that the long-term debt guidelines relating to electricity distribution utilities are expected to evolve over time and are expected to converge with the process used by the Board to determine the amount and cost of long-term debt for natural gas distributors.** The Board recognizes that there is still a need for the deemed long-term debt rate, however its usage should become more limited in application. The Board wishes to

reiterate that the onus is on the distributor that is making an application for rates to document the actual amount and cost of embedded long-term debt and, in a forward test year, forecast the amount and cost of new long-term debt to be obtained during the test year to support the reasonableness of the respective debt rates and terms.

The following guidelines are relevant with respect to the determination of the amount and cost of long-term debt for electricity distribution utilities.

The Board will primarily rely on the embedded or actual cost for existing long-term debt instruments. The Board is of the view that electricity distribution utilities should be motivated to make rational decisions for commercial “arms-length” debt arrangements, even with shareholders or affiliates.

In general, the Board is of the view that the onus is on the electricity distribution utility to forecast the amount and cost of new or renewed long-term debt. The electricity distribution utility also bears the burden of establishing the need for and prudence of the amount and cost of long-term debt, both embedded and new.

Third-party debt with a fixed rate will normally be afforded the actual or forecasted rate, which is presumed to be a “market rate”. However, the Board recognizes a deemed long-term debt rate continues to be required and this rate will be determined and published by the Board. **The deemed long-term debt rate will act as a proxy or ceiling for what would be considered to be a market-based rate by the Board in certain circumstances.** These circumstances include:

- For affiliate debt (i.e., debt held by an affiliated party as defined by the Ontario *Business Corporations Act, 1990*) with a fixed rate, the deemed long-term debt rate at the time of issuance will be used as a ceiling on the rate allowed for that debt.
- For debt that has a variable rate, the deemed long-term debt rate will be a ceiling on the rate allowed for that debt. This applies whether the debt holder is an affiliate or a third-party.

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- The deemed long-term debt rate will be used where an electricity distribution utility has no actual debt.
- For debt that is callable on demand (within the test year period), the deemed long-term debt rate will be a ceiling on the rate allowed for that debt. Debt that is callable, but not within the period to the end of the test year, will have its debt cost considered as if it is not callable; that is the debt cost will be treated in accordance with other guidelines pertaining to actual, affiliated or variable-rate debt.
- A Board panel will determine the debt treatment, including the rate allowed based on the record before it and considering the Board's policy (these Guidelines) and practice. The onus will be on the utility to establish the need for and prudence of its actual and forecasted debt, including the cost of such debt.

Deemed Long-term Debt Formula for Electricity Distributors

While the Board is of the view that greater reliance should be placed on embedded debt, including forecasts of the amount and cost of new debt expected to be incurred during the test year, the Board recognizes that there is a continuing need for a deemed long-term debt rate.

While there were no specific suggestions for how the deemed long-term debt rate should be calculated, **the Board sees merit in modifying the formula in a manner consistent with the changes adopted for the ROE adjustment formula.**

Specifically, the Board considers that **the deemed long-term debt rate for the test year should be an estimate based on the long (30-year) Government of Canada bond yield forecast plus the average spread between an A-rated Canadian utility bond yield and 30-year Government of Canada bond yield for all business days in the month three (3) months in advance of the (proposed) effective date for the rate changes.** This change is only in the source of the data, in the following ways:

- The 30-year A-rated Canadian utility bond yield data from Bloomberg will replace the BBB/A-rated Canadian Corporate bond yield series that was obtained from PC Bond, an affiliate of TSX.⁶⁹
- The monthly average of business daily data will be used, instead of the weekly data used previously.

The changes are due to the data availability, and to transparency and cost. Both Bloomberg and PC Bond corporate bond series are proprietary and available on subscription bases. Using the same A-rated Canadian utility bond yield series from Bloomberg will reduce costs and work and increase transparency of the calculations. The Board does not consider the changes in methodology will have any material impact on the calculated deemed long-term debt rate. The Board also notes that this methodology was supported by LPMA and BOMA in their final written comments.⁷⁰

Appendix C provides a detailed description of the methodology for calculating the deemed long-term debt rate.

4.4.2 Short-term debt

Natural gas distributors

For rate regulated natural gas distributors, short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization. As the variance between actual and deemed capital structures is generally small, the unfunded portion is typically a small fraction of total capitalization for rate-setting purposes.

⁶⁹ The PC Bond data was, prior to mid-2007, produced by Scotia Capital Inc., and publicly available from Statistics Canada and the Bank of Canada.

⁷⁰ Written Comments of the London Property Management Association and the Building Managers and Owners Association of the Greater Toronto Area. October 30, 2009, p. 32

In a Cost of Service application, the applicant natural gas distributor forecasts the cost of short-term debt for the test year, and this is subject to review. The Board notes that no participant questioned the Board's policy and practice for natural gas distributors, and **has determined that it is appropriate to continue with this approach.** With the development of a new deemed short-term debt rate for use in the electricity transmission and distribution sector, the Board notes that it and other participants may take into consideration the deemed short-term debt rate, as discussed below and documented in Appendix D.

OPG's prescribed rate-regulated baseload generation

Consistent with the Board's practice in OPG's 2008 Cost of Service application (EB-2007-0905), **the Board is of the view that OPG's cost of short-term debt should be set in a manner similar to that adopted for natural gas distributors.**

Electricity transmitters and distributors

Prior to the issuance of 2008 rates, short-term debt was not factored into electricity distribution and transmission rate-setting. In the December 20, 2006 Report, the Board adopted a deemed short-term debt rate that would apply to a deemed 4% of the capital structure. The formula for the deemed short-term debt rate was established as the average 3-month Bankers' Acceptance rate plus a 25 basis point spread, determined three months in advance of the effective date for rates. The short-term debt rate, and deemed 4% component of the capital structure was introduced in Cost of Service applications for 2008 distribution rates.

