Ontario

Electricity Generation Licence

EG-2003-0104

Ontario Power Generation Inc.

Valid Until

October 30, 2023

Original Signed By

Brian Hewson
Vice President, Consumer Protection & Industry Performance
Ontario Energy Board
Date of Issuance: October 31, 2003
Date of Last Amendment: April 29, 2020

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LIST OF AMENDMENTS

Board File No.	Date of Amendment
EB-2005-0245	April 25, 2005
EB-2006-0042	April 10, 2006
EB-2006-0007	June 23, 2006
EB-2006-0110	September 12, 2006
EB-2008-0054	May 7, 2008
EB-2008-0114	June 24, 2008
EB-2008-0107	October 2, 2008
EB-2009-0319	November 10, 2009 **(corrected December 3, 2009)**
EB-2010-0027	March 18, 2010
EB-2010-0267	November 30, 2010
EB-2011-0020	February 11, 2011 **(expires April 30, 2011)**
EB-2019-0285	February 20, 2020
EB-2020-0110	April 29, 2020

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PART 1 GENERAL CONDITIONS

1 Definitions

In this Licence:

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**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.

10 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.

11 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

1 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 "CW_h" means the weighting for each hour in a Settlement Period, h, 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 "$FMRC_h$" means, for any particular hour in a Settlement Period, h, 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. $FMRC_h$ may be constant in the Model Output Data over the hours in a month or other period;

"**Hourly Quantity**" or "Q_h" means, for any particular hour in a Settlement Period, h, 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 "P_h" means, for any particular hour in a Settlement Period, h, 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 "q^i_h" means, for any particular hour in a Settlement Period, h, 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, h, 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, Q_h, and q^i_h 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:

$$R = [(AP - CAP) * CRQ] - (RCA + PSA + FMA)$$

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 - $125/MWh) * ($Q_h$ – OPGI'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 ($FMRC_h$) 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:

$$\sum_h [q^i_h * FMRCh * ((Capacity - Reduced\ Capacity_h)/Capacity)]$$

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$_h$ = 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^i_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^i_h of such unit (the "transferred output"), whether as the result of a change in environmental laws or otherwise, then:

(i) any adjustment to Q_h and CRQ otherwise provided for in (a) above will 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 q^i_h's of its remaining units, (the "remaining output"), then, in lieu of the adjustment provided for in (i) above, any adjustment to Q_h 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:

(transferred permitted output/transferred output)/
(remaining permitted output/remaining output); and

(iii) where the transferee's emission permits are affected by more than one substance, then the resulting adjustment to Q_h 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:

AP=

$$\sum_h [CW_h * [P_h + (\text{Hourly Reserve Capacity Price} * \text{Reserve Capacity Ratio})]]$$

(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:

PSA = [(P_h + Hourly Reserve Capacity Price * Reserve Capacity Ratio) - $125/MWh] * ($Q_h$ – 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=

$$\sum_{h,i} (\text{Locational Spot Price} * q^{i}_{h})/CRQ$$

(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:

$$AP = \sum_{h} [CW_h * (\text{Hourly Reserve Capacity Price} * \text{Reserve Capacity Ratio})]$$

$$+ \sum_{h,i} (\text{Locational Spot Price} * q^{i}_{h})/CRQ$$

(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:

$$PSA = [(\text{Hourly Reserve Capacity Price} * \text{Reserve Capacity Ratio})$$

$$+ \sum_{i} ((\text{Locational Spot Price} * q^{i}_{h})/Q_h) - \$125/MWh]$$

$$* (Q^h - \text{OPGI's Generation for that hour});$$

(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 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 (CO_2) 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), OPGI 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 OPGI 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.

PART 7 RING-FENCING OF AFFILIATE MARKET FUNCTIONS

1. The Licensee shall not share employees that are directly involved in the offer to supply electricity or ancillary services into any of the IESO administered markets with Portlands Energy Centre L.P. (PEC) or any other affiliate that is licensed to generate electricity in Ontario. This shall not preclude the sharing of corporate services between the Licensee and PEC or any other affiliate as those services are defined in the Affiliate Relationships Code for Electricity Distributors and Transmitters subject to those employees not having access to confidential information as described in paragraph 2.

2. The Licensee shall implement a ring-fencing plan to ensure that no competitively sensitive information ("CSI") shall be disclosed to or obtained from any employees of PEC or any other affiliate that is licensed to generate electricity in Ontario who at the time of disclosure are engaged by PEC or the other affiliate in roles or functions involving the offer to supply electricity or ancillary services into any of the IESO administered markets.