In the consultation, certain electricity distributors commented that they are unable to borrow at rates as predicted by the current deemed short-term debt formula.^{71,72} These electricity

⁷¹ Written Comments of FortisOntario Inc. September 10, 2009. p. 8, bullet at bottom of page. FortisOntario Inc. indicates that a high-grade utility would be Bankers' Acceptance + 175 basis points, for smaller operating company entities, it would be Bankers' Acceptance + 250-275 basis points

Return on Equity

ORPC has used a ROE of 9.3% as established by the Board for cost of service applications with a May 1, 2016 implementation date. ORPC recognizes that the ROE will be updated in accordance with Board guidelines and as such commits to updating the cost capital parameters as new information is made available.

Weighted Average Cost of Debt

With respect to the Long Term Debt rate, the terms of the Notes are embedded in a promissory note which is presented following this schedule. Since market opening in May 2002, ORPC has paid interest on the Notes at a fixed rate of 7.25%. The Notes have a fixed term of 20 years, as set out in section 13.0(h) of the Agreement. The Notes are not callable: the only condition under which the Notes become payable prior to the end of the 20-year term is a sale of ORPC, as stated in section 13.0(j) of the Agreement. No such sale is contemplated. The interest rate on the Notes is not variable: the only conditions under which the interest rate may change are set out in section 13.0 of the Agreement, paragraphs (e) and (f).

The Board's current policy on Cost of Capital is the only applicable 'regulation' under these paragraphs, and no other interest rate for long-term debt is prescribed under that policy. The actual 7.25% interest rate is identical to the Board's deemed debt rate at the time the Notes were issued and identical to the rates approved in ORPC's 2010 Cost of Service application. As such, the actual interest rate has been used for rate-setting purposes, in accordance with the Board's policy: Affiliate embedded/actual debt with fixed rates, terms and maturity will get the lower of actual and deemed debt rate at time of issuance.

The Ontario Energy Board, Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, December 20, 2006, p.13. states the following "The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt"

ORPC confirms that the promissory note has not been renegotiated since its issuance in May of 2002.

OTTAWA RIVER POWER CORPORATION

Notes to Financial Statements, continued

Year ended December 31, 2006

6. Regulatory liability (continued):

	2006	2005
Assets (liabilities):		
Pre market opening energy variance	\$ 53,443	\$ 53,443
Post market opening energy variance	(1,118,035)	28,865
Post market opening wholesale market service rate variance	(624,725)	(134,687)
Post market opening network transmission service variance	(606,745)	(479,237)
Post market opening network connection service variance	(334,320)	(50,202)
Hydro One post market opening variance	(404,506)	(576,482)
Deferred transition costs	339,181	339,181
Post market opening Provincial benefit variance	286,531	(64,228)
Other post market opening variances	102,169	32,729
Other regulatory assets	173,928	170,759
Regulated liabilities repaid	(154,165)	(11,230)
Post market opening variance interest	(195,607)	(86,970)
Other regulatory liabilities	(16,151)	(2,579)
	\$ (2,499,002)	\$ (780,638)

7. Long-term debt:

	2006	2005
7.25% Promissory note payable to the Corporation of the City of Pembroke, due May 1, 2022	\$ 4,364,000	\$ 4,364,000
7.25% Promissory note payable to the Corporation of the Village of Beachburg, due May 1, 2022	147,000	147,000
7.25% Promissory note payable to the Corporation of the Township of Killaloe, Haggarty and Richards, due May 1, 2022	172,348	172,348
7.25% Promissory note payable to the Corporation of the Town of Mississippi Mills, due May 1, 2022	902,490	902,490
Customer deposits	250,319	299,987
Vested sick leave	203,497	194,770
Post-retirement benefits	60,000	60,000
	6,099,654	6,140,595
Current portion of long-term debt	223,253	245,235
	\$ 5,876,401	\$ 5,895,360

The notes bear interest at 7.25%, with the term and interest rate to be re-negotiated annually. Interest is calculated annually, payable quarterly to the shareholders. The aggregate maturities of long-term debt for each of the two years subsequent to December 31, 2006 are as follows: 2007 -

OTTAWA RIVER POWER CORPORATION

Notes to Financial Statements, continued

Year ended December 31, 2007

7. Long-term debt:

	2007	2006
7.25% Promissory note payable to the Corporation of the City of Pembroke, due May 1, 2022	\$ 4,364,000	\$ 4,364,000
7.25% Promissory note payable to the Corporation of the Village of Beachburg, due May 1, 2022	147,000	147,000
7.25% Promissory note payable to the Corporation of the Township of Killaloe, Haggarty and Richards, due May 1, 2022	172,348	172,348
7.25% Promissory note payable to the Corporation of the Town of Mississippi Mills, due May 1, 2022	902,490	902,490
Customer deposits	230,688	250,319
Vested sick leave	-	203,497
Post-retirement benefits	45,000	60,000
	5,861,526	6,099,654
Current portion of long-term debt	115,344	223,253
	\$ 5,746,182	\$ 5,876,401

The notes bear interest at 7.25%, with the term and interest rate to be re-negotiated annually. Interest is calculated annually, payable quarterly to the shareholders. The aggregate maturities of long-term debt for each of the two years subsequent to December 31, 2007 are as follows: 2008 - \$115,344; and 2009 - \$115,344.

8. Capital stock:

As at December 31, 2007, the common shares of the corporation are held as follows:

	Common Shares	Percentage Ownership
Corporation of the City of Pembroke	4,364	78.38%
Corporation of the Village of Beachburg	147	2.64%
Corporation of the Township of Killaloe, Haggarty and Richards	169	3.04%
Corporation of the Town of Mississippi Mills	888	15.94%
	5,568	100.00%

The common share ownership has not changed from prior year.

9. Payment in lieu of corporate income taxes:

The Corporation follows the taxes payable method of accounting for amounts paid in lieu of corporate income taxes. The Corporation claimed capital cost allowance and eligible capital expenditures totalling \$116,350 (2006 - \$138,425) in excess of amortization recorded to reduce the payment in lieu of corporate income taxes.

OTTAWA RIVER POWER CORPORATION

Notes to Financial Statements, continued

Year ended December 31, 2008

6. Regulatory liability:

It is expected that the Corporation will apply for, and receive, in its electricity rates an allowance to remit the remaining regulated liabilities and an allowance to recover the remaining regulatory assets (note 1(j)).

	2008	2007
Assets (liabilities):		
Regulatory assets recovery account	\$ (108,090)	\$ (102,897)
Settlement variances	(3,120,275)	(2,443,366)
Smart meters	152,484	57,331
Other	107,425	107,425
	<u>\$ (2,968,456)</u>	<u>\$ (2,381,507)</u>

7. Long-term debt:

	2008	2007
7.25% Promissory note payable to the Corporation of the City of Pembroke, due May 1, 2022	\$ 4,364,000	\$ 4,364,000
7.25% Promissory note payable to the Corporation of the Village of Beachburg, due May 1, 2022	147,000	147,000
7.25% Promissory note payable to the Corporation of the Township of Killaloe, Haggarty and Richards, due May 1, 2022	172,348	172,348
7.25% Promissory note payable to the Corporation of the Town of Mississippi Mills, due May 1, 2022	902,490	902,490
Customer deposits	268,494	230,688
Post-retirement benefits	45,000	45,000
	<u>5,899,332</u>	<u>5,861,526</u>
Current portion of long-term debt	134,247	115,344
	<u>\$ 5,765,085</u>	<u>\$ 5,746,182</u>

Interest on promissory notes is calculated annually and payable quarterly to the shareholders. The aggregate maturities of long-term debt for each of the two years subsequent to December 31, 2008 are as follows: 2009 - \$134,237; and 2010 - \$134,237.

Attachment 2 (of 2):

Affiliate Debt Terms: Shareholder Agreement

The terms of ORPC's affiliate debt are set out in section 13.0 of the attached agreement between ORPC and its shareholders. In the interests of transparency, ORPC is providing the complete agreement in this attachment.

THIS AGREEMENT made, in duplicate, this 01st day of October, 2000.

BETWEEN:

THE CORPORATION OF THE CITY OF PEMBROKE,

hereinafter called "Pembroke"

OF THE FIRST PART

- and -

THE CORPORATION OF THE VILLAGE OF BEACHBURG,

hereinafter called "Beachburg"

OF THE SECOND PART

- and -

THE CORPORATION OF THE TOWN OF MISSISSIPPI MILLS

hereinafter called "Mississippi"

OF THE THIRD PART

-and-

**THE CORPORATION OF THE TOWN OF KILLALOE, HAGARTY &
RICHARDS (formally KILLALOE HYDRO ELECTRIC COMMISSION)**

hereinafter called "Killaloe"

OF THE FOURTH PART

-and-

OTTAWA RIVER POWER CORPORATION,

hereinafter called the "Corporation"

OF THE FIFTH PART

WHEREAS the Corporation was incorporated on the 29th day of April, 1999.

AND WHEREAS the Corporation's Articles of Incorporation provide that the Corporation is authorized to issue an unlimited number of common shares without par value and an unlimited number of special shares without par value.

AND WHEREAS the Corporation was incorporated for the purposes of distribution of electricity in and for the Province of Ontario.

AND WHEREAS Pembroke and Beachburg electric utilities amalgamated for the purposes of distribution of electricity in and for the Province of Ontario.

AND WHEREAS Pembroke and Beachburg received shares for a portion of the net book value of their assets at the time of the issuance of the shares and, also, security and interest with respect to the remaining net book value not allocated in shares.

AND WHEREAS as at the date hereof, Pembroke has been allocated 4,364 shares and Beachburg 147 shares of the Corporation.

AND WHEREAS it is in the interest of the parties hereto to amalgamate with other utilities in the County of Renfrew and in the County of Lanark for the efficient and effective distribution of electricity in the said counties.

AND WHEREAS the parties hereto have agreed with the valuation of their respective assets and have further agreed to the type of security interest with respect to the remaining net book value not allocated in shares and a method of calculating the interest on this debt.

AND WHEREAS the par value for each issued shares is based upon \$ 1,000 per share.

AND WHEREAS it is anticipated that with the amalgamation with Killaloe and Mississippi, that Mississippi will be allocated approximately 839 common shares and Killaloe approximately 179 common shares (subject to adjustments as described in Paragraphs 4.0 and 19.0).

AND WHEREAS the Articles of Incorporation of the Corporation provide for restrictions on the transfer and ownership of shares.

AND WHEREAS the parties hereto agree that there shall be restrictions on the transfer of shares held by the shareholders.

AND WHEREAS the parties further agree that in the event that either of the parties wishes to sell its shares, that the other party or parties shall be entitled to the first right of refusal for same.