3. For the purpose of paragraph 2, CSI includes information about electricity bid and offer strategy, electricity offer prices and quantities, gas procurement strategies and outage plans. CSI does not include (i) historical data or information that is no longer competitively relevant (ii) data or information that is in the public domain or (iii) documents from which competitive information has been redacted, deleted, aggregated or otherwise dealt with in a manner that renders the document in question non-confidential and not commercially sensitive.

PART 8 REQUIREMENT TO OFFER INTO IESO ADMINISTERED MARKETS

1. Subject to any applicable regulatory or safety requirements and the Agreement described in paragraph 2, the Licensee shall at all times offer all available generating capacity into the IESO

administered markets for Operating Reserve, the Day Ahead Commitment Process and for real-time Energy (the Must-Offer Condition).

2. The Licensee shall enter into an Agreement with the IESO for the purpose of assessing ongoing compliance with the Must-Offer Condition established in paragraph 1. The Agreement shall include any necessary detail or description of the Must-Offer Condition, the criteria that will be used to assess whether the Licensee has complied with the condition, and the right for the IESO to audit the Licensee where the IESO identifies based on the criteria that the Licensee may not have complied with the condition. The Licensee shall file the Agreement for approval of the OEB. Once the Agreement is approved, any material changes to the Agreement shall be filed with the OEB for approval.

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 that $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.

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

The following sets out the procedure for calculating, allocating and passing through the Market Power Mitigation Agreement (MPMA) Rebate. Where there is a conflict between Schedule A in the Minister's Directive dated March 24, 1999, as amended or replaced by a subsequent Ministerial Directive dated February 25, 2003 which relates to Order-in-Council 654/2003 (dated March 19, 2003), and subsequent Orders-in-Council including Order-in-Council No. 843/2003 (dated April 2, 2003), Order-In-Council No. 207/2005 (dated February 16, 2005), Order-in-Council No. 1909/2005 (dated December 7, 2005), Order-in-Council No. 141/2006 (dated February 3rd, 2006), Order-in-Council No. 1062/2006 (dated May 17, 2006) and this Schedule B, then this Schedule B prevails.

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:

$$BPPR = [(WAP – CAP) \times 0.5 \times TAQEW]$$

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 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:

$$BPPR = [(WAP – CAP) \times 0.5 \times TAQEW]$$

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:

Payment = Sum over all hours [(HOEP - $47) x (ONPA (output) x 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:

Payment = Sum over all hours [[(HOEP - $47) x (ONPA (output) x 0.85)] + [(PA (price) - $52) x (PA (amount))]]

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:

Payment = Sum over all hours [(HOEP – ORL) x (ONPAO x 0.85 – PAA) + (PAP – PAORL) x 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:
generation output x (new total installed capacity – installed capacity as of January 1, 2006) / 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

Niagara River System
Sir Adam Beck I
Sir Adam Beck II
Sir Adam Beck Pump
DeCew I
DeCew II

St. Lawrence River System
Robert H. Saunders

Ottawa River System
Otto Holden
Des Joachims
Chenaux
Chats Falls (Units 2,3,4,5)

Madawaska River System
Mountain Chute
Barrett Chute
Arnprior
Stewartville
Calabogie

Trent River System
Healey Falls
Ranney Falls
Meyersburg
Sidney
Hagues Reach
Seymour
Frankford
Sills Island

Montreal River System
Lower Notch
Chute

Matabitchuan River System
Matabitchuan

South River System
Elliott Chute
Bingham Chute
Nipissing

Sturgeon River System
Crystal Falls

Wanapitei River System
Stinson
Coniston
McVittie

Nipigon River System
Pine Portage
Cameron Falls
Alexander

English River System
Ear Falls
Manitou Falls
Caribou Falls
Lac Seul

Winnipeg River System
Whitedog Falls

Kaministiquia River System
Silver Falls
Kakabeka Falls

Aguasabon River System
Aguasabon

Mississippi River System
High Falls

Rideau River System
Merrickville

Otonabee River System
Auburn
Lakefield

Muskoka River System
Ragged Rapids
Big Eddy
South Falls
Trethewey Falls
Hanna Chute

Beaver River System
Eugenia Falls

Severn River System
Big Chute

Abitibi River System
Abitibi Canyon
Otter Rapids

Hydraulic Generation Facilities by River System – Operated Only

Ottawa River System
Chats Falls (Units 6,7,8,9)

Hydraulic Generation Facilities by River System – Operated

Mattagami River System
Little Long
Harmon
Kipling

Gas Fired Generation - Owned and Operated

Lennox

Biomass Generation - Owned and Operated

Atikokan
Thunder Bay - Units 2, 3

Nuclear Generation - Owned and Operated

Pickering A
Pickering B
Darlington

Nuclear Generation - Owned Only

Bruce A
Bruce B