NOW THEREFORE in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

1.0 General

- (a) Pembroke and Beachburg shall amalgamate their electrical distribution operations into the Corporation effective January 1st, 2000.
- (b) Mississippi and Killaloe shall amalgamate their electrical distribution operations into the Corporation effective September 30th, 2000.

- (c) The adjustment date shall be within ninety (90) days of the date of amalgamation, currently slated for September 30th, 2000. As a result, the adjustment date shall be on or before December 31st, 2000.

2.0 Shares holdings of Pembroke, Beachburg, Mississippi and Killaloe

- (a) Pembroke is the owner of 4,364 shares of the Corporation and Beachburg is the owner of 147 shares of the said Corporation.

3.0 Adjustments

- (a) Pembroke and Beachburg shall receive such further shares of the Corporation, as provided for pursuant to Paragraph 4.0 (Valuation) to recognize any additional equity in the Corporation.
- (b) Mississippi and Killaloe shall receive shares of the Corporation based upon the December 31st, 1999 value of the assets being transferred into the Corporation and such additional shares pursuant to paragraph 4.0 (Valuation).

4.0 Valuation

- (a) The parties acknowledge and agree that Pembroke and Beachburg, as existing shareholders of the Corporation received shares and security in the Corporation based on the net book value of the assets transferred to the Corporation by each shareholder. The parties further acknowledge and agree that shares and

security to be received by Mississippi and Killaloe shall be determined by virtue of the net book value of the assets each shareholder contributes to the Corporation as at December 31st, 1999, as adjusted in accordance with paragraph 4.0 (h) to September 30th, 2000. One half of the net book value of the assets being transferred to the Corporation respectively by Mississippi and Killaloe shall be valued in shares issued to each of Mississippi and Killaloe respectively, based on \$1,000.00 per share. These values, as of the date of this Agreement and based on December 31st, 1999 values, are as follows:

Mississippi Mills - 839,

Killaloe - 179.

The parties further agree that one half of the net book value of the assets to December 31st, 1999 shall be a debt owed by the Corporation to Mississippi Mills and Killaloe respectively.

- (b) It is agreed that with respect to valuation of the amalgamating parties, the valuation of the assets of the parties shall be at net book value which, for the purposes of amalgamation, will be deemed to be fair market value. The parties, however, agree that net book value will only include receivables not greater than sixty (60) days past due billing and other assets will be recorded and accepted in accordance with the policy in the Accounting Procedures Handbook, Article 430.

- (c) It is agreed that, as at the date of amalgamation, capital assets acquired up to that date will be recorded in the books of account of each of the amalgamating

parties on the same basis as employed prior to December 31st, 1999.

- (d) It is further agreed that each of the amalgamating parties will record depreciation in accordance with Accounting Procedures Handbook, Article 430 to the date of amalgamation.
- (e) It is agreed that in order to recognize the additional equity, additional common shares and debt in the ratio of 50% share equity and 50% debt will be issued to each of the amalgamating parties as at the date of amalgamation. In the event that any of the parties acquired capital assets and issued debt, only the increase in net equity of the utility will be recognized and will be recognized in the books of account through the issuance of additional common shares and debt.
- (f) It is agreed that the additional shares, as required will be issued and additional debt, as required, will be recorded not later than ninety (90) days after the effective date of amalgamation and will be based upon financial statements prepared as at the date of amalgamation. Each of the parties will have an opportunity to inspect the additional assets recognized above and will agree that the additional value will be recognized. In the event that agreement is not possible, then the parties will abide by the arbitration provisions as set out in this agreement.
- (g) It is further agreed and understood that the aforementioned capital assets acquired after December 31, 1999 are not included in the "rate base" and

accordingly there will be no earnings from which dividends nor interest can be paid during the initial three year term.

- (h) It is further agreed that at the date of amalgamation, there will be a financial statement prepared which will record transactions in accordance with the Accounting Procedures Handbook. The Financial Statement will be prepared not later than ninety days (90) after the effective date of amalgamation. Any increase in net equity as a result of operations for the period of January 01, 2000 to the effective date of amalgamation will be recognized by the issuance of additional common shares and the recording of additional debt in the above ratio of 50% common shares and 50% debt of the Corporation. Any decrease in net equity as a result of operations for the period of January 01, 2000 to the effective date of amalgamation will be recognized by a reduction in common shares and a recording of the deduction of net in the above ratio of 50% common shares and 50% debt of the Corporation.

5.0 Restrictions on transfer

- (a) Except as otherwise provided for herein, or specifically consented to in writing by the parties, the parties hereto shall not make any agreement to directly or indirectly sell, assign, transfer, give, devise, bequeath, mortgage, pledge, hypothec, or otherwise dispose of, alienate, or in anyway encumber or create a security interest in or grant any option on any of the shares in the capital of the Corporation they respectively own or may own for any purpose or reason whatsoever. Any attempt to accomplish or effect any or all of the acts

prohibited hereby shall be null and void.

- (b) Without restricting the generality of the foregoing, except with the consent of all of the shareholders, no shareholder shall sell or transfer any of its shares for a period of three years subsequent to this agreement.

6.0 Permitted Transfers

- (a) At any time, and from time to time, any party may hypothecate, mortgage, pledge, charge or otherwise encumber or transfer to a creditor, all but not less than all of its shares as security for any loan or other indebtedness, but only on terms that should such creditor wish to realize all or part of such security, they shall comply with the provisions of Sections 7 and 8 hereof and offer the Shares to the other parties to this agreement.

7.0 Transfer to Wholly-Owned Subsidiary

- (a) A shareholder shall be entitled to transfer all of its shares without consent at any time to an amalgamated corporation or entity of the Corporation, provided that at the time of such transfer, the said amalgamated entity enters into an agreement whereby the amalgamated body becomes bound by and entitled to the benefit of this Agreement.

8.0 Purchase by the Other Shareholders

- (a) If any party hereto shall desire to dispose of all of its shares within ten (10) years of the execution of the agreement, it shall offer to sell its shares to the

other parties hereto at 10% less than the fair market value of the shares at the time of sale. The fair market value of the shares shall be determined by agreement of the parties and if no such agreement can be arrived at, by the Corporation's accountants, and if a disagreement arises in that respect, then by arbitration as set out herein. Each of the other parties shall take all such offered shares in the same proportion as shares already owned and pay the sale price therefor within 30 days after the date the shares were offered for sale. Upon payment of the sale price for the shares so offered, the party offering the shares shall tender the resignation of its nominee as a director of the Corporation.

- (b) The terms of the sale of the shares referred to in Section 8.0 (a) shall be in the same manner and on the same basis as provided for in the procedure set out in Section 9 subject to the valuation pursuant to Section 8.0 (a).

9.0 Right of First Refusal

- (a) If any Shareholder (the "Offeror") shall desire or be obliged by law or otherwise to transfer into the name of some other person or persons or to sell or dispose of its shares after the period of ten (10) years as referred to in paragraph 8 herein or within that period in the event that no Shareholder agrees to purchase the shares as per the provisions of paragraph 8 herein then and in that event, subject to Paragraphs 7 and 8 herein, the other shareholders (the "Offeree") shall have the prior right to purchase the shares to be transferred on the terms and in accordance with the procedure contained in paragraph (b).

(b) The procedure on transfers is as follows:

(i) An Offeror shall give to the secretary of the corporation notice in writing of its desired intention to transfer, sell or otherwise dispose of any shares. The notice (the "Selling Notice") shall set out,

(A) the number of shares;

(B) the price and terms of payment which the Offeror is willing to accept for the Shares; and

(C) if the Offeror has received an offer to purchase the Shares, the name and address of the third party offeror and the terms of payment and price contained in the offer.

(ii) The secretary of the Corporation shall thereupon be deemed to be the agent of the Offeror for the purpose of offering the Shares to the Offerees on the terms of payment and for the price contained in the Selling Notice and the offer by the secretary shall remain open for acceptance as hereinafter provided for a period of thirty days following the making of the offer by the secretary.

(iii) All of the shares of the Offeror shall be offered by the secretary for sale to each Offeree as nearly as may be in proportion to the number of shares held by it as a proportion of all issued shares less any shares held by the Offeror. The offer shall state that any Offeree which desires to purchase shares offered in excess of its proportion shall state in its purchase notice (the "Purchase Notice") how many shares it desires to purchase in excess of its proportion. If, within the period of thirty days hereinbefore mentioned, a Purchase Notice has

not been given by an Offeree to the secretary in respect of the Shares being offered, the Offeree shall be deemed to have refused to purchase the shares being offered.

- (iv) If any Offeree does not claim its proportion of the shares being offered, the unclaimed shares shall be used to satisfy the claims of the Offerees in excess of their respective proportions. If claims in excess are more than sufficient to exhaust unclaimed shares being offered, the unclaimed shares shall be divided pro rata among the Offerees desiring such shares in excess of their proportion in proportion to the number of shares held by them at the date of the offer, provided that no Offeree shall be bound to take any shares in excess of the number it so desires.
- (v) If the shares being offered shall not be capable of being offered to or divided among the Offerees as set forth above without resulting in division into fractions, the same shall be offered or divided among the Offerees as nearly as may be in accordance with the foregoing provisions and the balance shall be offered to or divided among the Offerees or some of them in such manner as may be determined by the Board.
- (vi) If any of the shares being offered shall be accepted by any Offeree pursuant to the provisions of this paragraph (b), the shares being offered shall be sold to the Offeree for the price and for the terms contained in the Selling Notice.
- (vii) In the event that no Offeree comes forward to purchase the shares

offered within the time period as set out in Paragraph 9(b) (iii) herein, and the Offeror, upon marketing the said shares, receives an offer different than the offer set out in the selling notice then, in that event, the Offerees shall have thirty (30) days to purchase the said shares at a discounted price of 10% subject to the same terms and conditions set out in this paragraph.

(viii) If the Purchase Notices have not been given by the Offerees to purchase all of the shares being offered, the Offeror may, within sixty days after the expiration of the thirty-day period hereinbefore mentioned, offer and sell the unpurchased shares to any other person at the price and on the terms and conditions set out in the Selling Notice.

- (c) No right created under paragraph (a) shall be exercised unless the approval in connection therewith under the *Investment Canada Act*, if any, has been obtained.
- (d) The transfer of the shares shall be subject to the condition that the purchaser thereof shall, if not a party hereto, agree to be bound by the terms hereof and become a party hereto in accordance with the provisions of Section 14 and Section 17.
- (e) If shares are being offered under paragraph (b) other than by reason of an obligation of law, the offer may be made only in respect of all (and not less

than all) of the shares owned by the Offeror.

- (f) If a sale, transfer or other disposition is completed in accordance with this section, the Offeror shall upon completion of the purchase be absolved from all liability to or in respect of the corporation under the provisions of this Agreement and the purchaser of the shares offered shall assume all obligations in respect thereof.

10.0 Allocation of Resources

- (a) It is agreed by the parties that the Corporation shall establish and maintain a crew and office in the Town of Mississippi Mills for a minimum period of ten (10) years from the Effective Date. No changes shall be made to the location of the crew or office located in the Town of Mississippi Mills, including its abandonment, without the express approval of the nominee of Mississippi on the board of directors.

11.0 Review of Shareholdings

- (a) It is agreed that the Board of Directors is required to review the respective shareholdings of the parties to this agreement and adjust fairly the respective amounts of shares and equity at the earlier of three (3) years from the date of execution of this agreement or on such earlier date and on the dates that the performance base rates are reviewed in and for the Province of Ontario.

- (b) It is agreed that the review of the shareholdings, referred to in 11.0 (a) herein

shall be brought up on the agenda of the Board of Directors as a mandatory item to be dealt with by the said Board on the occasions as set out in this heretofore referred to paragraph.

12.0 Employees of Mississippi

- (a) It is agreed that Mississippi will provide to the Corporation, at no expense to the Corporation for a period of three (3) months following the execution of this agreement, the assistance of Brian Gallagher and Ray Clement to help and assist with the transfer of the distribution system and all billing services, computer networks, etc. for the Corporation.
- (b) It is agreed that the Corporation will not use the services of the employee on a regular basis, but simply in an 'advisory capacity' when required by the Corporation during this interim period.

13.0 Promissory Note, Interest and Security for Debt

- (a) The parties hereto agree that Pembroke, in exchange for one-half of the net book value of the assets, has, to this date, received a Promissory Note from the Corporation with the amount of the Promissory Note to be in the amount \$ 4,364,000.00. Pembroke will be subject to any adjustment with respect to the Note, as set out in Paragraphs 4.0 (Valuation) and/or Paragraph 19.0 (Obligations of Shareholders)herein.

- (b) The parties hereto further acknowledge and agree that Beachburg, in exchange for one-half of the net book value of its assets, has received a Promissory Note from the Corporation with the amount of the Promissory Note being in the amount of \$ 147,000.00. Beachburg will be subject to any adjustment with respect to the Note, as set out in Paragraphs 4.0 (Valuation) and/or Paragraph 19.0 (Obligations of Shareholders) herein.
- (c) The parties hereto agree that Mississippi Mills, in exchange for one-half of the net book value of its assets, will receive a Promissory Note from the Corporation with the amount of the Promissory Note to be \$ 839,000.00 and any adjustment to the Note, as provided for in Paragraph 4.0 (Valuation) and/or Paragraph 19.0 (Obligations of Shareholders) herein.
- (d) The parties hereto agree that Killaloe, in exchange for one-half of the net book value of its assets will receive a Promissory Note from the Corporation in the amount of \$ 179,000.00 and any adjustment to the Note as provided for in Paragraph 4.0 (Valuation) and/or Paragraph 19.0 (Obligations of Shareholders) herein.
- (e) The parties further agree that the Corporation shall pay interest on the Promissory Notes to Pembroke, Beachburg, Mississippi and Killaloe on their respective Notes in an amount not to exceed the maximum interest rate allowed by the Ontario Energy Board based upon their Handbook or any other regulation, schedule, document to be prepared or enacted by them or any

successors to the said Ontario Energy Board or any other entity with regulatory authority for utilities in the Province of Ontario.

- (f) The parties hereto agree that they may adjust the interest rate on the said Promissory Notes at the times and in the manner as set out by the regulation, and in an amount not to exceed the maximum interest rate allowed by any schedule, statute or otherwise as enacted by the Ontario Energy Board or any successor in the Province of Ontario.
- (g) The parties hereto agree that the interest shall be calculated annually and paid quarterly to Pembroke, Beachburg, Mississippi and Killaloe respectively.
- (h) The parties further agree that the Promissory Note will be for a period of twenty (20) years and shall be due and payable twenty (20) years after market opening, (which is currently slated for the 07th day of November, 2000). As such, the Note will be due and payable at the later of November 07th, 2020, or twenty (20) years after actual market opening.
- (i) The parties further agree that the said Promissory Notes shall be non-interest bearing from the 01st day of January, 2000 to market opening, which is currently slated for the 07th day of November, 2000.
- (j) The parties further hereto agree that in the event that Ottawa River Power Corporation is sold to a non-related entity or otherwise disposed of, the

Promissory Note, principal and any accrued interest shall at the option of the noteholder be payable to Pembroke, Beachburg, Mississippi and Killaloe in their respective amounts at the time of such sale or disposition.

- (k) The parties further agree that, should any interest payments fall due prior to the final completion of all the Transfer By-Laws and necessary documents to effect the transfer of the assets from Pembroke, Beachburg, Mississippi, Killaloe or any other necessary approvals, such as OEB, such interest payments shall be deemed due thirty (30) days after all necessary revisions of this agreement are complete and OEB and all necessary approvals are obtained. Such deferral payments shall not be deemed as default.

14.0 Board of Directors of Corporation

- (a) Appointment and Replacement - The Board of Directors of the Corporation shall consist of at least one director from each Municipality.
- (b) Remuneration - Directors of the corporation shall be remunerated as such for their work and services to the Corporation, and the Corporation shall bear all costs (including costs of transportation and lodging, if any) of the attendance at all meetings of the Board by the director nominated to the board by such shareholder.
- (c) Appointment and Replacement - Except as they may otherwise agree in writing in accordance with the terms hereof, the parties hereto agree that:

- (i) the board of the Corporation will consist of seven (7) directors;
- (ii) all voting rights in respect of the shares shall be exercised for the election and maintenance in office as directors of four (4) nominees of Pembroke, one (1) nominee of Beachburg, one (1) nominee of Mississippi and one nominee of Killaloe;
- (iii) the number of directors from time to time constituting a quorum at the meetings of the Board shall be a majority of the directors, provided that at least two directors nominated by Pembroke be present and at least two other directors nominated by Beachburg, Mississippi and/or Killaloe be present.
- (iv) on the appointment or election of each director, the secretary of the corporation shall make note of the nominator of the director in the records of the corporation and the nominator shall be entitled by direction in writing, from time to time, to remove its nominee or nominees and to nominate his successor or successors who shall promptly be elected a director as contemplated herein;
- (v) resolutions shall be decided by a majority of those voting;
- (vi) subject to the provisions with respect to recorded votes, the chairman of the meeting shall have a second or casting vote;
- (vii) all of the persons from time to time nominated to the Board by A shall be resident Canadians, as such term is defined in the *Business Corporations Act* of Ontario.

15.0 Officers

- (a) Appointment - Until changed by resolution of the Board, the officers of the Corporation shall maintain the following positions:

Office

Chairman of the Board
President
Vice-President
Secretary-Treasurer

- (b) Remuneration - Officers of the Corporation shall be remunerated as such for their work in and services to the Corporation, and the Corporation shall reimburse them for all of their out-of-pocket expenses incurred in performing their duties, including reasonable costs for transportation and lodging, save and except if an employee or independent contractor of the Corporation or as a proxy to a shareholder, is an officer of the Corporation, in which case out of pocket expenses only shall be reimbursed by the Corporation to the shareholder on behalf of which such officer is acting.

16.0 Restrictions on management of the Corporation

- (a) Unanimous approval - Except with the written consent of each of the parties to this agreement, no action will be taken by the directors and/or officers on behalf of the Corporation or with respect to any of the following:
- (i) changing the provisions in the by-laws of the Corporation;
 - (ii) the sale of all or substantially all of the properties and assets of the

corporation;

(iii) issuance of any new shares of the Corporation, except for the purposes of allowing the entry of member shareholders of other municipal electrical utilities;

(iv) the dissolution or winding up of the Corporation.

(b) Special approval - except with the written consent of the parties to this Agreement that are the holders of 80% of the aggregate number of shares outstanding at such time, no action will be taken by the directors and/or officers on behalf of the Corporation or with respect to any of the following:

(i) the declaration or payment of any dividend, distribution or bonus to employees;

(ii) the acquisition or disposition by the Corporation of interests in other enterprises;

(iii) the purchase, sale, mortgage or lease by the Corporation of any real property;

(iv) any purchase, commitment, lease or expenditure which, if completed, would raise the aggregate of capital expenditures of the Corporation in any fiscal year to more than \$3 million adjusted by inflation in each year; with the base year for inflation calculation purposes being the year 2000.

(v) the employment of any person at an aggregate (including benefits) annual remuneration of more than or equal to \$100,000.00 per year or an increase in the remuneration of any employee to a total in

excess of that amount, with the base year for inflation calculation purposes being the year 2000.

- (vi) the lending of money by the Corporation in any year in excess of \$100,000.00, except to an affiliate corporation.
- (vii) any commitment by the corporation which raises the aggregate of the outstanding obligations of the corporation for material or supplies (excluding the cost of power and labour) at any one time in a fiscal year to more than \$1.5 million adjusted by inflation, with the base year for inflation calculation purposes being the year 2000.
- (viii) the authorization or execution by the Corporation of any contract, the performance of which by the Corporation will require more than three (3) years and calls for a contractual amount in excess of \$200,000.00 with the exception of the Hydro Pontiac Operating Agreement and with the exception of any contract with any power suppliers, with the base year for inflation calculation purposes being the year 2000.
- (ix) the guarantee by the corporation of the debts of any other person in any amount;
- (x) the approval of the audited Financial Statements of the Corporation;
- (xi) the amendment of the signing authority relating to the corporation's bank accounts;
- (xii) any action or transaction not in the ordinary course of the business of the Corporation; or
- (xiii) the issuance of new shares of the Corporation for the purposes of

allowing the entry of member shareholders of other municipal electrical utilities.

17.0 Voting Powers

- (a) The parties hereto shall at all times use their voting powers (whether expressed by way of vote or written consent) in accordance with the provisions of this Agreement and for the purposes of effectuating the same and for the purposes of ensuring that the directors of the Corporation shall exercise their powers as members of the Board consistently with the provisions of this Agreement and for the purposes of effecting the same. The Board shall see to it that the officers and employees of the Corporation carry out all duties which they are required to perform under the provisions of this Agreement.

18.0 Additional Parties

- (a) Every issue and transfer of shares shall be subject to the condition that each subscribed or transferee, as the case may be, shall, if not a party hereto, agree to be bound by the terms hereof and become a party hereto by executing an agreement to be bound hereby. Any agreement to be bound hereby and any other agreement in favour of the parties hereto shall be effectively delivered to each party hereto by delivering to the secretary of the Corporation a signed copy thereof and the secretary shall thereupon forward a photocopy of such copy to each party hereto.

19.0 Obligations of Shareholders

- (a) Each of the shareholders to this agreement referred to herein shall be responsible for costs incurred to effect the Corporation and the work performed with respect to the corporation which costs shall include:
- (i) the costs of incorporation;
 - (ii) the drafting of the necessary by-laws for the Corporation;
 - (iii) the Shareholder's Agreement;
 - (iv) the Transfer By-law;
 - (v) the costs of accountants incurred for the Corporation.
- (b) The parties hereto agree that any shareholder may pay for these expenses, either in cash or by a reduction in its issued shares valued at net book value, reduced by its proportionate cost in the Corporation. This cost may be adjusted as new municipalities become shareholders in the Corporation.

20.0 Objects of the Corporation

- (a) The parties hereto agree that the shareholders, the officers and directors and parties hereto agree that the Corporation is incorporated to distribute power and that the parties and all the shareholders and directors and officers hereto are obligated to comply with all the provisions, terms and obligations as set out in the corporation documents and restrictions in their objects and must carry out the objects of the Corporation which requires such distribution on supply of power. It is agreed by all parties that all service areas covered by the municipalities who are shareholders of the Corporation shall be treated similarly and with equality.

(b) In the event that any disagreement arises between the parties hereto with reference to this agreement, or any matters arising hereunder, and upon which the parties cannot agree then every such disagreement shall be referred to arbitration pursuant to provisions of the Arbitrations Act, R.S.O. 1990, Chapter A.24 and in accordance with the provisions of the following:

- (i) The reference to arbitration shall be to three (3) arbitrators, one of whom shall be chosen by each party to the disagreement and the third by the two so chosen and the third arbitrator so chosen shall be the chairman; provided, however, that if the parties are able to agree upon a single arbitrator, the reference to arbitration shall be to that single arbitrator.
- (ii) The award may be made by the majority of the arbitrators.

(iii) If the arbitrators have allowed their time or extended time for making an award, as provided in the Arbitrations Act, to expire without making an award or if the Chairman shall have delivered to the parties to the arbitration a notice in writing stating that the arbitrators cannot agree, any party to the arbitration may apply to the Superior Court of Justice or to a judge thereof to appoint an umpire who shall have the like power to act in the reference and to make an award as if he had been duly appointed by all the parties to the submission and by the consent of all the parties who originally appointed the arbitrators thereto.

(iv) If an umpire is appointed pursuant to the foregoing, such umpire shall

make his award within one month after the original or extended time appointed for making the award of the arbitrators has expired on or before any later date to which the parties to the reference by a writing signed by them may from time to time enlarge the time for making the award, or if such parties have not agreed, then within such time as the Court or judge appointing such arbitrator may deem proper.

- (v) There shall be no appeal from the award of the arbitrator or arbitrators in accordance with the provisions of the Arbitrations Act.

21.0 Amendment of Agreement

- (a) This agreement may be amended or altered in any of its provisions and such changes shall become effective when reduced to writing and signed by the parties hereto.

22.0 Termination of Agreement

- (a) This agreement shall terminate on the occurrence of any of the following:
 - i) written agreement of the parties hereto;
 - ii) bankruptcy, receivership or dissolution of the Corporation.

23.0 Binding on Heirs and Others

- (a) This agreement shall be binding not only on the parties hereto, but also upon their heirs, executors, administrations or assigns and the parties hereto or any amalgamated corporations that may be amalgamated in the future in the Province of Ontario with the corporations referred to herein, agree for

themselves, their heirs, executors, administrators or assigns to execute any instruments which may be necessary or proper to carry out the purpose and intent of this agreement.

24.0 Notices

- (a) All notices, demands, requests, consents and approvals which may or are required to be given or made pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally or mailed by prepaid and registered mail, in the case of:

Corporation of the City of Pembroke, 1 Pembroke Street East, Box 277,
Pembroke, Ontario, K8A 6X3.

Corporation of the Village of Beachburg, Beachburg, Ontario, K0J 1C0.

Corporation of the Town of Mississippi Mills, 28 Mill Street, P.O. Box 179,
Almonte, Ontario, K0A 1A0.

Corporation of the Township of Killaloe, Hagarty and Richards (formally
Killaloe Hydro Electric Commission), 1 John Street, Box 39, Killaloe, Ontario,
K8J 2A0.

Ottawa River Power Corporation, PO Box 1087, Pembroke, Ontario
K8A 6Y6.

or to such other addresses as the parties may from time to time advise the other parties hereto by notice in writing. The date of receipt of any such notice, demand or request shall be deemed to be the date of delivery of such notice, demand or request if served personally, or if mailed as aforesaid, the third day of business following the date of such mailing.

- 25.0** The invalidity of any provision of this Agreement or any covenant herein contained on the part of any party shall not affect the validity of any provision

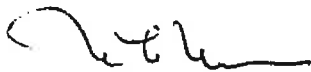
or covenant hereof or herein contained.

26.0 This agreement shall be governed by and construed in accordance with the laws of the Province of Ontario.


27.0 Time shall be of the essence of this Agreement.

IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals on the date first above written.

SIGNED, SEALED AND DELIVERED) THE CORPORATION OF THE CITY
in the presence of) OF PEMBROKE

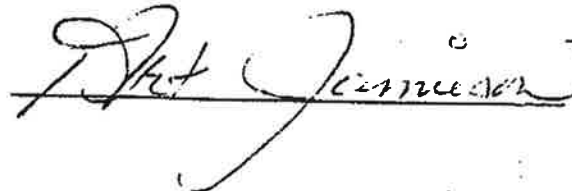


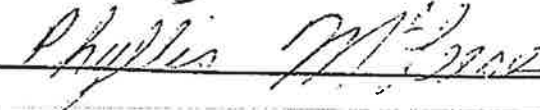
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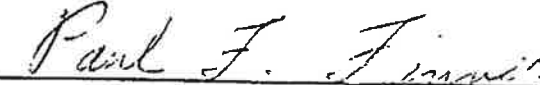
) THE CORPORATION OF THE
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) THE CORPORATION OF THE
) TOWNSHIP OF KILLALOE, HAGARTY
) AND RICHARDS (formerly KILLALOE
) HYDRO ELECTRIC COMMISSION
)

) Isabel G. Feilly
)

mil

) John D. Duggan
)

) OTTAWA RIVER POWER
) CORPORATION,
)

B. J. J.

) John D. Duggan
)

) President